El Corte Inglés, S.A. **(the "Issuer")**

€600,000,000 3.000% Senior Notes due 2024

LISTING SUPPLEMENT

This listing supplement dated 12th October 2018 (the "**Listing Supplement**") is prepared in connection with the issuance by El Corte Inglés, S.A., a *sociedad anónima* organized under the laws of Spain (the "**Issuer**"), of €6,000,000,000 in aggregate principal amount of its 3.000 % Senior Notes due 2024 (the "**Notes**").

The Notes were issued on 8th October 2018. The terms and conditions of the Notes are described in the offering memorandum dated 28th September 2018 (the "**Offering Memorandum**"). The Offering Memorandum, together with this Listing Supplement, constitutes listing particulars for the purpose of listing the Notes on the Global Exchange Market of the Irish Stock Exchange plc trading as Euronext Dublin ("**Euronext Dublin**").

Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and to trading on the Global Exchange Market.

These listing particulars have been approved by Euronext Dublin. Such approval relates only to the Notes which are to be admitted to trading on the Global Exchange Market. There can be no assurance that such listing will be maintained.

The Issuer has prepared these listing particulars solely for the purpose of its application to list the Notes on Euronext Dublin. The Issuer accepts responsibility for the information in this Listing Particulars and declares that, having taken all reasonable care to ensure that such is the case, the information is, to the best of its knowledge, in accordance with the facts and does not omit anything likely to affect its import.

Capitalised terms used but not defined in this Listing Supplement shall have the meaning given to them in the Offering Memorandum.

12th October, 2018

Additional Risk Factor

The following risk factor should be read in conjunction with the "Risk Factors" beginning on page 30 of the

Offering Memorandum

Our Financial statements are provided on a consolidated basis

Our financial statements are provided on a consolidated basis and, as of and for the financial year ended February 28, 2018, the non-guarantors represent more than 25% of consolidated net assets. As such, the consolidated financial statements may be of limited use in assessing the financial position of the guarantor companies.

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS WITHIN THE MEANING OF RULE 144A UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**") OR (2) ARE NON-U.S. PERSONS OUTSIDE THE UNITED STATES PURSUANT TO "OFFSHORE TRANSACTIONS" IN COMPLIANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT.

IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum following this notice, whether received by e-mail or otherwise received as a result of electronic communication. You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached offering memorandum. In accessing the attached offering memorandum, you agree to be bound by the following terms and conditions, including any modifications thereto each time you receive any information from us as a result of such access.

NOTHING IN THIS TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view the offering memorandum or make an investment decision with respect to the securities, investors must be either (1) Qualified Institutional Buyers ("**QIBs**") within the meaning of Rule 144A under the U.S. Securities Act ("**Rule 144A**") or (2) non-U.S. persons that are outside the United States. The offering memorandum is being sent at your request. By accepting the e-mail and accessing the offering memorandum, you shall be deemed to have represented to us that:

(1) you consent to delivery of such offering memorandum by electronic transmission, and

(2) either:

- (a) you and any customers you represent are QIBs; or
- (b) you are not a U.S. person and the e-mail address that you gave us and to which the e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any state of the United States or the District of Columbia.

Prospective purchasers that are QIBs are hereby notified that the seller of the securities may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A.

You are reminded that the offering memorandum has been delivered to you on the basis that you are a person into whose possession the offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver the offering memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or a solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any initial purchaser of the securities offered or any affiliate of such initial purchaser is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such initial purchaser or affiliate on behalf of El Corte Inglés, S.A. (the "**Issuer**") in such jurisdiction.

Under no circumstances shall the offering memorandum constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The offering memorandum has not been approved by an authorized person in the United Kingdom. In the United Kingdom, each invitation of inducement to engage in investment activity (within the meaning of Section 21 of the UK Financial Services and Markets Act 2000 ("**FSMA**") in connection with the offer of the securities has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in circumstances in which Section 21(1) of FSMA does not apply to us.

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation. This offering memorandum has been prepared on the basis that any offer of Notes in any Member State of the EEA will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. This offering memorandum is not a prospectus for the purposes of the Prospectus Directive.

The offering memorandum has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the initial purchasers, any person who controls any initial purchaser, or any of their respective directors, officers, employees or agents accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the initial purchasers.

[GRAPHIC]

El Corte Inglés, S.A.

€600,000,000 3.000% Senior Notes due 2024

El Corte Inglés, S.A., a *sociedad anónima* organized under the laws of Spain (the "**Issuer**"), is offering € 600,000,000 in aggregate principal amount of its 3.000% Senior Notes due March 2024 (the "**Notes**"). The proceeds from the Notes will be used for general corporate purposes, including to repay certain indebtedness. The Notes will mature on March 15, 2024.

The Issuer will pay interest on the Notes semi-annually in arrears on each April 15 and October 15, commencing on April 15, 2019. Prior to October 15, 2020, the Issuer will be entitled, at its option, to redeem all or a portion of the Notes, by paying a "make-whole" premium, as described in this offering memorandum. In addition, prior to October 15, 2020, the Issuer may redeem at its option up to 40% of the Notes with the net proceeds from certain equity offerings. The Notes may be redeemed at any time on or after October 15, 2020 at the redemption prices set forth in this offering memorandum.

Upon certain events defined as constituting a change of control, the Issuer may be required to make an offer to purchase the Notes at 101% of the principal amount thereof, plus accrued and unpaid interest to the date of the repurchase. In the event of certain developments affecting taxation, the Issuer may redeem all, but not less than all, of the Notes.

The Notes will be senior obligations of the Issuer, will rank *pari passu* in right of payment to all of the Issuer's existing and future indebtedness that is not subordinated in right of payment to the Notes and senior in right of payment to all of the Issuer's existing and future indebtedness that is expressly subordinated in right of payment to the Notes, will be effectively subordinated to any existing and future indebtedness of the Issuer that is secured by property or assets that do not secure the Notes, to the extent of the value of the property and assets securing such indebtedness and will be structurally subordinated to all obligations of the Issuer's subsidiaries that do not guarantee the Notes. The Notes will be fully and unconditionally guaranteed (the "**Notes Guarantees**" and each, a "**Notes Guarantee**") on a senior basis by Viajes El Corte Inglés, S.A. and Supercor, S.A. (the "**Guarantors**" and each, a "**Guarantor**"). The Notes Guarantees will be subject to certain limitations under applicable law as described under "*Limitations on Validity and Enforceability of the Notes Guarantees and Certain Insolvency Law Considerations*" and may be released in certain circumstances. See "*Description of the Notes—Guarantees*." The Notes Guarantee of each Guarantor will rank *pari passu* in right of payment with all existing and future obligations of such Guarantor that are not subordinated in right of payment to such Guarantor's Notes Guarantee and senior in right of payment to all of the existing and future indebtedness of such Guarantor that is subordinated in right of payment to such Guarantor's Notes Guarantee and will be effectively subordinated to any existing and future indebtedness of such Guarantor that is secured by property or assets that do not secure such Notes Guarantee, to the extent of the value of the property and assets securing such indebtedness and the Notes and Notes Guarantees will be structurally subordinated to all existing and future indebtedness of each non-Guarantor subsidiary of such Guarantor.

This offering memorandum includes information on the terms of the Notes and the Notes Guarantees (as defined herein), including redemption and repurchase prices, covenants and transfer restrictions.

There is currently no public market for the Notes. Application has been made to the Irish Stock Exchange plc (trading as Euronext Dublin) (the "**Exchange**") for the Notes to be admitted to the Official List and to trading on the Global Exchange Market, which is the exchange-regulated market of Euronext Dublin and it is not a regulated market for purposes of Directive 2014/65/EU. There is no assurance that the Notes will be, or will remain, listed on the Exchange and admitted to trading on the Global Exchange Market.

Investing in the Notes involves a high degree of risk. See "Risk Factors" beginning on page 30.

Issue Price of the Notes: 100% plus accrued interest, if any, from the Issue Date.

None of the Notes or the Notes Guarantees has been, or will be, registered under the U.S. federal securities laws or the securities laws of any other jurisdiction. The Notes are being offered and sold in the United States only to qualified institutional buyers in reliance on Rule 144A ("**Rule 144A**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and to non-U.S. persons outside the United States in reliance on Regulation S (the "**Regulation S**") under the Securities Act. Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. None of the Notes or the Notes Guarantees is transferable except in accordance with the restrictions described under "*Plan of Distribution*" and "*Transfer Restrictions*."

The Notes will be issued in the form of global notes in registered form and will initially be issued in denominations of €100,000 and integral multiples of €1,000 in excess thereof; *provided that* the Notes may only be transferred in amounts of €100,000 and integral multiples of €1,000 in excess thereof. See "*Book-Entry, Delivery and Form*."

The Notes will be represented on issue by one or more Global Notes, which we expect will be delivered through Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream**"), on or about October 8, 2018 (the "**Issue Date**").

Joint Global Coordinators and Joint Bookrunners

BofA Merrill Lynch **Goldman Sachs International**

Joint Bookrunners

Santander

Banco de Sabadell **Bankia** **BBVA**

BNP PARIBAS **CaixaBank** **Crédit Agricole CIB**

Credit Suisse **Deutsche Bank** **Société Générale**

UniCredit Bank

The date of this offering memorandum is September 28, 2018.

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IMPORTANT INFORMATION

Prospective Investors should rely only on the information contained or incorporated by reference in this offering memorandum. None of the Issuer, the Guarantors or any of the Initial Purchasers has authorized anyone to provide you with different information. None of the Issuer, the Guarantors or any of the Initial Purchasers is making an offer of the Notes in any jurisdiction where this offer is not permitted. Prospective Investors should not assume that the information contained or incorporated by reference in this offering memorandum is accurate at any date other than the date on the front of this offering memorandum. Our business, financial condition, results of operations and prospects may have changed since the relevant date.

This offering memorandum has been prepared by us solely for use in connection with the proposed Offering described in this offering memorandum and should be used solely for the purposes for which it has been produced. Distribution of this offering memorandum to any person other than the prospective investor and any person retained to advise such prospective investor with respect to the purchase of Notes is unauthorized and any disclosure of any of the contents of this offering memorandum without our prior written consent is prohibited. Each prospective investor, by accepting delivery of this offering memorandum, agrees to the foregoing and agrees to not make copies of this offering memorandum or any documents referred to in this offering memorandum.

In making an investment decision, prospective investors must rely solely on the information contained in this offering memorandum and their own examination of the Issuer and its subsidiaries and businesses and the terms of the Offering, including the merits and risks involved. Neither we nor any of the Initial Purchasers has authorized any other person to provide different information to any investor or potential investor and we do not take responsibility for any information that others may give to you. In addition, neither we, nor any of the Initial Purchasers, nor the Trustee, nor any of their respective representatives, are making any representation to prospective investors regarding the legality of an investment in the Notes, and prospective investors should not construe anything in this offering memorandum as legal, business or tax advice. Prospective investors should consult their own advisers as to legal, tax, business, financial and related aspects of an investment in the Notes. Prospective investors must comply with all laws applicable in any jurisdiction in which they buy, offer or sell the Notes or possess or distribute this offering memorandum; neither we nor the Initial Purchasers, nor the Trustee, shall have any responsibility for any of the foregoing legal requirements. See "*Transfer Restrictions*."

We are offering the Notes in reliance on an exemption from registration under the Securities Act for an offer and sale of securities that does not involve a public offering. The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable securities laws of any other jurisdiction pursuant to registration or exemption therefrom. Prospective purchasers should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time. If you purchase the Notes, you will be deemed to have made certain acknowledgments, representations and warranties as detailed under "*Transfer Restrictions*."

This offering memorandum does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. No action has been, or will be, taken to permit a public offering in any jurisdiction where action would be required for that purpose. Accordingly, the Notes may not be offered or sold, directly or indirectly, nor may this offering memorandum be distributed, in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction.

We reserve the right to withdraw this offering at any time. We are making this offering subject to the terms described in this offering memorandum and the purchase agreement relating to the Notes entered into between us and the Initial Purchasers. We and the Initial Purchasers may reject any offer to purchase the Notes in whole or in part, sell less than the entire principal amount of the Notes offered hereby or allocate to any purchaser less than all of the Notes for which it has subscribed. The Initial Purchasers and certain of their related entities may acquire, for their own accounts, a portion of the Notes.

The information contained in "*Exchange Rate Information*," "*Summary*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," "*Industry and Market Overview*" and "*Business*" includes extracts from information and data, including industry and market data and estimates, released by publicly available resources in Europe and elsewhere. Although we accept responsibility for the accurate extraction and summarization of such information and data, we have not independently verified the accuracy of such information and data and we accept no further responsibility in respect of such information and data.

The Initial Purchasers, the Trustee, the Paying Agent, the Transfer Agent and the Registrar make no representation or warranty, express or implied, as to, and assume no responsibility for, the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by any of the Initial Purchasers, the Trustee, the Paying Agent, the Transfer Agent and the Registrar as to the past or the future.

By receiving this offering memorandum, you acknowledge that you have had an opportunity to ask questions of us, and that you have received all answers you deem necessary to verify the accuracy and completeness of the information contained in this offering memorandum. You also acknowledge that you have not relied on any of the Initial Purchasers in connection with your investigation of the accuracy of this information or your decision whether to invest in the Notes.

Investing in the Notes involves substantial risks. See "*Risk Factors*."

Interests in the Notes will be available initially in book-entry form. We expect that the Notes sold will be issued in the form of one or more global notes. The global notes will be deposited and registered in the name of a common depositary for Euroclear and Clearstream. Transfers of interests in the global notes will be effected through records maintained by Euroclear and Clearstream, respectively, and their respective participants. The Notes will not be issued in definitive registered form except under the circumstances described in the section "*Book-Entry, Delivery and Form*." The information set out in relation to sections of this offering memorandum describing clearing arrangements, including in the sections entitled "*Description of the Notes*" and "*Book-Entry, Delivery and Form,*" is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear and Clearstream currently in effect. While we accept responsibility for accurately summarizing such information, we accept no further responsibility in respect of such information.

There is currently no public market for the Notes. Application has been made to list the Notes on the Official List of the Exchange and to be admitted to trading on the Global Exchange Market which is not a regulated market within the meaning of Directive 2014/65/EU on markets in financial instruments, and the Issuer will submit this offering memorandum to the Exchange in connection with the listing application. In the course of any review by the Exchange, the Issuer may be requested to make changes to the financial and other information included in this offering memorandum in producing listing particulars for such listing. Comments by the Exchange may require significant modification to or reformulation of information contained in this offering memorandum or may require the inclusion of additional information. The Issuer may also be required to update the information in this offering memorandum to reflect changes in its business, financial condition or results of operations and prospects. The Issuer cannot guarantee that its application to the Official List of the Exchange for the Notes to be listed and admitted to trading on the Global Exchange Market thereof will be approved as of the date of issuance of the Notes or any date thereafter, and settlement of the Notes is not conditioned on obtaining this listing. Any investor or potential investor should not base any investment decision relating to the Notes on the information contained in this offering memorandum after publication of the listing particulars and should refer instead to those listing particulars.

Neither the U.S. Securities and Exchange Commission (the "**SEC**"), any U.S. state securities commission nor any non-U.S. securities authority nor other authority has approved or disapproved of the Notes or determined whether this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense in the United States.

In connection with this new issue of Notes, Merrill Lynch International ("**MLI**") does not act for or provide services, including providing any advice, in relation to this new issue of Notes to any person other than the Issuer. MLI will not regard any person other than the Issuer, including actual or prospective holders of the Notes, as its client in relation to this new issue of Notes. Accordingly, MLI will not be responsible to anyone other than the Issuer for providing the protections (regulatory or otherwise) afforded to its clients. If you are in any doubt about the contents of this offering memorandum, you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser. It should be remembered that the price of securities and the income from them can decrease as well as increase.

STABILIZATION

IN CONNECTION WITH THIS OFFERING, MERRILL LYNCH INTERNATIONAL (THE "**STABILIZING MANAGER**") OR ANY PERSONS ACTING FOR IT MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE. HOWEVER, THERE IS NO OBLIGATION OF THE STABILIZING MANAGER OR ANY PERSONS ACTING FOR IT TO DO THIS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF ALLOTMENT OF THE NOTES.

NOTICE TO U.S. INVESTORS

The Offering is being made in the United States in reliance upon an exemption from registration under the Securities Act for an offer and sale of the Notes which does not involve a public offering. In making your purchase, you will be deemed to have made certain acknowledgments, representations and agreements. See "*Transfer Restrictions*."

This offering memorandum is being provided (1) to a limited number of U.S. investors that the Issuer reasonably believes to be "qualified institutional buyers" under Rule 144A for informational use solely in connection with their consideration of the purchase of the Notes and (2) outside the United States in connection with offshore transactions complying with Regulation S. Prospective investors are hereby notified that the sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Notes described in this offering memorandum have not been registered with, recommended by or approved by the SEC, any state securities commission in the United States or any other securities commission or regulatory authority, nor has the SEC or any state securities commission in the United States or any such other securities commission or authority passed upon the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.

NOTICE TO INVESTORS IN SPAIN

This Offering has not been registered with the *Comisión Nacional del Mercado de Valores* and therefore the Notes may not be offered or sold or distributed in Spain except in circumstances which do not qualify as a public offer of securities in Spain in accordance with article 35 of the Securities Market Act (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores*), as amended and restated, or pursuant to an exemption from registration in accordance with Royal Decree 1310/2005 as amended (*Real Decreto 1310/2005, de 4 de noviembre, por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, del Mercado de Valores, en materia de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos*), and any regulations developing it which may be in force from time to time.

NOTICE TO CANADIAN INVESTORS

Resale Restrictions

The distribution of Notes in Canada is being made only in the provinces of Ontario, Quebec, Alberta and British Columbia on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of these securities are made. Any resale of the Notes in Canada must be made under applicable securities laws which may vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the securities.

Representations of Canadian Purchasers

By purchasing Notes in Canada and accepting delivery of a purchase confirmation, a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the Notes without the benefit of a prospectus qualified under those securities laws as it is an "accredited investor" as defined under National Instrument 45-106—*Prospectus Exemptions* or Section 73.3(1) of the *Securities Act* (Ontario), as applicable,

- the purchaser is a "permitted client" as defined in National Instrument 31-103—*Registration Requirements, Exemptions and Ongoing Registrant Obligations*,

- where required by law, the purchaser is purchasing as principal and not as agent, and

- the purchaser has reviewed the text above under Resale Restrictions.

Conflicts of Interest

Canadian purchasers are hereby notified that the Initial Purchasers are relying on the exemption set out in section 3A.3 or 3A.4, if applicable, of National Instrument 33-105—*Underwriting Conflicts* from having to provide certain conflict of interest disclosure in this document.

Statutory Rights of Action

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if the offering memorandum (including any amendment thereto) such as this document contains a misrepresentation; *provided that* the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser of these securities in Canada should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

Taxation and Eligibility for Investment

Canadian purchasers of Notes should consult their own legal and tax advisors with respect to the tax consequences of an investment in the Notes in their particular circumstances and about the eligibility of the Notes for investment by the purchaser under relevant Canadian legislation.

NOTICE TO U.K. INVESTORS

In the United Kingdom, this offering memorandum is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are "qualified investors" (as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**")) (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**") and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). This offering memorandum must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this offering memorandum relates is only available to, and will be engaged in with, relevant persons.

NOTICE TO EUROPEAN ECONOMIC AREA INVESTORS

PRIIPs Regulation / Prospectus Directive / Prohibition of Sales to EEA Retail Investors

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation. This offering memorandum has been prepared on the basis that any offer of Notes in any Member State of the EEA will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. This offering memorandum is not a prospectus for the purposes of the Prospectus Directive.

FORWARD-LOOKING STATEMENTS

This offering memorandum includes forward-looking statements, which are based on our current expectations and projections about future events. All statements other than statements of historical facts included in this offering memorandum including, without limitation, statements regarding our future financial position, risks and uncertainties related to our business, strategy, capital expenditure, projected costs and our plans and objectives for future operations, may be deemed to be forward-looking statements. Words such as "believe," "expect," "anticipate," "may," "assume," "plan," "intend," "will," "should," "estimate," "risk," and similar expressions or the negatives of these expressions are intended to identify forward-looking statements. By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. You should not place undue reliance on these forward-looking statements.

In addition, any forward-looking statements are made only as of the date of this offering memorandum and we do not intend, and do not assume any obligation, to update forward-looking statements set forth in this offering memorandum.

Many factors may cause our results of operations, financial condition, liquidity and the development of the industry in which we compete to differ materially from those expressed or implied by the forward-looking statements contained in this offering memorandum. Factors that could cause such differences in actual results include:

- economic conditions, consumer confidence and spending patterns;
- uncertainty in economic developments in Spain and the European Union;
- competitive pressures of the markets in which we operate;
- risks related to e-commerce and online sales;
- delays or difficulties in growing the business;
- maintaining appropriate inventory levels;
- the reliability and availability of our supply chain;
- interruptions in the distribution of our products at any of our facilities or any delay or failure in the delivery or manufacturing of our products;
- sourcing of raw materials and other input costs across several jurisdictions;
- increase in energy or fuel costs;
- political and other risks in sourcing markets, including developing markets;
- our key personnel and ability to recruit and retain suitable employees;
- the success of our retail destinations;
- the reputation of our brands or services and the public perceptions of us and our suppliers;
- the effectiveness of our marketing campaigns and success of our card programs;
- our ability to predict or fulfill customer preferences or demand;
- interruption or failure of our information technology systems;
- impairment of our assets such as goodwill;
- risks associated with investments in commercial real estate;
- incorrect assessment of the value of our property;
- product defects or failure of products to meet our quality standards;

- theft or misappropriation or inappropriate utilization of our customer data;
- changes in credit and debit card provider requirements or applicable regulations;
- natural disasters, public health crises, political crises, terrorist attacks or other catastrophic events;
- fluctuations in currency exchange rates;
- failure to effectively or sufficiently offset any negative impact or interest rate or currency fluctuations;
- seasonal fluctuations and unfavorable weather conditions;
- the adequacy of our existing risk management system;
- the sufficiency, availability and cost of our insurance;
- investigations or challenges with respect to our tax liabilities or changes in tax legislation, including risks related to taxation in Spain;
- increases in export or import duties and controls;
- legal complaints and litigation, including relating to the protection of intellectual property rights;
- compliance with law and regulations in multiple jurisdictions, including advertising, consumer protection, planning, employment, environmental and other laws and regulations;
- the potential for conflicting interests between our principal shareholders and noteholders;
- the effect of antitrust laws;
- risks related to the purchase and sale of assets;
- cyclical changes in the insurance industry;
- changes in weather conditions in locales where our fresh food products are sourced;
- labor disruptions and the rising of labor costs;
- unanticipated changes to the regulatory environment of our consumer finance affiliate and of our Insurance business, and increased interest in these sectors by regulators;
- our consumer finance affiliate's exposure to increased credit and financial risk;
- quality and scope of information about the customers of our consumer finance affiliate;
- changes in IFRS;
- events affecting travel safety;
- our relationship management with our concession partners;
- fluctuations in the availability and price of food ingredients and packaging material;
- disruptions in the "cold chain," resulting in unsafe food conditions;
- changing consumer preferences and behavior;
- decrease in demand in case of health concerns and pandemics;
- decline in demand for traditional pre-packaged holidays and/or changes in consumer behavior;
- fraud and other crimes;

- an inability to keep pace with technological developments;
- risks in connection with the use of search engines and search engine marketing;
- attractiveness of the locations of our stores; and
- other risks associated with our indebtedness and the Offering.

We disclose important factors that could cause our actual results to differ materially from our expectations in "*Risk Factors*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*." Other sections of this offering memorandum describe additional factors that could adversely affect our business, results of operations, financial condition and prospects. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors. We cannot assess the impact of all risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not place undue reliance on forward-looking statements as a prediction of actual results.

INDUSTRY AND MARKET DATA

The market and competitive position data in the sections "*Summary*," "*Risk Factors*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," "*Industry and Market Overview*" and "*Business*" of this offering memorandum are based on industry publications, surveys or studies conducted by management, third-party industry consultants and market research firms, or publicly available information from sources that are generally believed to be reliable. In particular, certain information has been sourced from internal studies conducted by the Group, Euromonitor International ("**Euromonitor**"), the International Monetary Fund ("**IMF**"), World Tourism Organization, La Encuesta de Gasto Turistico ("**EGATUR**"), Global Data Plc ("**Global Data**"), Hosteltur, Kantar, AhorraMas, Gadisa, Tasaciones Inmobiliarias, S.A.U. ("**Tinsa**") (see "*Business—Real Estate Portfolio and Valuation*"), the World Bank, the Instituto Nacional de Estadística/INE, Spanish Ministry of Economy, Spanish Ministry of Industry, Trade and Tourism, Spanish National Authority for Markets and Competition ("**CNMC**"), Asociación Empresarial del Comercio Textil ("**Acotex**") and Alimarket, S.A. ("**Alimarket**").

The accuracy and completeness of such information is not guaranteed and has not been independently verified. Additionally, industry publications, surveys or studies generally state that the information contained therein has been obtained from sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed and in some instances the sources do not assume liability for such information. We cannot assure you of the accuracy and completeness of such information, and we have not independently verified such market data.

Some of the information herein has also been extrapolated from market data, reports, surveys and studies using our experience and internal estimates. Elsewhere in this offering memorandum, statements regarding the industry in which we operate and our position in this industry are based solely on our experience, internal studies, estimates and surveys, and our own investigation of market conditions. We believe that the sources of such information in this offering memorandum are reliable, but there can be no assurance that any of these assumptions are accurate or correctly reflects our position in our industry, and none of our internal surveys or information has been verified by any independent sources.

Market data and statistics, including consumer trends, market shares and brand awareness, are generally based on market research, interviews and surveys conducted by us and third-party industry consultants. Such market research is largely based on sampling and subjective judgments by both the researchers and the respondents, and there is no assurance that the responses received are reflective of actual market conditions or sentiment. Furthermore, be aware that the data and statistical information in this offering memorandum may differ from information provided by our competitors or from information found in current or future studies conducted by market research institutes, consultancy firms or independent sources.

Information in this Offering Memorandum is from independent market research carried out by Euromonitor but should not be relied upon in making, or refraining from making, any investment decision.

While we are not aware of any misstatements regarding the industry or similar data presented herein, such data involve risks and uncertainties and are subject to change based on various factors, including those discussed under the heading "*Risk Factors*" in this offering memorandum. As a result, neither we nor the Initial Purchasers make any representation as to the accuracy or completeness of any such information in this offering memorandum.

TRADEMARKS

We own or have rights to certain trademarks, trade names or service marks that we use in conjunction with the operation of our businesses. Each trademark, trade name or service mark of any other company appearing in this offering memorandum belongs to its holder. Solely for convenience, the trademarks, trade names and copyrights referred to in this offering memorandum are listed without the ©, ® and ™ symbols, but we will assert, to the fullest extent under applicable law, our rights to these trademarks, trade names and service marks.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

General

This offering memorandum includes the audited consolidated financial statements of the Issuer as at and for the years ended February 29, 2016, February 28, 2017 and February 28, 2018, and the related notes thereto (the "**Audited Consolidated Financial Statements**") and the unaudited interim condensed consolidated financial statements of the Issuer as at and for the three months ended May 31, 2018 and May 31, 2017 (the "**Interim Financial Statements**" and together with the Audited Consolidated Financial Statements, the "**Consolidated Financial Statements**").

The Audited Consolidated Financial Statements for the periods ending February 29, 2016 and February 28, 2017 were audited by Deloitte, S.L. ("**Deloitte**") and were prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**"). The Audited Consolidated Financial Statements for the period ending February 28, 2018 were audited by Ernst & Young, S.L. ("**EY**") and were prepared in accordance with IFRS.

Except as otherwise indicated in this offering memorandum, we present and discuss the restated financial information for the year ended on February 28, 2017 rather than the corresponding financial information from the February 28, 2017 Audited Consolidated Financial Statements. The cash flow statement was not affected by the restatement. For additional information on the accounting change and restatement, see Note 2.6 of the Audited Consolidated Financial Statements for the year ended February 28, 2018.

We also present below summary unaudited consolidated financial data for El Corte Inglés, S.A. as of and for the three months ended May 31, 2017 and 2018, which has been derived from the unaudited condensed consolidated interim financial statements prepared in accordance with International Accounting Standard ("**IAS**") 34 and which are included elsewhere in this offering memorandum.

The summary unaudited financial data for the twelve months ended May 31, 2018 presented below has been derived mathematically by adding the financial data for the three months ended May 31, 2018 to the financial data for the year ended February 28, 2018 and subtracting the financial data for the three months ended May 31, 2017.

The financial information included in this offering memorandum was not prepared in accordance with generally accepted accounting principles in the United States ("**U.S. GAAP**"). There could be significant differences between IFRS, as applied by us, and U.S. GAAP. Accordingly, such information is not available to investors, and investors should consider this in making their investment decision. The financial information included in this offering memorandum is not intended to comply with SEC reporting requirements. Compliance with such requirements would require the modification, reformulation or exclusion of certain financial measures. In addition, changes would be required in the presentation of certain other information.

The Consolidated Financial Statements contained in the F-pages to this offering memorandum should be read in conjunction with the relevant notes thereto.

Prospective investors are advised to consult their professional advisors for an understanding of: (i) the differences between IFRS and U.S. GAAP and other systems of generally accepted accounting principles and how those differences might affect the financial information included in this offering memorandum and (ii) the impact that future additions to, or amendments of, IFRS may have on our results of operations or financial condition, as well as on the comparability of the prior periods.

In addition, we have included certain non-IFRS financial measures and ratios in this offering memorandum. See "*—Other Non-IFRS Measures*" below. The non-IFRS financial measures we present may also be defined differently than the corresponding terms under the Indenture (as defined herein).

The financial information included in this offering memorandum is not intended to comply with the applicable accounting requirements of the U.S. Securities Act and the related rules and regulations of the SEC which would apply if the Notes were being registered with the SEC.

Non-IFRS Sales Measures

In this offering memorandum, we present certain sales measures that are not recognized under IFRS, would not be permitted to appear on the face of primary financial statements or footnotes thereto and may not be permitted to be included in filings under the U.S. Securities Act. These sales measures are used internally for benchmarking performance both between our own operations and as against other companies. They are based upon management estimates of the sales of our stores and e-commerce operations. They are based upon information derived from our internal management systems and not from our financial reporting systems. Consequently, they have not been the subject of external audit and should not be relied upon as indicators of our reported sales performance, sales growth or underlying financial performance. Different companies and analysts may calculate these measures differently, so making comparisons among companies on the basis of these measures should be done carefully. In addition, these sales measures are not measures of performance under IFRS and should not be considered in isolation or construed as a substitute for net turnover or profit from operations as an indicator of our operations in accordance with IFRS.

Other Non-IFRS Measures

In this offering memorandum, we present certain financial measures and related ratios that are not recognized by IFRS and may not be permitted to appear on the face of primary financial statements or footnotes thereto and may not be permitted to be included in filings under the U.S. Securities Act.

The following are the primary non-IFRS financial measures that are used in this offering memorandum:

- EBITDA: We define EBITDA as operating result before depreciation of fixed assets, excessive provisions, impairment and gain or losses on disposals of non-current assets and other results and obligations for provision to personnel.

- EBITDA margin: We define EBITDA Margin as EBITDA divided by net turnover.

- Adjusted EBITDA: We define Adjusted EBITDA as EBITDA as adjusted for financial income from SECI, dividends from FECI and extraordinary items which our management believes to be representative of the underlying operations (when added) or non-representative of such (when subtracted).

- Adjusted EBITDAR: We define Adjusted EBITDAR as Adjusted EBITDA adjusted to add back lease expenses.

- Adjusted operating free cash flow: We define adjusted operating free cash flow as Adjusted EBITDA plus or minus the change in working capital minus cash taxes minus cash used in investing activities.

- Operating free cash flow: We define operating free cash flow as Adjusted EBITDA plus or minus the change in working capital minus cash taxes minus cash used in investing activities and considering one off cash transactions.

- Working capital: We define working capital as inventories, receivables and payables.

- Cash conversion: We define cash conversion as the ratio of adjusted operating free cash flow to Adjusted EBITDA.

- Net debt: We define net debt as the aggregate outstanding principal, capital or nominal amount (and any fixed or minimum premium payable on prepayment or redemption) of any Indebtedness, including, in the case of finance leases, only the capitalised value thereof, excluding counter-indemnity obligations of the Group in respect of documentary credits or similar instruments arising in the ordinary course of business and deducting cash and cash equivalents as well as other short-term cash investments. See "*Description of the Notes—Certain Definitions—Consolidated Net Leverage.*"

- Net leverage: We define net leverage as the ratio of net debt to Adjusted EBITDA.

- As adjusted interest expense: We define as adjusted interest expense as the financial expenses included in the Audited Consolidated Financial Statements for the year ended February 28, 2018, plus the financial expenses included in the Interim Financial Statements for the three months ended May 31, 2018, less the financial expenses included in the Interim Financial Statements for the three months ended May 31, 2017, after giving effect to the Offering of the Notes but excluding any interest savings from the future repayment of the Existing Employees' Promissory Notes. The as adjusted interest expense has also been adjusted to annualize the interest expense reduction resulting from the signing of the Syndicated Loan Facilities Agreement in January 2018. As adjusted interest expense is presented for illustrative purposes only and does not purport to represent what our interest payments would have actually been had the issuance of the Notes occurred on the date assumed, nor does it purport to project our interest payments for any future period or our financial condition at any future date.

We use these measures as internal measures of performance to benchmark and compare performance, both between our own operations and as against other companies. These measures are used, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performance of our business. We believe EBITDA-based and other measures are useful and commonly used measures of financial performance in addition to gross profit, operating profit and other profitability measures under IFRS because they facilitate operating performance comparisons from period to period and company to company. By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortization methods, historic cost and age of assets, financing and capital structures and taxation positions or regimes, we believe EBITDA-based and other measures can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we believe EBITDA-based and other measures are regularly used by the investment community as a means of comparison of companies in our industry.

Different companies and analysts may calculate EBITDA-based and other measures differently, so making comparisons among companies on this basis should be done carefully. EBITDA-based and other measures are not measures of performance under IFRS and should not be considered in isolation or construed as an alternative to: (i) profit from operations before depreciation and amortization for the period as a measure of our operating performance; (ii) cash flow from operating, investing, acquisitions and financing activities as a measure of our ability to meet our cash needs; or (iii) any other measures of performance under IFRS. EBITDA-based measures have limitations as analytical tools. Some of these limitations include the following: (i) they do not reflect our capital expenditure, our future requirements for capital expenditure or our contractual commitments; (ii) they do not reflect changes in, or cash requirements for, our working capital needs; (iii) they do not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments on our debt and (iv) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often need to be replaced in the future and EBITDA-based measures do not reflect any cash requirements that would be required for such replacements.

Non-Financial Operating Data

Certain key performance indicators and other non-financial operating data included in this offering memorandum are derived from management estimates, are not part of our financial statements or financial accounting records, and have not been audited or otherwise reviewed by external auditors, consultants or experts. Our use or computation of these terms may not be comparable to the use or computation of similarly titled measures reported by other companies. Any or all of these terms should not be considered in isolation or as an alternative measure of performance under IFRS.

Currency Presentation

In this offering memorandum, unless otherwise indicated, all references to "**Euro**" and "**€**" are to the single currency of the Member States of the European Union participating in European Monetary Union. Unless otherwise indicated, financial information relating to the Issuer is presented in Euro.

Other Information

Pursuant to Spanish regulatory requirements, "directors' reports" are required to accompany our consolidated annual accounts. The directors' reports are included in this Offering Memorandum only in order to comply with such regulatory requirements. Investors are strongly cautioned that the directors' reports contain information as at various historical dates and do not contain a current description of our business, affairs or results of operations. The information contained in the directors' reports has been neither audited nor prepared for the specific purposes of an offering of the Notes. Accordingly, the directors' reports should be read together with the other sections of this Offering Memorandum, particularly in the sections entitled "*Risk Factors*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," and any information contained in the directors' reports is deemed to be modified or superseded by any information contained elsewhere in this Offering Memorandum that is subject to or inconsistent with it. Further, the directors' reports include certain forward-looking statements that are subject to inherent uncertainty. Please see "*Forward-Looking Statements*." Accordingly, investors are cautioned not to rely upon the information contained in such directors' reports.

Rounding

Certain numerical figures set out in this offering memorandum, including financial information presented in millions or thousands and percentages describing market shares, have been subject to rounding adjustments and, as a result, the totals of the data in this offering memorandum may vary slightly from the actual arithmetic totals of such information. Percentages and amounts reflecting changes over time periods relating to financial and other information set forth in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" are calculated using the unrounded numerical data in the Financial Statements or the tabular presentation of other information contained in this offering memorandum, as applicable, and not using the numerical data in the narrative description thereof.

CERTAIN DEFINITIONS

Unless otherwise specified or the context requires otherwise in this offering memorandum references to:

"**area**" refers to the Fashion, Food, Household, Culture & Leisure and Other Retail areas within our Retail division;

"**CAGR**" refers to compound annual growth rate;

"**Clearstream**" refers to Clearstream Banking, *société anonyme*;

"**Commercial Paper Program**" or "**Existing MARF Commercial Paper Program**" refers to the commercial paper program with a maximum outstanding balance of €500,000,000 renewed by the Issuer on December 11, 2017 and admitted to listing on the Spanish Alternative Fixed-Income Market as it may be renewed or amended from time to time, including with respect to listing on a regulated market or in other multilateral trading facilities;

"**Conversion Rate (Non-ECI Card Holders)**" refers to the percentage of visitors to our stores who purchase a product who do not hold an ECI card;

"**Conversion Rate (ECI Card)**" refers to the percentage of visitors to our stores who are ECI card holders and purchase a product;

"**Culture & Leisure**" refers to our culture & leisure area within our Retail division;

"**division**" refers to the Retail and Non-Retail divisions of the Issuer;

"**ECI Card**" refers to the El Corte Inglés card;

"**EU**" refers the European Union;

"**euro**" or "**€**" refers to the lawful currency of the European Monetary Union;

"**Euroclear**" refers to Euroclear Bank SA/NV;

"**Exchange**" refers to the Irish Stock Exchange plc (trading as Euronext Dublin);

"**Exchange Act**" refers to the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder;

"**Existing EIB Loan**" refers to the loan, in a principal amount not exceeding €116,000,000, from the European Investment Bank to the Issuer pursuant to the terms of a loan agreement entered into between the European Investment Bank, as lender, and the Issuer, as borrower, on December 9, 2016, as amended from time to time, including on February 28, 2018;

"**Existing Employees' Promissory Notes**" refers to the promissory notes issued by the Issuer to employees of the Group up to a total outstanding balance of €780 million as at August 31, 2018;

"**Fashion**" refers to our fashion area within our Retail division;

"**Financiera El Corte Inglés**" or "**FECI**" refers to Financiera El Corte Inglés S.A., our joint venture with Santander Consumer Finance, where we hold a 49% stake;

"**Financing Services**" refers to services provided by Financiera El Corte Inglés, our joint venture with Santander Consumer Finance;

"**Food**" refers to our food area within our Retail division;

"**GAV**" refers to Gross Asset Value;

"**Global Exchange Market**" refers to an exchange-regulated market under the aegis of the Exchange, which is not an EU-regulated market within the meaning of Directive 2014/65/EU on markets in financial instruments. The Notes are expected to be admitted to trading on the Global Exchange Market;

"**Group**" refers to El Corte Inglés, S.A. and its subsidiaries;

"**Guarantors**" refers to Viajes El Corte Inglés, S.A. and Supercor, S.A.;

"**Hipercor Unsecured Notes**" refers to the €600,000,000 in aggregate principal amount of 3.875% notes due 2022, issued by Hipercor (which merged into the Issuer in 2017) on January 12, 2015;

"**Household**" refers to our household area within our Retail division;

"**IFRS**" refers to International Financial Reporting Standards as adopted by the European Union;

"**Indenture**" refers to the indenture to be dated on the Issue Date by and among, *inter alios*, the Issuer, the Guarantors and the Trustee governing the Notes offered hereby;

"**Informática El Corte Inglés**" or "**IECI**" refers to Informática El Corte Inglés S.A., our information technology subsidiary;

"**Information Technology**" refers to our information technology services segment;

"**Initial Purchasers**" refers to, collectively, Merrill Lynch International, Goldman Sachs International, Banco Santander, S.A., CaixaBank, S.A., BNP Paribas, Banco de Sabadell, S.A., Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (Europe) Limited, Société Générale, UniCredit Bank AG, Deutsche Bank AG, London Branch, Bankia S.A. and Banco Bilbao Vizcaya Argentaria, S.A.;

"**Insurance**" refers to our insurance services segment;

"**Issue Date**" refers to October 8, 2018, the date of the issuance of the Notes;

"**Issuer,**" "**ECI,**" "**us,**" "**our**" and "**we**" refers to El Corte Inglés, S.A., as applicable;

"**Member State**" means a member state of the European Economic Area;

"**Non-Retail**" refers to our non-retail division;

"**Notes**" refers to the €600,000,000 aggregate principal amount of 3.000% Senior Notes due March 2024 offered hereby;

"**Notes Guarantees**" has the meaning ascribed to it in "*The Offering—Notes Guarantees*;"

"**Offering**" refers to the offering of the Notes as described in this offering memorandum;

"**Other businesses**" refers to our segment that comprises other commercial activities;

"**Other Retail**" refers to our other retail area within our Retail division;

"**Regulation S**" refers to Regulation S under the Securities Act;

"**Retail**" refers to our Retail segment or our Retail division, as the case may be;

"**Securities Act**" refers to the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder;

"**segment**" refers to the Retail, Travel Agency, Information Technology, Insurance and Other businesses reporting segments of the Issuer as set out in note 23 of the Audited Consolidated Financial Statements of the Issuer as of and for the year ended February 28, 2018;

"**Seguros El Corte Inglés**" or "**SECI**" refers to Seguros El Corte Inglés, Vida, Pensiones y Reaseguros, S.A., our insurance subsidiary;

"**Shareholders' Agreement**" has the meaning ascribed to it in "*Principal Shareholders—Shareholders' Agreement;*"

“**Syndicated Loan Facilities**” refers to the originally €3,650 million syndicated loan facilities comprised of a €1,200 million term loan (the “**Term Loan A1**”), a €1,450 million five-year term loan (the “**Term Loan B1**”) and a €1,000 million five-year revolving credit facility (the “**Revolving Credit Facility**”), each established under the Syndicated Loan Facilities Agreement. On March 8, 2018, the Revolving Credit Facility was increased to €1,150 million. As of August 31, 2018, the amount available under the Term Loan A1 has been reduced to €765 million following the cancellation of commitments at the request of the Company;

“**Syndicated Loan Facilities Agreement**” refers to the syndicated loan facilities agreement dated 24 January 2018, as amended from time to time, including on February 14, 2018, February 15, 2018 and March 8, 2018, by and among, *inter alios*, Banco Santander, S.A., Bank of America Merrill Lynch International Limited and Goldman Sachs Bank USA as Global Co-ordinators and Banco Santander, S.A. as agent and the lenders named therein;

“**Tinsa**” refers to the real estate appraiser Tinsa Tasaciones Inmobiliarias, S.A.;

“**Transactions**” refers to:

- the issuance by the Issuer of €600,000,000 aggregate principal amount of Notes offered hereby;
- the repayment in full of the outstanding debt under and cancellation of the Term Loan A1 immediately prior to the issuance of the Notes; and
- the use of proceeds from the Notes for general corporate purposes, including the repayment, over time and as existing maturities become due and payable, of a certain amount of the Existing Employees’ Promissory Notes;

“**Travel Agency**” refers to our travel agency services segment;

“**Trustee**” refers to Bondholders, S.L., as trustee under the Indenture;

“**U.S.**” and “**United States**” refers to the United States of America;

“**U.S. dollars**” or “**$**” refers to the lawful currency of the United States;

“**U.S. GAAP**” refers to accounting principles generally accepted in the United States; and

“**Viajes El Corte Inglés**” or “**VECI**” refers to Viajes El Corte Inglés S.A., our subsidiary that is the parent company of our Travel Agency segment.

EXCHANGE RATE INFORMATION

The following table sets forth, for the periods indicated, the period end, average, high and low Bloomberg Composite Rate (London) expressed as U.S. dollars per €1.00. The Bloomberg Composite Rate is a "best market" calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate. Neither the Issuer nor the Initial Purchasers make any representation that the Euro or U.S. dollar amounts referred to in this offering memorandum have been, could have been or could, in the future, be converted into U.S. dollars or euros, as the case may be, at any particular rate, if at all.

(expressed as U.S. Dollars per €1.00)	Period end	Average(1)	High	Low
Year				
2013	1.3789	1.3283	1.3804	1.2772
2014	1.2100	1.3283	1.3925	1.2100
2015	1.0866	1.1096	1.2010	1.0492
2016	1.0547	1.1067	1.1527	1.0384
2017	1.2022	1.1300	1.2026	1.0427

	Period end	Average(2)	High	Low
Month				
January 2018	1.2415	1.2204	1.2492	1.1921
February 2018	1.2209	1.2348	1.2479	1.2209
March 2018	1.2327	1.2336	1.2444	1.2212
April 2018	1.2101	1.2278	1.2390	1.2101
May 2018	1.1671	1.1820	1.2017	1.1546
June 2018	1.1677	1.1678	1.1808	1.1570
July 2018	1.1705	1.1687	1.1746	1.1650
August 2018	1.1595	1.1547	1.1668	1.1342
September 2018 (through September 27, 2018)	1.1673	1.1665	1.1775	1.1561

(1) The average of the Bloomberg Composite Rates on the last business day of each month during the relevant period.

(2) The average of the exchange rates on each business day during the relevant period.

On September 27, 2018, the Bloomberg Composite Rate between the Euro and the U.S. Dollar was $1.1673 per €1.00.

The above rates may differ from the actual rates used in the preparation of the financial statements and other financial information appearing in this offering memorandum. For a discussion of the impact of the exchange rate fluctuations on our financial condition and results of operations, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations*."

SUMMARY

The following summary highlights selected information from this offering memorandum. The following summary does not contain all of the information you should consider before you invest in the Notes and should be read in conjunction with and is qualified in its entirety by the more detailed information included elsewhere in this offering memorandum. See the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional factors that you should consider before investing in the Notes.

Overview

With over 80 years of experience in the Spanish retail sector, we are a leading retail group operating primarily in Spain and Portugal. Based on management's estimates, we contributed approximately 2.4% of Spain's total GDP for the year ended February 29, 2016 and our Retail division accounted for approximately 7.3% of total Spanish retail sales during the same time period. In addition, with over 92,000 employees as of February 2018, we are the largest private employer in Spain. In the year ended February 28, 2018, we had more than 700 million store visits to our department stores and our webpages registered approximately 392 million visits. For the twelve months ended May 31, 2018, we generated € 15,939 million of net turnover and €1,156 million of Adjusted EBITDA.

We run our business through two main divisions—Retail and Non-Retail. Our financial reporting segments include Retail and (constituting the Non-Retail divisions) Information Technology, Travel Agency, Insurance and Other businesses.

- The business areas that comprise our Retail business division are Fashion, Food, Household, Culture & Leisure and Other Retail, all of which are offered under one roof in most of our department stores and are testament to our unique retail concept. We are the leading department store chain in Spain, with an approximate 99% market share by sales in 2017, according to Euromonitor. We operate 94 department stores, 92 of which are located in Spain and two of which are located in Portugal, 176 convenience stores (of which 174 are located in Spain and two in Portugal) and 41 hypermarket stores. Our department stores offer third-party brand products and own brand products. We also operate independent stores such as Sfera (apparel), Bricor (DIY/home improvement) or Óptica2000 (hearing and vision products). For the twelve months ended May 31, 2018, our Retail business division generated net turnover and EBITDA of €13,201 million and €886 million, representing 78.2% and 83.9% of our total aggregate net turnover and consolidated EBITDA, respectively.

- We also operate a Non-Retail division. Our Non-Retail division targets both consumers and businesses. It leverages the retail footprint and scale of the Group. For the twelve months ended May 31, 2018, our Non-Retail division generated net turnover and EBITDA of €3,682 million and €163 million, representing 21.8% and 15.5% of our total aggregate net turnover and consolidated EBITDA, respectively.

We also offer consumer financing services, which are operated by Financiera El Corte Inglés, a joint venture with Santander Consumer Finance, in which we hold a 49% stake. Financiera El Corte Inglés is consolidated using the equity method.

We seek to offer our customers a comprehensive omni-channel shopping experience through both our physical and online stores, both of which have strong market positions in the respective retail space. For example, according to Euromonitor, we are one of the leading e-commerce retailers in Spain, currently ranking second only behind Amazon. Our existing infrastructure of physical retail network and strong logistics platform allow us to have nation-wide delivery capabilities. With more than 90 distribution centers (three of which are dedicated distribution centers and 94 of which are department stores with distribution center functions) and more than 640 stores, substantially all of which are located in Spain, we have started to offer delivery of more than 500,000 stock keeping units in a number of cities in less than two hours immediately following order, or in a time frame specified by the client. We offer a wide range of own and third-party brands, many of which are operated on a concession model. Concession agreements typically have low inventory risks. Our network and capillarity will allow us to extend this offering to the rest of Spanish cities where we are present, covering all autonomous regions in Spain. This offering supports purchases across all different channels, including in store, via catalogue, online, via mobile device or via *Click&Collect*.

We are a household brand in Spain and are a preferred destination for Spanish consumers and tourists to fulfill numerous shopping needs as a result of our best-in-class brand awareness and leading position in the distribution of top-of-mind retail brands in most of the categories in which we operate, according to internal market studies conducted during the last three years. We intend to remain a top retail destination for Spanish consumers and tourists by earning and retaining our customers' trust and constantly adapting our products and services to provide customers with a highly relevant and convenient offering while optimizing their retail experience. Across our two divisions (Retail and Non-Retail), we offer a relevant, comprehensive and high-quality product range with an extensive and diversified spectrum of third-party and own brands and services to address our customers' needs. Our product offering seeks to offer consumers a one-stop shop destination, providing all categories of products and, within each product category, a broad offering across the price spectrum. We believe that our extensive range of third-party and own brands and services combined with the customer satisfaction guarantee of the products and services that we offer has established a trust-based relationship between us and our customers. In addition, there were more than 11 million holders of the ECI card as of December 2017 (compared to a Spanish population of 46.6 million according to the World Bank as of 2017 and a household number of 18.5 million according to the Instituto Nacional de Estadística as of April 2018), which not only evidences the strength of our relationship with customers and the level of trust placed in us, but also provides us with insights into customer trends and preferences, allowing for a tailored customer service offering.

We believe that our real estate portfolio, developed since the company's inception in 1935, is valuable due to the prime location of its various properties and the portfolio's asset quality and scale, resulting in a level of penetration across all Spanish regions, major cities and population hubs that is very hard to replicate. ECI's real estate property, which is almost all wholly owned, represents one of the largest in Europe with over 10.0 million square meters of total built area, including department stores, hypermarkets, retail warehouses, offices and mixed industrial buildings. As of February 28, 2018, the properties that we own were valued, in aggregate, at €17,147 million by Tinsa, an independent third-party evaluator.

The following chart sets out our net turnover for the twelve months ended May 31, 2018 across our Retail and Non-Retail divisions.

	(€ in millions)	(Percent of net turnover)
Retail		
Fashion	€4,919	30.9%
Food	2,782	17.5%
Household	1,501	9.4%
Culture & Leisure	2,205	13.8%
Other Retail	703	4.4%
Interco sales and other	1,091	6.8%
Total Retail	**€13,201**	**82.8%**
Non-Retail		
Travel Agency	2,634	16.5%
Information Technology	722	4.5%
Insurance	195	1.2%
Other businesses	131	0.8%
Total Non-Retail	**€3,682**	**23.1%**
Consolidation adjustments	(944)	(5.9)%
Net turnover	**€15,939**	**100%**

Retail:

- *Fashion:* We offer a wide range of third-party and own brands' products through our network of department stores. Our collection of third-party brands offers a curated shopping experience for our customers and a compelling sales platform for apparel brands. At the same time, our comprehensive store and online network provide third-party brand owners with a "plug-and-play" capability to enter and access the Spanish market and to develop their brand value and proposition in Spain. Our own brands make our portfolio unique and provide a key factor of differentiation, especially in comparison to online retailers. We also offer a range of fashion and accessory products commercialized through our 157 stores of Sfera, ECI's own brand, as of February 28, 2018. For the twelve months ended May 31, 2018, our Fashion area generated €4,919 million of net turnover, representing 30.9% of our net turnover.

- *Food:* Our Food area is comprised of hypermarkets (41 stores under the Hipercor banner), supermarkets (56, all located within El Corte Inglés' department stores) and proximity and convenience stores (176 stores under the Supercor banner). Our Food business provides customers with a wide variety of high-quality fresh food products, groceries, household products and other items, ranging from staple items to more premium, gourmet options and includes third-party and our own brands. For the twelve months ended May 31, 2018, our Food area generated €2,782 million of net turnover, representing 17.5% of our net turnover. In 2017, we entered into a strategic agreement with Repsol, a major player in the Spanish oil and gas market, by which we agreed to act as a purchasing platform for Repsol, which will add over 3,200 points of sale to our food offering.

- *Culture & Leisure:* Our Culture & Leisure area offers a wide range of products including consumer electronics, stationery, books, music, movies, toys and sports-related products sold in our department stores and our omni-channel platforms. For the twelve months ended May 31, 2018, our Culture & Leisure area generated €2,205 million of net turnover, representing 13.8% of our net turnover.

- *Household:* Our household products are sold in our department stores and across all other platforms. Our Household area also includes 64 DIY/home improvement stores under the Bricor banner. For the twelve months ended May 31, 2018, our Household business area generated €1,501 million of net turnover, representing 9.4% of our net turnover.

- *Other Retail:* Our Other Retail area includes a range of vision and hearing products sold through our department stores, our omni-channel platforms, 108 Óptica2000 stores and a B2B subdivision that sells goods and executes refurbishment projects for corporations and public entities. For the twelve months ended May 31, 2018, our Other Retail area generated €703 million of net turnover, representing 4.4% of our net turnover.

Non-Retail:

- *Travel Agency:* Our Travel Agency segment, operated under the Viajes El Corte Inglés banner, provides travel packages and travel planning services to individual and corporate clients. Viajes El Corte Inglés operates the leading high street travel network in Spain with 497 stores and additionally operates 130 stores outside of Spain. For the twelve months ended May 31, 2018, our Travel Agency segment generated €2,634 million of net turnover, representing 16.5% of our net turnover.

- *Information Technology:* Our Information Technology segment, operating under the Informática El Corte Inglés brand, provides solutions and consulting services in the information and communication technology fields and also sells electronic and telecommunications products and services to both the public and the private sectors. For the twelve months ended May 31, 2018, our Information Technology segment generated €722 million of net turnover, representing 4.5% of our net turnover.

- *Insurance:* Our Insurance segment provides brokerage services (via Centro de Seguros y Servicios) and offers insurance products (via Seguros El Corte Inglés) through a network of 144 points of sale. The brokerage business sells medical, motor, life, home and accident insurance products at El Corte Inglés' points of sale from almost all leading insurance companies with presence in Spain. The Insurance business provides personal life and accidents insurance, savings insurance and pension plans, commercialized both at El Corte Inglés' points of sale and through other independent brokerages, through a network of more than 500 exclusive agents across Spain). For the twelve months ended May 31, 2018, our Insurance segment generated €195 million of net turnover, representing 1.3% of our net turnover.

- *Other businesses:* We also engage in other commercial activities, which mainly generate net turnover from the rental of offices and commercial premises to third parties in Spain, from purchasing centers and from other minor subsidiaries not included in any of the categories mentioned above. For the twelve months ended May 31, 2018, our Other businesses segment generated €131 million of net turnover, representing 0.8% of our net turnover.

Financing Services:

We began offering consumer finance services in 1965 with the launch of the ECI Card and our Financing Services affiliate, Financiera El Corte Inglés, began operations in 1995. In 2013 we entered into a joint-venture agreement with Santander Consumer Finance, pursuant to which we now hold a 49% equity interest and Santander Consumer Finance owns the remaining 51%. It offers financing solutions for the acquisition of goods, travel packages and services sold at El Corte Inglés' points of sale and Repsol gas stations in Spain and Portugal. The ECI Card, issued by Financiera El Corte Inglés, is used as a payment method by card holders to acquire and finance these acquisitions. As of December 2017, there are more than 11 million card holders of the ECI Card. Financiera El Corte Inglés is also the exclusive offeror of deferred payment plans to individuals within El Corte Inglés' stores. Overall, approximately 41% of our sales to retail customers for the twelve months ended December 31, 2017 were financed through Financiera El Corte Inglés' own payment methods (the ECI Card or deferred payment plans). For the year ended February 28, 2018, El Corte Inglés received a dividend of €37 million from Financiera El Corte Inglés. Financiera El Corte Inglés is consolidated under the equity method.

Our Competitive Strengths

We are the leading Spanish retailer—our brand is part of the fabric of Spanish culture and is synonymous with quality, service and innovation, giving rise to trust-based relationships with our customers

Since our founder Ramón Areces acquired a tailor-shop named El Corte Inglés in 1935 in Madrid, we have grown and evolved to become one of the largest retailers in the world by net turnover and the leading department store chain in Spain by sales with an approximate 99% market share by sales in 2017, according to Euromonitor. Today, we address a wide range of retail needs and non-retail needs.

El Corte Inglés is a household brand in Spain, associated with quality, service and innovation, and is a preferred choice for consumers to fulfill their everyday shopping needs as well as their special occasion-driven purchases. We enjoy the highest overall brand awareness in Spain among most of the categories in which we operate (including, among others, men and children's fashion and footwear), according to internal market studies conducted during the last three years. In addition, we enjoy a highly active online presence, in terms of Facebook likes (approximately 3 million), Twitter followers (approximately 381,000) and Instagram followers (approximately 546,000), each as of May 8, 2018, making us the most followed retail brand in Spain and the second most followed retail brand in the Twitter community. Key to our reputation among consumers is our customer service offering, which is summarized by our motto "if you are not satisfied, we will give you your money back." Moreover, we maintain and grow our relationships with customers through various brand engagement events by providing 365-day-a-year customer service and having a sales team in luxury that is fluent in, among other languages, Russian, Arabic and Chinese.

Driven by our broad product offerings, our highly recognized brand, and our dense and convenient store network, we attract significant footfall to our stores. In the year ended February 28, 2018, we had more than 700 million visitors to our department stores and our webpages registered approximately 392 million visits. We have a loyal customer base, and we ensure customer satisfaction by providing customers with surveys in order to solicit their feedback. During an internal representative survey undertaken in the course of May 2018, customer visits resulted in an approximate 70.1% Conversion Rate (ECI Card) and 60.4% Conversion Rate (Non-ECI Card Holders).

We are a large-scale Spanish institution with a significant role in the Spanish economy. According to management's estimates, our net turnover contributed approximately 2.4% of Spain's total GDP for the year ended February 29, 2016 and Retail accounted for approximately 7.3% of total Spanish retail sales during the same time period. In addition, with over 92,000 employees as of February 2018, we are the largest private employer in the country. We also dedicate time and resources to train our employees, having spent over 1.5 million training hours in the year ended February 28, 2018.

Our growth and development throughout our history has also been built on a framework of social responsibility. One of our main objectives has been to maintain a relationship of physical proximity and commitment to the communities in which we operate. For instance, in addition to ensuring our physical presence throughout Spain, we work with various organizations, ranging from business associations and employers' organizations to NGOs, the media and other private and public institutions, as part of our corporate social responsibility program. We believe that this focus has also contributed to establish us as a fully diversified go-to destination for Spanish families. Moreover, we adhere to strict homologation and selection processes of suppliers to ensure that we meet corporate social responsibility standards.

The chart below shows the locations of our department stores and Hipercor hypermarkets.

[GRAPHIC]

Source: Company information.

The chart below shows the locations of our more than 1,200 stores.

[GRAPHIC]

Source: Company information.

The chart below shows ECI's online market share by category in terms of net turnover for the year ended February 28, 2018.

ECI's online share by category

[GRAPHIC]

Note: Refers to e-Commerce turnover generated within Spain and foreign commercial turnover with Spain.

Source: CNMC

We offer our customers a one-stop shop destination supported by our consumer financing platform which allows us to understand and enable our customers

We believe that there are very few physical retail distribution groups in the world that meet as many consumer needs as we do. Our omni-channel platform meets the complete fashion needs of men, women and children. In addition, we offer a wide variety of fresh food items and products, groceries, a gourmet range of products, household, culture and leisure products. Over time, we have expanded our operations to include complementary non-retail activities, including a leading travel agency service and insurance brokerage services, supported by our Financing Services affiliate, a joint venture with Santander Consumer Finance (store card credit and personal payment plans). We also offer travel agency, IT services and other B2B services, including sales of goods and refurbishment projects, to our corporate clients.

Our customer proposition is comprised of a unique, diverse and relevant range of products that is highly differentiated from other retailers in Spain. Through a powerful combination and extensive range of our own brands and third-party brands, consumers are able to find in a single platform a unique range of products and services giving rise to a convenient one-stop shopping experience. This diversification allows us to serve the entire Spanish population across all social segments and retail categories and to reduce the volatility of net turnover in our offering. We cover the full price spectrum for all our products and services, allowing our customers to meet their day-to-day shopping needs at competitive prices while simultaneously purchasing gourmet or higher-end products and services.

Financiera El Corte Inglés, our joint venture with Santander Consumer Finance, allows us to ensure the provision of consumer financing services for our customers, thereby enhancing our sales and profitability. As of December 31, 2017, there were more than 11 million card holders of the ECI Card. In the twelve months ended December 31, 2017, approximately 41% of our sales to retail customers were financed through Financiera El Corte Inglés, either through the ECI Card or through deferred payment plans. Through these cards and payment plans, we benefit from the positive impact on sales that the card financing may generate, supporting the Retail and Travel Agency business segments by offering short-term interest-free deferred payments or financing to customers. The card comes with no signup cost, provides users with free two-hour parking and forecourt fuel discounts. In 2017, over €4.6 billion of goods and services were financed through use of the ECI card and €1.6 billion through deferred payment plans. As of May 2018, the Conversion Rate (ECI Card) was 70.1%, as opposed to the 60.4% average Conversion Rate (Non-ECI Card Holders).

We believe that Financiera El Corte Inglés' customer database, which was started following the launch of the ECI Card in 1965, is an exceptional tool to create instant financing solutions for our customers with limited credit risk. We believe that easy access to immediate and flexible financing solutions is a competitive advantage of El Corte Inglés versus other online and physical retailers, particularly for purchasing goods with high selling prices. It also gives us access to a large amount of customer data, which includes information on consumer preferences over a wide array of products and services. We believe that we have a 360-degree view on customers' shopping habits as a result of our one-stop shop concept and the information that we collect from purchases made using the ECI Card. Financiera El Corte Inglés' customer database allows us to better provide our customers with the services and products that they prefer. Analysis of this information helps us to identify new business opportunities, to design and rationalize our advertising strategy and promotions to our customers, to optimize resource management and to improve and tailor the offering and services proposition to our clients, and is expected to further contribute and reinforce our competitive position in the future. We believe that Financiera El Corte Inglés' customer database enhances the value proposition of El Corte Inglés as distribution channel from the perspective of third-party brands, since such customer data increases the capacity of third-party brands to target certain customer subsets that are more likely to be receptive to their promotion activity.

We are the major third-party brand retail platform in Spain, complemented by a successful own brand portfolio

As a consequence of our department stores' significant footfall and our un-replicable real estate portfolio, we represent a unique channel for third-party brands to increase visibility and improve their perception through brand association. We believe that we are one of the few third-party brand retail platforms in Spain and one of the best gateways to enter the Spanish retail market by offering a "plug-and-play" solution to immediately access the whole Spanish population. For example, for the year ended February 28, 2018, approximately 70% of our fashion sales are conducted under concession or third-party agreements, helping to reduce any inventory or fashion risk. As of August 31, 2018, as part of our third-party offering, approximately 18,500 staff in our stores are employed by these brands, rather than by El Corte Inglés.

In addition, we work with third-party brands to build their brand value in the Spanish market and to improve customers' value perception of their offerings.

Our leading industry positioning and added value proposition with third-party brands has strengthened our bargaining position with brand owners, as well as minimized our fashion risk, as brands can be rotated based on performance and stock can be phased out as seasons and trends continue to evolve at the risk of brand owners. In order to increase third-party brand penetration, we typically showcase third-party brand products alongside brands with a similar targeted demographic. We are currently implementing very successfully a new framework for our commercial agreements with third-party brands which requires a minimum guaranteed return per square meter utilized at our stores, regardless of realized sales, in addition to our variable fees generated from sales by third-party brands in our stores.

As of September 2018, we sell products from more than 1,500 third-party brands (excluding grocery products), more than 140 of which are sold in Spain exclusively through El Corte Inglés, including well-known international brands, across all categories in our stores. These brands include, among others, Prada, Chanel, Christian Dior, Ermenegildo Zegna, Bobbi Brown, Apple, Samsung, Bosch, Hansgrohe and Miele. Some of these brands have developed, in alliance with El Corte Inglés, concept stores within the department stores, converting these spaces into their actual flagship stores, such as the Samsung space in Callao and the Nike store in Puerta del Sol. As of September 2018, there are approximately 1.7 million third-party brand stock keeping units available. It is not uncommon that third-party brands try to secure sales spaces in our locations that allow them to be strategically showcased alongside certain competitors (e.g., premium brands that can improve brand positioning and perception).

In addition to selling third-party brands, we supplement our already extensive offering with our own brands across all sub-categories within food and non-food retail. We have 101 non-food private brands (63 fashion brands, 20 leisure brands and 18 home brands) and nine food private brands. Our decision to supplement our third-party offerings with our own brands has allowed us to provide a full range of options to customers by strategically identifying gaps in category price points, further enhancing product mix and increasing footfall as we are able to offer solutions and products across a wider range of the category spectrum, with some key brands, such as Emidio Tucci in men's fashion, also becoming household labels in their own right. Our own brands also improve our profitability due to their higher margin relative to third-party brands. They also represent a key factor of differentiation versus online retailers. Additional advantages of providing our own brands include having a full own brand infrastructure in place, and providing the first step for international expansion.

The chart below shows ECI's net turnover split between own brands and third-party brands for the year ended February 28, 2018.

% of total sales on each category (FY 2017).

[GRAPHIC]

We are an omni-channel player leveraging on our real estate locations and differentiated online positioning

The demand for omni-channel shopping is underpinned by customers seeking more choice of products and brands and more ways to shop. Over time, we have proven to be successful by adapting and evolving our proposition to meet changing customer demands. Our approach to customer service is centered on the seamless operation of an omni-channel strategy to provide customers high-quality service and flexibility with respect to purchase and delivery options. We leverage our internal abilities and know-how to provide best-in-class services to meet customers' needs.

El Corte Inglés has been a pioneer in the omni-channel development in Spain, leveraging our brand name, customer confidence and reach with the Spanish population. During 2017, we have had, on average, over 12.5 million unique online users per month. We have always focused on addressing our clients' needs in an omni-channel offering, of which e-commerce has been the latest natural evolution after more than 20 years of home shopping. Before the internet era, El Corte Inglés proactively promoted catalogue and telephone sales among customers. Additionally, El Corte Inglés played an important role in grocery distribution, not only in the form of in-store sales but also via telephone orders, as El Corte Inglés has been delivering groceries to Spanish households for more than 25 years.

In recent years we have enhanced our customer services offerings through the incorporation of e-commerce features to our omni-channel strategy. Since the introduction and development of e-commerce into our operations, we have successfully leveraged our existing infrastructure and brand awareness to offer services such as *Click&Collect* (collecting online purchases in stores), *Click&Express* (delivering online purchases with two-hour delivery to a number of Spanish cities) and *Click&Car* (collecting online grocery purchases in the parking lot), as well as home delivery throughout Spain and Portugal of merchandise purchased online. Our one-stop-shop business model positions us well for e-commerce marketing occasions, enabling customers to access discounted products during our Week of Internet and Black Friday sales occasions. As of today, our omni-channel proposition includes the ability to purchase in store, via catalogue, online, via mobile device, via *Click&Collect*, *Click&Express* or via *Click&Car*.

Currently, we offer approximately 1.49 million references online, out of which initially over 500,000 can be delivered in a number of Spanish cities within two hours, any day of the year, or in the time frame requested by the client. In the coming months, we expect to launch a new app/digital platform to further extend this service to most Spanish cities.

Our omni-channel platform is supported by a fully-invested infrastructure. We have more than 90 distribution hubs (3 large distribution centers in Madrid, Barcelona and the Canary Islands as well as 94 department stores) and more than 640 stores across Spain. Moreover, we have store locations in more than 50 cities in Iberia. We also benefit from a strong logistics platform that includes nationwide road transportation capabilities, highly efficient last-mile delivery, an exclusive and experienced operational network and a unified and extremely coordinated omni-channel platform. The e-commerce platform allows us to serve customers anytime, without being subject to regulatory store opening limitations. We also have a unique infrastructure that allows us to access the Canary Islands. Our ability to reach a vast majority of households in Spain requires no further investment. Our strategically located department stores are used as dark stores for delivery. This allows us to reach customers faster than our competitors, especially in secondary cities where our competitors have no logistics infrastructure and/or capabilities.

This flexibility has allowed us to grow our e-commerce business faster than the industry average in recent years. During the year ended February 28, 2018, we carried out an average of approximately 15,000 online deliveries a day with an average basket size of more than €100, delivering a total of approximately 150,000 items a day and processing approximately 5 million orders. The flexibility and service that our e-commerce offering provides has helped position us as the number one e-commerce retailer with omni-channel capabilities in the Spanish market, and we are the second largest e-commerce retailer in Spain as measured by market share, according to Euromonitor. In 2017, we had the second-largest market share for online retail sales in Spain (9.1%), behind only Amazon (12.7%). Our e-commerce offering and strategy is differentiated from that of Amazon in several critical ways. For example, our offering elevates third-party brands, enables delivery of a larger pool of references in less than two hours, provides full country coverage, carries low inventory risk, offers private label products, contains differentiated categories such as luxury brands, gourmet offerings, services and warranties and provides consumer financing if required. Moreover, we enjoy a leading market share position across all of our departments, including fashion, food, electronics, toys and sports, shoes and home goods. Additionally, we benefit from superior online margins on third-party brands, demonstrating the benefits of our brand-building capabilities.

We have a partnership with Alibaba, the Chinese e-commerce conglomerate, which has allowed us to continue increasing our omni-channel platform. Under this agreement, we accept Alipay across all of our department stores.

We operate a diversified business model that reduces our exposure to the volatility of single Retail segments and realizes significant synergies

We operate a diversified business model which includes selling products and providing services across a wide range of sectors. The different segments of our business have been developed mostly organically throughout the course of our history and are complementary to each other.

Visitor traffic generated through our stores (we had more than 700 million store visitors to our department stores in the year ended February 28, 2018) and websites is a differential element which creates significant cross-selling opportunities. Such cross-selling opportunities, which are increased by the large number of store locations, existing both within the areas which include Fashion, Food, Household, Culture & Leisure, among others, and across other Non-Retail segments such as Travel Agency or Insurance. All segments contribute to increase footfall within El Corte Inglés' department stores, potentially bringing visitors' attention to other products and services.

In addition to footfall influence on cross-selling, the Insurance business benefits from sales in the Retail and Travel Agency segments, offering complementary insurance products related to goods and services sold (i.e., electronics, travel packages).

Furthermore, our diversified category offerings range from every necessity like groceries and basic apparel to high ticket value luxury items, thereby exposing us to different market dynamics and enabling us to reduce volatility throughout economic cycles.

In addition to offering diversified products and services, we serve a diverse customer base. Our brand awareness is generally consistent across age groups, genders and income levels. We have successfully developed and commercialized adjacent industry offerings that are provided to private and corporate clients alike.

As a result, we believe that our diversified product and services offering reduces our exposure to risks in any single segment, and at the same time allows us to benefit from significant day-to-day operational synergies. Our diversification allows for a full and complementary offer to a wide range of private and corporate clients, further cementing our brand prominence in Spain.

Our €17.1 billion portfolio of real estate assets, with prime locations throughout Spain, is one of the largest among European retailers

We own one of the largest real estate portfolios among European retailers. We believe that the extensive freehold portfolio we have developed over the years provides us with a competitive advantage against other consumer alternatives due primarily to the prime location of our stores, the difficulty in replicating this portfolio and the resulting operational and financial flexibility. Moreover, we have historically disposed of real estate holdings at an amount above the respective Tinsa valuations.

Since 1935, we have sought to locate and operate our stores in prime locations in Spain and Portugal. We believe prime location is necessary to target a large volume of consumers as well as to facilitate their ability to buy from our stores on a recurring basis. Our extensive network of stores also allows us to manage our stock and provides us with a competitive delivery time from our online platform, not only in Madrid and Barcelona, but throughout Spain. Moreover, our relatively limited lease payment obligations resulting from our freehold real estate portfolio enhances our financial flexibility.

In addition, our prime real estate portfolio is very visible and well-positioned across all Spanish metropolitan areas, enabling our unrivalled reach to the Spanish population and promoting our brand awareness. Our department stores are located in affluent areas of Spain with strong traffic and tourist flows.

As of February 28, 2018, our real estate portfolio comprised 94 department stores (two of which are located in Portugal), containing 41 hypermarkets (trading as Hipercor) and 56 supermarkets located within the department stores. Our department stores account for over 87% of our portfolio's gross asset value ("**GAV**") as of February 28, 2018. We also operate a total of 176 convenience stores (trading as Supercor, of which four are located in Portugal), out of which 103 are part of El Corte Inglés real estate portfolio. El Corte Inglés also owns a number of warehouses and logistics platforms, as well as offices, some of which are in use by El Corte Inglés whilst the rest are leased to third parties.

As of February 28, 2018, our real estate portfolio had a total built area of over 10.0 million square meters, and has been valued at €17,147 million as at February 28, 2018 by Tinsa, an independent appraisal firm. See "*Risk Factors—Risks Related to Our Business and our Operations—The valuation report provided by Tinsa may incorrectly assess the value of our property, and we may be required to adjust the current fair value of our properties, which could result in the recognition of losses." and "Business—Real Estate Portfolio and Valuation."* The total built area of our retail real estate portfolio is comprised of a 3,994 million square meter commercial footprint, which is larger than that of any other full-service retailer in Spain, and a 6,238 million square meter operation support infrastructure including parking, warehouses, offices, services and installation areas, which is optimized to support efficient and effective diversified retail operations.

The following table shows our department store breakdown by asset value.

# of Department Stores

[GRAPHIC]

Source: Tinsa valuation report (Feb-2018).

We divide our real estate portfolio into three asset types: (i) stores and hypermarkets, (ii) high street retail and convenience stores and (iii) warehouses, offices and mixed use. As at February 28, 2018, the first had a gross asset value of €14,964 million, the second had a gross asset value of €1,051 million and the third had a gross asset value of €1,132 million, which sums to a total gross asset value of €17,147 million. See "*Risk Factors—Risks Related to Our Business and our Operations—The valuation report provided by Tinsa may incorrectly assess the value of our property, and we may be required to adjust the current fair value of our properties, which could result in the recognition of losses*." and "*Business—Real Estate Portfolio and Valuation.*"

The portfolio value is marked by geographic diversity with 32% of our real estate held in Madrid, 10% in Barcelona, 6% in each of Valencia and Malaga, 4% in Seville and 42% held in other Spanish regions. The premium locations of the real estate assets together with this geographic diversity allow El Corte Inglés a high degree of penetration throughout all Spanish regions, cities and key population hubs, as well as in the two main population hubs in Portugal.

We have a strong financial profile and a well-invested asset base

Over the past two years, our net turnover has grown at a CAGR of 2.3%, from €15,220 million for the year ended February 29, 2016 to €15,935 million for the year ended February 28, 2018, due to macroeconomic improvement in Spain and our commercial initiatives. This was driven mostly by our Retail division, which grew at a CAGR over the same period of 2.8%. Net turnover in our Retail division grew from €12,546 million to €13,237 million and in our Non-Retail division from €3,574 million to €3,659 million over the same period. Over the same two-year period, Adjusted EBITDA has grown at a CAGR of 6.4%, from €1,022 million to €1,152 million, due to our commercial initiatives and cost containing efforts. Adjusted EBITDA margin has grown over the same period from 6.7% to 7.2%.

After capital expenditure investments of approximately €6,400 million from 2007 to 2012, we have deployed very limited expansion investments over the past three years. Notably, for the years ended February 29, 2016, February 28, 2017 and February 28, 2018 our maintenance and refurbishment capital expenditure was €321 million, €322 million and €321 million, respectively, which represented 2.1%, 2.1% and 2.0%, respectively of our net turnover for each year. Due to the improvement of EBITDA and certain asset disposals, for the years ended February 29, 2016, February 28, 2017 and February 28, 2018 we had a cash conversion of 69.6%, 80.7% and 64.4%, respectively.

We have also experienced sustained deleveraging, which has been achieved on the back of Adjusted EBITDA growth, strong cash conversion and selected non-core asset disposals. From the year ended February 29, 2016 to the year ended February 28, 2018, our net leverage decreased from 3.7x to 3.3x. Our management team also plans to continue our conservative dividend policy in line with that of previous years.

We have an experienced management team with clear focus on the Group's financial policy

We have a highly experienced and committed management team with extensive knowledge of the industry and an average of over 25 years' experience at El Corte Inglés. Our management team is led by Jesús Nuño de la Rosa y Coloma, Chairman and Co-CEO responsible for corporate matters and subsidiaries, and Victor del Pozo Gil, Co-CEO responsible for the Retail division and department stores.

Prior to being appointed Co-CEO and subsequently Chairman, Mr. Nuño de la Rosa y Coloma spent most of his professional career at El Corte Inglés' Travel Agency segment, of which he has been the manager since 1998. In addition, he has held various leadership positions at the Group, with a particular focus on cross divisional initiatives.

Víctor del Pozo joined El Corte Inglés more than 30 years ago and has since led a number of segments. From 2012 to 2016, Mr. del Pozo led the repositioning of El Corte Inglés' Food area, turning it into one of the leading food distribution businesses in Spain by profitability.

Overall, our management team has demonstrated a strong track record of cash generation, resulting from strong financial discipline across segments. This success has resulted largely from close management of margins, costs, cash and capital.

In addition to our current management team, we have a large number of corporate employees with extensive experience in El Corte Inglés and in the retail industry more generally. Additionally, we provide our sales workforce with extensive personnel trainings, which allow us to offer outstanding levels of service and attention. As part of our business plan, we intend to increase our training program offering for sellers and managers.

Our Strategy

We intend to maintain our leading market positions, improve our operational efficiency and further increase our operating margins. By leveraging our strengths, we will continue focusing on three "strategic pillars" to achieve these goals, namely (i) traffic generation through omni-channel sales, (ii) outstanding customer service and (iii) adding value to brands. These three strategic pillars reinforce our value proposition and are key for our business model by providing us with bargaining power versus third-party brands and by differentiating ourselves from all our competitors, especially online retailers and category specialists:

- First, strong customer traffic both derives from and generates a loyal customer base and compelling propositions for third-party brands. Our one-stop-shop concept and our unique brand range represent a unique value proposition for our customers, generating the traffic that attracts third-party brands to our stores, in both major and secondary cities. This focus on generating customer traffic and addressing clients' needs has resulted in an omni-channel shopping platform which diversifies our product and brand offerings.

- Second, our goal of offering outstanding customer service is to be the customers' top choice in all product categories, locations where we operate and channels through which we reach our customers. In fact, our brand awareness and trust from our clients make us believe that, when our prices are in line with those of other retailers, our customers choose El Corte Inglés over other retailers. Critical to our customer service are our omni-channel platform and more than 92,000 employees as of February 2018 who offer in-store service and help customers make purchase decisions and assist with post-sale needs, supported by our extensive personnel trainings that allow us to offer outstanding and targeted service. Our service offering also includes customer finance solutions (including immediate financing for the ECI Card holders), fashion ateliers, furniture renting, florist services, license administration and personal shoppers.

- Third, within our third-party brand partner platform, we help third-party brands build and communicate their brand value to consumers. We provide third-party brands with the physical space to display their merchandise, and also make them part of El Corte Inglés' shopping experience, thus giving them access to our curated shopping spaces and vertical promotion activity. In addition, thanks to our premium locations, third-party brands that distribute their products via El Corte Inglés enjoy high visibility among both local and tourist consumers. We target to add significant value to third-party brands that wish to enter the Iberian market, as El Corte Inglés can offer fast access and meaningful penetration to the market at a competitive cost.

In order to achieve these objectives and as part of our business plan, we launched a transformation plan in 2017 to be implemented in a period of five years, which is designed to adapt to market trends, optimize the procurement process, increase sales and improve margins. The first year of the transformation plan has been implemented and stands in line with the projected results. The transformation plan is supported by both the human resources initiative, including increased training programs for sellers and managers, and the introduction of a new compensation model that provides incentives across levels. Moreover, the transformation plan is also supported by an external communication plan that generates high levels of engagement. The transformation plan includes key strategies as set forth below:

Improve operational flexibility through strategic business positioning by product category

The diversified product category is key to strengthening our position in the Iberian retail market. We have a number of initiatives to appropriately and timely adjust both the price and the variety of offerings in each product category when market conditions change. These initiatives are implemented in each of our product categories to offer customers a more fulsome proposition. For example, we continuously monitor the use of retail spaces for different product categories, redistribute and allocate new retail spaces for high demand products, as we have recently converted textiles retail spaces at a number of Hipercor stores into El Corte Inglés spaces, offering different product categories in those retail spaces. The product categories which are sold in the converted retail spaces have been proactively selected based on the demand and characteristics of each specific department store, its location and its clients' specific consumption patterns. By implementing certain initiatives we also aim to improve the customers' experience of our expanded product portfolio in stores. For example, sales assistants are equipped with tablets, providing them with instant access to the extended product catalogue and supplemental references. Additional examples include the creation of experience stores, such as the Samsung flagship store within the Callao department store in Madrid, where our clients can try and experience Samsung's full product portfolio, or the new Nike store in Puerta del Sol in Madrid, one of their largest flagship stores in Europe. We also target the expansion of our own brands' portfolio internationally, by engaging with third-party retailers and opening Sfera stores overseas through a capital light approach. To date, we have employed a number of different routes for international operations such as selling private label grocery and clothes in other international retailers such as Karstadt in Germany and Palacio de Hierro in Mexico. We believe this represents a capital-light channel to grow the sales of our own brand and to further diversify our net turnover by geographical area. We also undertake initiatives to reinforce the product portfolio of our own brand by focusing on quality positioning instead of price positioning, optimizing assortment focusing on margin to compensate lower prices, boost fresh products to increase purchase frequency and develop growth through innovative products and formats.

Optimize own-brand purchase efficiencies and third-party brand negotiation model

Our ability to continue purchasing at better terms depends on our ability to manage the cost of sales which is also key to our business objective of increasing operating margins. On one hand, we manage our cost by continuously improving our purchase channel and optimizing the purchase process of our own brand. We will continue to invest in operational and organizational effectiveness and we have a number of initiatives for the continuous optimization of our purchase planning methodology, our supplier base, our time to market and our fashion production process. These initiatives aim to ensure the relevance, development and, ultimately, profitability of our own brands.

On the other hand, we manage our cost through the new contract negotiation model with third-party brands. We have a new framework for the commercial agreement that we are executing with third-party brands, which includes a minimum guaranteed return per square meter utilized at our store locations regardless of realized sales. This minimum profitability requirement highlights our distinctive value in terms of premium store locations. We also charge fees to third-party brands based on a percentage of the net turnover generated by the third-party brands at El Corte Inglés' stores. We believe that the guaranteed return and the fees we earn is an effective method to monetize both our premium store locations and the unique value-add that we provide to third-party brands. We are also carrying out control plans to ensure the quality and attractiveness of the third-party brand products in our stores.

Improve selling ability by prioritizing customers' needs and improving store management

We prioritize customers' needs by developing increasing knowledge on our clients, including their purchase preferences, behavior, opinions and feedback on shopping experience. We better understand customers' needs by analyzing all the customer shopping data collected and by monetizing the value of the relevant information in our database. This analysis demonstrates customers' shopping preferences and high-demand products. For example, the purchases made through the ECI Card and through El Corte Inglés website provide us with useful information of the services and products that our customers need. We have abundant and valuable customer data due to our one-stop shop value proposition to customers and omni-channel approach to product distribution. The data we collect is treated and analyzed through sophisticated mathematical tools whose outputs help us identify the optimal approach to our products and services offering. We will continue to leverage our customer data so as to provide better sales categories and opportunities to our customers. In addition, we carry out personalized marketing efforts both to increase sales and reduce promotional costs. Our focus on customers' needs also includes further enhancing our omni-channel shopping platform which provides more ways for customers to browse, discover and purchase products, so as to expand customers' shopping experiences.

In addition, we aim to increase sale margins by active store management which contributes to both individual margin and coordinated commercial actions. We improve our store organization by boosting integration and specialization of various channels as well as integrating and rationalizing formats and companies.

Optimize operating efficiency and enhance digital offering

We continue to improve the operational efficiency of our omni-channel distribution model, which maximizes our net turnover and consequently reduces our financing needs. We also optimize sales opportunities by minimizing our stocks and creating new strategies for stock management. In addition, the omni-channel sales models enabled us to improve efficiency in our supply chain. Other initiatives aiming at maximizing efficiency include plans to further develop our control systems that track operating performance, to redefine processes of investment allocation, to maximize space profitability and to establish minimum return hurdles for new investment opportunities.

We are also in the process of implementing several digital initiatives, which are integral to developing our enhanced digital platform and activities, further reinforce our omni-channel capabilities and facilitate the overall digital transformation of El Corte Inglés. Firstly, we are implementing a real-time inventory tracking system in all our stores, with the ultimate goal to have each store operating as both a shop for customers and as a logistics center for the Group. The SAP Retail launch in stores together with the new inventory processes will allow us to be more efficient, fast and accurate in connection with in-store services. Secondly, we continue to enhance our omni-channel strategy in order to make all our products available for purchase both online or by phone, and providing customers, either in store or online, with real-time information on the complete product categories sold in each of the stores as well as the extended catalogue of third-party brands. Specifically, we are equipping all our store assistants with the technical skills and physical means (such as personal digital assistants) to allow them to view the online product portfolio when completing sales, so as to adapt the online platform to face-to-face sales. We leverage on analytic capabilities to reach additional sales in brick and mortar stores. We also have an ongoing initiative to migrate all the third-party brands with presence in our physical stores to our digital channels. Lastly, we are working to integrate and improve our logistics systems with those of our suppliers, so as to further enhance their ability to distribute directly to our customers. Lastly, we are developing a mobile application for our clients in order to generate and customize a digital relationship with our clients where delivery costs are not an issue. The application provides for immediate delivery of approximately 500,000 stock keeping units in Spain at a flat delivery fee. The immediate delivery is targeted to provide delivery of goods to customers within two hours of the purchase completion or, alternatively, within a time frame selected by the customer at the time of purchase. This efficient delivery system is the result of the capillarity of our extensive retail network spread across Spain and Portugal. We believe these technological initiatives will all contribute to increase our sales demand. In parallel with the potential e-commerce development in Spain, we are also implementing certain e-commerce initiatives, including investments in back office and distribution, partnerships with other e-commerce providers and the organization of online sales events. As a result of these initiatives, we believe we are benefiting from a broader social media presence compared to other retailers in Spain.

Focus on generating cash flow to continue the deleveraging path

Our goal is to continue to increase cash flow generation through our initiatives to increase sales and improve profitability, which will permit El Corte Inglés to increase its available cash flow for deleveraging. Our continued focus on cost control and efficiency aims to further improve our EBITDA margins. We expect that the increased EBITDA, together with a limited capital expenditure program and our continued efforts to optimize working capital, will drive strong cash flow generation. We may further consider opportunistic asset sales to support deleveraging. Since 2013, we have also adopted a more prudent approach to capital expenditure management. We plan to continue to focus on cash flow generation, which, together with our strong liquidity position, conservative dividend policy, limited expansion plan, well-invested asset base and limited foreign exchange and interest rate exposure, will help us to continue on our deleveraging path.

Principal Shareholders

As of the date of this offering memorandum, Fundación Ramón Areces, Cartera de Valores IASA, S.L. and PrimeFin, S.A. each own 37.4%, 22.2% and 10.0%, respectively, of the shareholding of the El Corte Inglés, S.A.

Fundación Ramón Areces was founded in 1976 and is a foundation devoted to scientific patronage through the promotion and development of procedures to award financial aid for research, contributions to training efforts through the establishment of scholarship programs for studies and the dissemination of knowledge through the establishment of various scientific programs. The foundation's activities are focused on life and matter sciences, social sciences and humanities. Its chief aims are to contribute to the creation of a solid scientific and technological structure in Spain in order to improve people's lives, and to seek solutions to future challenges which modern society faces, most notably with respect to economics and education. The foundation also works to generate new training opportunities for young researchers and to promote the exchange of ideas for the development of science, education and culture. The foundation works with public and private institutions, both national and international, to achieve its goals.

Cartera de Valores IASA S.L. was founded in July 2000 in Madrid. It is a holding company and its exclusive company purpose is the acquisition, holding and disposal of the shares in El Corte Inglés, S.A.

PrimeFin S.A. was founded in December 2014 and is incorporated under the laws of the Grand Duchy of Luxembourg. Its corporate objective is the acquisition, administration, management, control and development of assets, including shares and other securities and patents, owned by it.

Recent Developments

On September 17, 2018, the Issuer's Appointment and Remuneration Committee approved the hiring of Javier Rodriguez Anas as a senior executive of the Issuer. After an onboarding process, to take place in the coming months, Mr. Rodriguez Anas is expected to join several of the Issuer's senior management committees.

On June 14, 2018, the Board of Directors appointed Jesús Jorge Nuño de la Rosa as chairman of the Issuer, concurrently with the dismissal of the former chairman, Dimas Gimeno, who filed a claim challenging the decisions adopted by the Board of Directors. The Issuer and Mr. Gimeno reached an out of court agreement on August 25, 2018, whereby the latter irrevocably resigned from his director position and agreed to withdraw the claim against the Issuer relating to his dismissal as chairman. On August 26, 2018, the appointment of Jesús Jorge Nuño de la Rosa as chairman of the Issuer was ratified by the shareholders of the Issuer at the Annual Shareholders Meeting.

In addition, two new directors: Fernando Becker as an independent director and Carlota Areces representing Corporación Ceslar, were appointed at the Annual Shareholders Meeting.

The Appointments and Remuneration Committee was created on July 24, 2018 and the Corporate Social Responsibility Committee was created on September 17, 2018.

As of August 31, 2018, we had voluntarily cancelled an aggregate amount of €435 million of available commitments under the Term Loan A1 following the disposal of certain real estate assets and organic cash flow generation. The real estate asset sales have amounted in total to € 212 million and were performed at a higher price than the appraisal value. The Group will continue to lease certain of these buildings following the disposals. These sales, together with the cash generation from our operations, have resulted in our outstanding total net indebtedness amounting to €3,652 million as of August 31, 2018.

On July 13, 2015, the Issuer entered into a three-year €1,000 million mandatory convertible loan agreement with PrimeFin, S.A., with the Issuer as borrower and PrimeFin, S.A. as lender. On July 13, 2018, in accordance with the terms of the loan agreement, the Issuer transferred 10% of its corporate capital to PrimeFin, S.A. as payment in kind of the principal amount of the loan. During the term of the loan agreement and as payment in kind of the interest of the loan, PrimeFin has received annually 0.75% capital of the Issuer (2.25% in total) with a put option at an exercise price of €225 million (less any dividends received on such 2.25% stake), which they have exercised. Such amount has been paid in three equal payments (€75 million during the year ended February 29, 2016, €75 million during the year ended February 28, 2017 and €75 million during the year ended February 28, 2018).

In its second quarter of the 2018 financial year, the Issuer received an unsolicited bid for IECI. The Issuer has allowed the bidder to undertake the relevant due diligence process, which may result in the submission of a binding proposal for the acquisition of IECI in September or October 2018. If the binding proposal is finally received and accepted by the Issuer's board of directors, the transaction could close before year-end. The binding proposal is expected to be in cash, albeit with a deferred component, and the proceeds from the sale to be used to reduce indebtedness.

Trading Update

Based on preliminary unaudited information for the five months ended July 31, 2018, our net turnover decreased by 0.1% and our EBITDA by 0.6%, compared with the five months ended July 31, 2017. Our performance is mainly explained by the decrease in net turnover in the Retail and Information Technology segments, offset by the positive performance of the Travel Agency and Insurance segments. Our Retail, Travel Agency and Information Technology segments positively contributed to an improvement of the Group's gross margin, expressed as a percentage over net turnover. The EBITDA of the Retail segment for the five months ended July 31, 2018 was lower than that of the five months ended July 31, 2017, while the EBITDA of the Travel Agency, Insurance and Information Technology segments during this time period was greater than that of the respective segments for the five months ended July 31, 2017.

We believe that the resilience of our business in the first five months of our financial year is a testament to our diversified business profile. While our Fashion area was negatively impacted by abnormal weather conditions in Spain, the remaining areas within Retail (primarily Food, Culture and Leisure and Household) have positively contributed to the performance of the Group. Moreover, our Travel Agency and Insurance segments have also positively contributed to our results, delivering strong performance both at net turnover and EBITDA levels.

This foregoing information is based on preliminary management accounts and has not been audited, reviewed or verified by our independent auditors. During the course of our financial statement completion and review process for the five months ended July 31, 2018, we could identify items that would require adjustments to be made and which could affect the results of operations for the periods presented above. Those procedures for such period have not been commenced and the operating results for such period may be different than the performance and trends indicated by the financial results for the periods presented above and such changes may be material. The foregoing information should not be regarded as an indication, forecast or representation by us or any other person regarding our financial performance for the five months ended July 31, 2018.

Sources and Uses

The gross proceeds from the Offering will be €600.0 million. The gross proceeds from the Offering will be used for general corporate purposes, including to partially repay our Existing Employees' Promissory Notes as and when maturities come due.

The following table illustrates the estimated sources and uses of funds from the Offering. Actual amounts are subject to adjustment and may significantly vary from expected amounts depending on several factors. Transaction costs associated with the Offering, including initial purchaser discounts and other transaction costs and professional expenses, are estimated to be €7 million and will be paid using available cash. €10 million of borrowings under Term Loan A1 will be repaid from cash and the Term Loan A1 Facility will be terminated and canceled immediately prior to the issuance of the Notes.

Sources of Funds	**(€ in millions)**	**Uses of Funds**	**(€ in millions)**
Notes offered hereby[(1)]	€600.0	General corporate purposes[(2)]	€600.0
Total sources	**€600.0**	**Total uses**	**€600.0**

(1) Assumes issuance at par.

(2) From time to time, as amounts outstanding under the Existing Employees' Promissory Notes become payable, we intend to use the proceeds to reduce our obligations under the Existing Employees' Promissory Notes. We may refinance up to €325 million of the Existing Employees' Promissory Notes with new Promissory Notes with a two-year maturity. As of August 31, 2018, €105 million two-year maturity new Promissory Notes had been issued.

SUMMARY CORPORATE AND FINANCING STRUCTURE

The following diagram summarizes certain aspects of our corporate and financing structure, on an adjusted basis after giving effect to the Transactions and the use of proceeds therefrom. The chart does not include all entities of the Issuer, nor all of the debt obligations thereof. For a summary of the debt obligations identified in this diagram, refer to the sections entitled "*Capitalization*," "*Description of the Notes*" and "*Description of Certain Indebtedness*."

[GRAPHIC]

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(1) For a description of our principal shareholders, see "*Principal Shareholders*."

(2) The Notes will be senior obligations of the Issuer. The Notes will rank *pari passu* in right of payment to all of the Issuer's existing and future indebtedness of the Issuer that is not subordinated in right of payment to the Notes, will rank senior in right of payment to any existing and future indebtedness of the Issuer that is expressly subordinated in right of payment to the Notes and will be effectively subordinated to any existing or future indebtedness of the Issuer and its subsidiaries that is secured by property and assets that do not secure the Notes, to the extent of the value of the property and assets securing such indebtedness and will be structurally subordinated to all obligations of the Issuer's subsidiaries that do not guarantee the Notes. See "*Risk Factors—Risks Related to Our Indebtedness,*" "*Risk Factors—Risks Related to the Notes and the Notes Guarantees*" *and "Description of the Notes*."

(3) The Notes will be fully and unconditionally guaranteed on a senior basis by Viajes El Corte Inglés, S.A. and Supercor, S.A. As of and for the twelve months ended May 31, 2018, the Issuer and the Guarantors represented 87.8%, 83.7% and 87.6% of the Issuer's consolidated net turnover, EBITDA and total assets, respectively. As of May 31, 2018, non-guarantors had €51.3 million of debt outstanding. For details, see "*Reconciliation Tables*." The Notes Guarantees will be subject to significant limitations under applicable laws and may be released under certain circumstances. For details see "*Limitations on the Validity and Enforceability of the Notes Guarantees and Certain Insolvency Law Considerations,*" "*Risk Factors—Risks Related to Our Indebtedness,*" "*Risk Factors—Risks Related to the Notes and the Notes Guarantees*" *and "Description of the Notes.*"

(4) €1,450 million Term Loan B1 facility, extended under the Syndicated Loan Facility Agreement entered into on January 24, 2018, as amended and restated from time to time, between us and certain lenders and financial institutions.

(5) €1,150 million Revolving Credit Facility, extended under the Syndicated Loan Facility Agreement entered into on January 24, 2018, as amended and restated from time to time, between us and certain lenders and financial institutions.

(6) Aggregate amount of €780 million new Employees' Promissory Notes and Existing Employees' Promissory Notes outstanding as of August 31, 2018. The Existing Employees' Promissory Notes will be repaid as and when they mature. We may refinance up to €325 million of the Existing Employees' Promissory Notes with new Employees' Promissory Notes.

(7) €600 million 3.875% notes due 2022. These notes had originally been issued by Hipercor, which merged into the Issuer on October 2, 2017.

(8) Up to €500 million commercial paper program admitted to trading on the Spanish Alternative Fixed-Income Market.

(9) Loan agreement dated December 9, 2016, as amended and restated from time to time, entered into between us and the European Investment Bank relating to a loan of up to €116 million to fund the further expansion of our e-commerce capabilities.

(10) Bilateral loan agreements with several banks relating to loans in the aggregate outstanding amount of €92.5 million to finance our voluntary redundancy scheme as of the date of this offering memorandum.

(11) Finance leases at the Issuer and the Guarantors amounted to an aggregate of €100.5 million as of May 31, 2018.

(12) Our joint venture with Santander Consumer Finance, in which we own a 49% share.

THE OFFERING

The following summary of the Offering contains basic information about the Notes and the Notes Guarantees. It is not intended to be complete and it is subject to important limitations and exceptions. It may therefore not contain all the information that is important to you. For a more complete understanding of the Notes and the Notes Guarantees, including certain definitions of terms used in this summary, refer to the sections of this offering memorandum entitled "Description of the Notes" and "Description of Certain Indebtedness."

Issuer...	El Corte Inglés, S.A.
Notes Offered	€600.0 million aggregate principal amount of Senior Notes.
Maturity Date................................	March 15, 2024.
Issue Date..	October 8, 2018 (the "**Issue Date**").
Issue Price.......................................	100%, plus accrued and unpaid interest from the Issue Date, if any.
Interest Rate...................................	3.000% per annum.
Interest Payment Dates	Semi-annually in arrears on each April 15 and October 15, commencing on April 15, 2019.
Form and Denomination	Global notes in denominations of €100,000 and integral multiples of €1,000 in excess of €100,000. Notes in denominations less than €100,000 will not be available.
Ranking of the Notes	The Notes will: • be general senior obligations of the Issuer; • rank *pari passu* in right of payment with any existing and future Indebtedness of the Issuer that is not subordinated in right of payment to the Notes, including the Syndicated Loan Facilities; • rank senior in right of payment to any future Indebtedness of the Issuer that is expressly subordinated to the Notes; • be effectively subordinated to any existing or future Indebtedness of the Issuer and its Subsidiaries that is secured by property or assets that do not secure the Notes, to the extent of the value of the property and assets securing such Indebtedness; • be structurally subordinated to any existing or future Indebtedness or obligations (including obligations to trade creditors) of the Subsidiaries of the Issuer that are not Guarantors; and • will be fully and unconditionally guaranteed on a senior basis by the Guarantors, subject to the limitations herein and in "*Risk Factors—Risks Related to the Notes and the Notes Guarantees—Each Notes Guarantee will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability" and "Limitations on Validity and Enforceability of the Notes Guarantees and Certain Insolvency Law Considerations.*"
Notes Guarantees..........................	On the Issue Date, the Notes will be guaranteed on a senior basis by Viajes El Corte Inglés, S.A. and Supercor, S.A. (the "**Guarantors**"). The obligations of the Guarantors will be subject to contractual and legal limitations described under "*Limitations on Validity and Enforceability of the Notes Guarantees and Certain Insolvency Law Considerations"* and *"Description of the Notes*." As of and for the twelve months ended May 31, 2018, the Issuer and the Guarantors represented 87.8%, 83.7% and 87.6% of the Issuer's consolidated net turnover, EBITDA and total assets, respectively. As of May 31, 2018, non-guarantors had €51.3 million of debt outstanding.
Ranking of the Notes Guarantees.	Each of the Notes Guarantees will be a senior obligation of the respective Guarantor. Accordingly, each of the Notes Guarantees will: • be a general senior obligation of the applicable Guarantor; • rank *pari passu* in right of payment with any existing or future Indebtedness of the applicable Guarantor that is not subordinated in right of payment to the applicable Notes Guarantee, including guarantees of the Syndicated Loan Facilities; • rank senior in right of payment to any existing or future Indebtedness of the applicable Guarantor that is expressly subordinated in right of payment to the applicable Notes Guarantee;

- be effectively subordinated to any existing or future Indebtedness or obligation of the applicable Guarantor that is secured by property or assets that do not secure the Notes Guarantee, to the extent of the value of the property and assets securing such Indebtedness or obligation; and
- be subject to the limitations described herein and in "*Risk Factors—Risks Related to the Notes and the Notes Guarantees—Each Notes Guarantee will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability*," "*—The insolvency laws of Spain may not be as favorable to you as the U.S. bankruptcy laws and may preclude holders of the Notes from recovering payments due on the Notes*" and "*Limitations on Validity and Enforceability of the Notes Guarantees and Certain Insolvency Law Considerations.*"

Additional Amounts....................... All payments the Issuer or a Guarantor makes with respect to the Notes will be made without withholding or deduction for, or on account of, any present or future taxes in any relevant taxing jurisdiction unless required by applicable law. If withholding or deduction for such taxes is required to be made with respect to a payment on the Notes or Guarantees subject to certain exceptions, the payor will pay the additional amounts necessary so that the net amount received by the holders of the Notes after the withholding or deduction is not less than the amount that they would have received in the absence of the withholding or deduction. See "*Description of the Notes—Withholding Taxes*."

Optional Redemption .... Prior to October 15, 2020, the Issuer will be entitled at its option to redeem all or a portion of the Notes at a redemption price equal to 100% of the principal amount of the Notes plus the applicable "make-whole" premium described in this offering memorandum and accrued and unpaid interest to but excluding the redemption date.

At any time prior to October 15, 2020, the Issuer may on one or more occasions redeem up to 40% of the aggregate principal amount of the Notes, using the net proceeds from certain equity offerings at a redemption price equal to 103.000% of the principal amount of the Notes, plus accrued and unpaid interest and additional amounts, if any, to but excluding the date of redemption; *provided that* at least 50% of the original aggregate principal amount of the Notes (not including any additional notes) remains outstanding after the redemption. See "*Description of the Notes—Optional Redemption*."

The Issuer may redeem all or part of the Notes at any time on or after October 15, 2020, at the redemption prices described under "*Description of the Notes—Optional Redemption*," plus accrued and unpaid interest and additional amounts, if any, to but excluding the date of redemption.

Optional Redemption for Tax Reasons .... In the event of certain developments affecting taxation, the Issuer may redeem the affected series of Notes, in whole, but not in part, at any time, at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, and additional amounts, if any, to but excluding the date of redemption. See "*Description of the Notes—Redemption for Taxation Reasons*."

Change of Control.......................... Upon certain events defined as constituting a change of control, the Issuer may be required to make an offer to purchase the outstanding Notes at a purchase price equal to 101% of their principal amount thereof, plus accrued and unpaid interest and additional amounts, if any, to but excluding the date of purchase. See "*Description of the Notes—Change of Control*."

Certain Covenants .... The Indenture, among other things, will restrict the ability of the Issuer and its restricted subsidiaries to:

- make certain restricted payments and restricted investments;
- incur certain indebtedness;
- create or permit to exist certain liens;
- transfer or sell certain assets;
- merge or consolidate with other entities; and
- enter into certain transactions with affiliates.

Certain of the covenants will fall away if the Notes obtain and maintain an investment-grade rating.

Each of these covenants is subject to significant exceptions and qualifications. See "*Description of the Notes—Certain Covenants*."

Listing .... Application has been made to list the Notes on the Official List of the Exchange and to admit the Notes for trading on the Exchange's Global Exchange Market. The Notes might also be admitted to trading on any other multilateral trading system or other non-regulated domestic or foreign organized market.

Transfer Restrictions	The Notes and the Notes Guarantees have not been, and will not be, registered under the Securities Act or the securities laws of any other jurisdiction and are subject to restrictions on transferability and resale. See "*Transfer Restrictions*." We have not agreed to, or otherwise undertaken to, register the Notes (including by way of an exchange offer).
Use of Proceeds	We intend to use the gross proceeds from the Offering for general corporate purposes, including to partially repay our Existing Employees' Promissory Notes as and when maturities come due. See "*Use of Proceeds*."
Absence of a Public Market for the Notes	The Notes will be new securities for which there will be no established trading market. Accordingly, we cannot assure you as to the development or liquidity of any market for the Notes. Furthermore, the Notes will not have registration rights under the Securities Act.
Governing Law	The Indenture, the Notes and the Notes Guarantees will be governed by the laws of the State of New York.
Trustee	Bondholders, S.L.
Paying Agent	Deutsche Bank AG, London Branch.
Transfer Agent and Registrar	Deutsche Bank Luxembourg S.A.
Listing Agent	Dillon Eustace.
Risk Factors	Investing in the Notes involves substantial risks. See the "*Risk Factors*" section for a description of certain of the risks you should carefully consider before investing in the Notes.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The below summary audited consolidated financial data for El Corte Inglés, S.A. and its subsidiaries as of and for the years ended February 29, 2016, February 28, 2017 and February 28, 2018 has been derived from the Audited Consolidated Financial Statements prepared in accordance with IFRS and which are included elsewhere in this offering memorandum. We also present below summary unaudited consolidated financial data for El Corte Inglés, S.A. and its subsidiaries as of and for the three months ended May 31, 2017 and 2018, which has been derived from the Interim Financial Statements prepared in accordance with IAS 34 and which are included elsewhere in this offering memorandum.

The summary unaudited financial data for the twelve months ended May 31, 2018 presented below has been mathematically calculated by adding the financial data for the three months ended May 31, 2018 to the financial data for the year ended February 28, 2018 and subtracting the financial data for the three months ended May 31, 2017.

The unaudited as adjusted financial information presented below provides data on an "as adjusted" basis to give effect to the Transactions and the application of the proceeds therefrom as described in "*Use of Proceeds.*" The unaudited as adjusted financial data has been prepared for informational purposes only and does not purport to represent what our actual financial position would have been had the Transactions occurred on May 31, 2018, for the purposes of the calculation of net debt.

Except as otherwise indicated in this offering memorandum, we present and discuss the restated financial information for the year ended on February 28, 2017 rather than the corresponding financial information from the February 28, 2017 Audited Consolidated Financial Statements. The cash flow statement was not affected by the restatement. For additional information on the accounting change and restatement, see Note 2.6 of the Audited Consolidated Financial Statements for the year ended February 28, 2018.

In addition, while certain of the financial data set forth below has been derived on the basis of historical financial information prepared in accordance with IFRS, such financial data contains financial measures other than those in accordance with IFRS and should not be considered in isolation from or as substitutes for our historical financial information. Non-IFRS financial data should not be considered to be alternative to any measure of liquidity or performance derived in accordance with IFRS for the applicable periods. See "*Presentation of Financial and Other Information—Other Non-IFRS Measures*."

Prospective investors should read the summary data presented below in conjunction with "*Presentation of Financial and Other Information*," "*Use of Proceeds*," "*Capitalization*," and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," our Audited Consolidated Financial Statements and the related notes, and Interim Financial Statements and the related notes included elsewhere in this offering memorandum.

Statement of Profit or Loss

	Year ended February 29, 2016 (audited)	Year ended February 28, 2017 (restated)	Year ended February 28, 2018 (audited)	Three months ended May 31, 2017 (unaudited)	Three months ended May 31, 2018 (unaudited)	Twelve months ended May 31, 2018 (unaudited)
			(€ in millions)			
Net Turnover	**€15,220**	**€15,505**	**€15,935**	**€3,413**	**€3,417**	**€15,939**
Supplies	(10,760)	(11,000)	(11,249)	(2,385)	(2,389)	(11,253)
Personnel Expenses	(2,608)	(2,522)	(2,588)	(629)	(639)	(2,598)
Other operating income and expenditure[(a)]	(939)	(1,002)	(1,044)	(277)	(266)	(1,033)
EBITDA[(b)]	**913**	**981**	**1,054**	**122**	**123**	**1,055**
Depreciation of fixed assets	(521)	(520)	(510)	(138)	(138)	(510)
Excessive provisions, impairment and gains or losses on disposal of non-current assets and other results	(5)	7	(96)	(15)	(10)	(91)
Obligations for provisions to personnel	(86)	(211)	(36)	(10)	(7)	(33)
Operating Result	**299**	**257**	**412**	**(41)**	**(32)**	**421**
Net financial income and expenses[(c)]	(241)	(192)	(189)	(49)	(41)	(181)

Variation in fair value of financial instruments..	(10)	34	11	7	(7)	(3)
Impairment and gains or losses on disposals of financial instruments..	(2)	23	(4)	—	—	(4)
Result of companies accounted for using the equity method	31	39	46	9	9	46
Pre-tax Result..............	**77**	**161**	**276**	**(74)**	**(71)**	**279**
Income tax	81	(38)	(74)	23	21	(76)
Result of the Financial Year..........................	**€158**	**€123**	**€202**	**€(51)**	**€(50)**	**€203**

(a) Represents sum of other operating expenses, other operating income, in-house work on non-current assets and change in inventories of finished goods in our Audited Consolidated Financial Statements.

(b) We refer to profit from operations before depreciation and amortization as EBITDA. Different companies and analysts may calculate EBITDA-based measures differently and therefore making comparisons among companies on this basis should be done carefully. EBITDA-based measures are not measures of performance under IFRS and should not be considered in isolation or construed as substitutes for profit from operations before depreciation and amortization as an indicator of our operations in accordance with IFRS. See "*Presentation of Financial and Other Information*."

(c) Represents sum of financial income, translation differences, less financial expenses in our Audited Consolidated Financial Statements. The financial expenses mainly include interest on financial liabilities as well as interest payable to Financiera El Corte Inglés in relation to deferred payment plan sales.

Select Balance Sheet Data

	As of February 29, 2016 (audited)	As of February 28, 2017 (restated)	As of February 28, 2018 (audited)	As of May 31, 2018 (unaudited)
	(€ in millions)			
Cash and cash equivalents	€171	€154	€213	€136
Working capital	(585)	(465)	(502)	(105)
Property, plant and equipment and investment property	12,777	12,432	12,262	12,244
Total assets	18,631	18,348	18,324	18,332
Total equity...................................	8,727	8,520	8,498	8,328
Total liabilities..............................	9,904	9,828	9,826	10,004

The following table presents the elements of our working capital

	As of February 29, 2016	As of February 28, 2017	As of February 28, 2018	As of May 31, 2018
	(€ in millions)			
Inventories	€1,898	€1,861	€2,086	€2,234
Receivables[(a)]	783	984	938	900
Payables[(b)]	(3,266)	(3,310)	(3,526)	(3,239)
Working capital	**€(585)**	**€(465)**	**€(502)**	**€(105)**

(a) Represents sum of trade and other receivables, trade receivables from associates and related parties and current tax assets in our Audited Consolidated Financial Statements.

(b) Represents trade and other payables and current tax liabilities in our Audited Consolidated Financial Statements.

Historical Cash Flow Data

	Year ended February 29, 2016 (audited)	Year ended February 28, 2017 (audited)	Year ended February 28, 2018 (audited)	Three months ended May 31, 2017 (unaudited)	Three months ended May 31, 2018 (unaudited)
	(€ in millions)				
Net cash flows from operating activities...........	€498	€234	€706	€(215)	€(436)
Net cash flows used in investing activities...........	(286)	(57)	(370)	(84)	(113)

Net cash flows from (used in) financing activities	(183)	(195)	(271)	261	474
Net variations of exchange rate	17	1	(6)	0	(1)
Net increase (decrease) in cash and cash equivalents	**€46**	**€(17)**	**€59**	**€(38)**	**€(76)**

EBITDA and Adjusted EBITDA

	Year ended February 29, 2016	Year ended February 28, 2017	Year ended February 28, 2018	Three months ended May 31, 2017	Three months ended May 31, 2018	Twelve months ended May 31, 2018
			(€ in millions)			
EBITDA[(1)]	**€913**	**€981**	**€1,054**	**€122**	**€123**	**€1,055**
Financial Income from SECI	8	9	8	2	2	8
Dividends from Financiera El Corte Inglés[(a)]	26	33	37	—	—	37
Extraordinary (severance payments)	75	41	53	10	13	56
Adjusted EBITDA[(2)]	**€1,022**	**€1,064**	**€1,152**	**€134**	**€138**	**€1,156**

(a) 49% of the net result of Financiera El Corte Inglés for the three months ended May 31, 2018 was €8 million and €9 million for the same period in the prior year.

Adjusted EBITDA and Adjusted EBITDAR

	Year ended February 29, 2016	Year ended February 28, 2017	Year ended February 28, 2018	Three months ended May 31, 2017	Three months ended May 31, 2018	Twelve months ended May 31, 2018
			(€ in millions)			
Adjusted EBITDA[(2)]	**€1,022**	**€1,064**	**€1,152**	**€134**	**€138**	**€1,156**
Lease Expense	146	169	182	43	44	183
Adjusted EBITDAR[(3)]	**€1,168**	**€1,233**	**€1,334**	**€177**	**€182**	**€1,339**

Additional Select Financial Data

	Year ended February 29, 2016	Year ended February 28, 2017	Year ended February 28, 2018	Three months ended May 31, 2017	Three months ended May 31, 2018	Twelve months ended May 31, 2018
			(€ in millions, unless otherwise stated)			
Total maintenance capital expenditure	€321	€322	€321	€100	€103	€325
Total expansion capital expenditure	34	38	42	4	5	43
One-off capital expenditure[(4)]	—	—	61	—	—	61
Total capital expenditure	**€355**	**€360**	**€424**	**€104**	**€108**	**€429**
Adjusted operating free cash flow[(5)]	711	859	742	(234)	(387)	589
Cash flow conversion[(6)]	69.6%	80.7%	64.4%	(174.6)%	(280.4%)	51.0%

	Year ended February 29, 2016	Year ended February 28, 2017	Twelve months ended May 31, 2017	Year ended February 28, 2018	Twelve months ended May 31, 2018
			(€ in millions, unless otherwise stated)		
Adjusted EBITDA[(2)]	€1,022	€1,064	€1,064	€1,152	€1,156
Net debt[(7)]	€3,835	€3,891	€4,330	€3,834	€4,399

Ratio of Net debt[7] to Adjusted EBITDA[2]........	3.8x	3.7x	4.1x	3.3x	3.8x
Interest expense ...	€269	€207	€206	€192	€184
Ratio of Adjusted EBITDA[2] to interest expense	3.8x	5.1x	5.2x	6.0x	6.3x

As Adjusted Financial Data

	Twelve months ended May 31, 2018 (unless otherwise stated)
	(€ in millions, unless otherwise stated)
Adjusted EBITDA[2]	€1,156
Net debt[7]........	3,652
Ratio of Net debt[7] to Adjusted EBITDA[2]........	3.2x
Appraised Property Value[8]........	17,147
As adjusted interest expense[9]........	190
Ratio of Adjusted EBITDA[2] to as adjusted interest expense[9]	6.1x

(1) We use EBITDA as an internal measure of performance to benchmark and compare performance, both between our own operations and as against other companies. This measure is used, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performance of our business. We believe EBITDA-based and other measures are useful and commonly used measures of financial performance in addition to gross profit, operating profit and other profitability measures under IFRS because they facilitate operating performance comparisons from period to period and company to company. By eliminating potential differences in results of operations between companies caused by factors such as depreciation and amortization methods, historic cost and age of assets, financing and capital structures and taxation positions or regimes, we believe EBITDA-based and other measures can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we believe EBITDA-based and other measures are regularly used by the investment community as a means of comparison of companies in our industry.

EBITDA is not a measure of performance under IFRS and you should not consider EBITDA as an alternative to: (i) profit from operations as a measure of our operating performance; (ii) cash flow from operating, investing and financing activities as a measure of our ability to meet our cash needs; or (iii) any other measures of performance under IFRS.

We encourage you to evaluate each adjustment and the reasons we consider it appropriate as a method of supplemental analysis. See "*Presentation of Financial and Other Information—Other Non-IFRS Measures*."

(2) Adjusted EBITDA represents EBITDA as adjusted for special items which our management believes to be non-representative of the underlying operations. We use Adjusted EBITDA as an internal measure of performance to benchmark and compare performance, both between our own operations and as against other companies. This measure is used, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performance of our business. We believe Adjusted EBITDA-based and other measures are useful and commonly used measures of financial performance in addition to gross profit, operating profit and other profitability measures under IFRS because they facilitate operating performance comparisons from period to period and company to company. By eliminating potential differences in results of operations between periods, we believe Adjusted EBITDA-based and other measures can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we believe Adjusted EBITDA-based and other measures are regularly used by the investment community as a means of comparison of companies in our industry

Adjusted EBITDA is not a measure of performance under IFRS and you should not consider Adjusted EBITDA as an alternative to: (i) profit from operations as a measure of our operating performance; (ii) cash flow from operating, investing and financing activities as a measure of our ability to meet our cash needs; or (iii) any other measures of performance under IFRS.

We encourage you to evaluate each adjustment and the reasons we consider it appropriate as a method of supplemental analysis. Evaluating Adjusted EBITDA is subject to certain limitations. See "*Presentation of Financial and Other Information—Other Non-IFRS Measures*." Our presentation of Adjusted EBITDA should not be construed as an inference that our historical results were unaffected by unusual or special items or that such items will not affect our future results of operations.

(3) Adjusted EBITDAR represents Adjusted EBITDA before lease expenses.

(4) One-off capital expenditure relates to an extraordinary investment in LED lighting (€34 million), the externalization of IT systems (€12 million) and the acquisition of an office building for the Insurance segment (€15 million).

(5) Operating free cash flow represents Adjusted EBITDA plus or minus the change in working capital minus cash taxes minus cash used in investing activities. Different companies and analysts may calculate free cash flow measures differently and therefore making comparisons among companies on this basis should be done carefully. Adjusted operating free cash flow is not a measure of performance under IFRS and should not be considered in isolation or construed as a substitute for profit from operations as an indicator of our operations in accordance with IFRS. See "*Presentation of Financial and Other Information*."

The following table reconciles Adjusted EBITDA to Operating free cash flow:

	Year ended February 29, 2016	Year ended February 28, 2017	Year ended February 28, 2018	Three months ended May 31, 2017	Three months ended May 31, 2018	Twelve months ended May 31, 2018

			(€ in millions)			
Adjusted EBITDA[(2)]	**€1,022**	**€1,064**	**€1,152**	**€134**	**€138**	**€1,156**
Change in working capital[(10)]	(15)	(120)	(10)	(283)	(410)	(137)
Cash taxes	(10)	(28)	(30)	(1)	(2)	(31)
Cash used in investing activities	(286)	(57)	(370)	(84)	(113)	(399)
Adjusted operating free cash flow (unaudited)[(5)]	**€711**	**€859**	**€742**	**€(234)**	**€(387)**	**€589**
VAT timing difference[(11)]	—	—	—	—	(107)	(107)
Operating free cash flow (unaudited)	**€711**	**€859**	**€742**	**€(234)**	**€(494)**	**€482**

(6) Cash flow conversion represents the ratio, expressed as a percentage, of Adjusted operating free cash flow to Adjusted EBITDA. Different companies and analysts may calculate cash flow conversion measures differently and therefore making comparisons among companies on this basis should be done carefully. Cash flow conversion is not a measure of performance under IFRS and should not be considered in isolation or construed as substitutes for profit from operations as an indicator of our operations in accordance with IFRS. See "*Presentation of Financial and Other Information*."

(7) Net debt represents the aggregate outstanding principal, capital or nominal amount (and any fixed or minimum premium payable on prepayment or redemption) of any Indebtedness, including, in the case of finance leases, only the capitalised value therefore, excluding counter-indemnity obligations of the Group in respect of documentary credits or similar instruments arising in the ordinary course of business and deducting cash and cash equivalents as well as other short-term cash investments. See "*Description of the Notes—Certain Definitions—Consolidated Net Leverage.*" Net debt is shown as of August 31, 2018. See "*Capitalization*."

As the net debt at August 31 is more representative information of the business, the August 31, 2018 net financial debt is used for the ratio calculation purpose.

(8) See "*Business—Real Estate Portfolio and Valuation.*"

(9) As adjusted interest expense represents the financial expenses included in the Audited Consolidated Financial Statements for the year ended February 28, 2018, plus the financial expenses included in the Interim Financial Statements for the three months ended May 31, 2018, less the financial expenses included in the Interim Financial Statements for the three months ended May 31, 2017, after giving effect to the Offering of the Notes but excluding any interest savings from the future repayment of the Existing Employees' Promissory Notes. The as adjusted interest expense has also been adjusted to annualize the interest expense reduction resulting from the signing of the Syndicated Loan Facilities Agreement in January 2018. As adjusted interest expense is presented for illustrative purposes only and does not purport to represent what our interest payments would have actually been had the issuance of the Notes occurred on the date assumed, nor does it purport to project our interest payments for any future period or our financial condition at any future date.

(10) Without giving effect to a timing difference in VAT cash payment caused by the implementation of a new VAT settlement system.

(11) As of May 31, 2018, resulting from a timing difference caused by the implementation of a new VAT settlement system.

Financial Data by Segment and Area

	Year ended February 29, 2016	Year ended February 28, 2017	Year ended February 28, 2018	Three months ended May 31, 2017	Three months ended May 31, 2018	Twelve months ended May 31, 2018
			(€ in millions)			
Net turnover by segment and area						
Fashion	€4,682	€4,807	€4,961	€1,071	€1,029	€4,919
Food	2,681	2,747	2,777	639	644	2,782
Culture & Leisure	2,097	2,100	2,189	376	392	2,205
Household	1,388	1,434	1,491	312	322	1,501
Other Retail	744	737	718	166	151	703
Interco sales and other	954	1,062	1,101	223	213	1,091
Retail	**12,546**	**12,887**	**13,237**	**2,787**	**2,751**	**13,201**
Travel Agency	2,478	2,450	2,594	627	667	2,634
Information Technology	732	733	737	158	143	722
Insurance[(a)]	216	305	191	49	53	195

Other businesses	148	144	137	32	26	131
Consolidation adjustments	(900)	(1,014)	(961)	(240)	(223)	(944)
Total	**€15,220**	**€15,505**	**€15,935**	**€3,413**	**€3,417**	**€15,939**

(a) The fiscal year end for our Insurance business is December 31 each year.

	Year ended February 29, 2016	Year ended February 28, 2017	Year ended February 28, 2018	May 31, 2018 % of Net Turnover
Number of stores				
Department Store	94	94	94	69.9%
Sfera	123	142	157	2.5%
Supercor	175	174	176	4.3%
Bricor	54	58	64	0.7%
Óptica2000	108	108	108	0.5%
Hipercor	43	43	41	4.9%

	Year ended February 29, 2016	Year ended February 28, 2017	Year ended February 28, 2018	Three months ended May 31, 2017	Three months ended May 31, 2018	Twelve months ended May 31, 2018
	(€ in millions)					
Gross Margin by segment						
Fashion	€1,774/37.9%	€1,749/36.4%	€1,829/36.9%	€445/41.5%	€426/41.4%	€1,811/36.8%
Food	835/31.1%	861/31.3%	888/32.0%	196/30.7%	202/31.4%	894/32.1%
Culture & Leisure	523/24.9%	521/24.8%	546/24.9%	91/24.2%	98/25.0%	553/25.1%
Home	491/35.4%	522/36.4%	551/37.0%	117/37.5%	122/37.9%	556/37.0%
Other Retail	209/28.1%	209/28.4%	213/29.6%	58/34.9%	55/36.4%	210/29.9%
Interco and other	73/7.7%	47/4.4%	56/5.1%	(14)/(6.3)%	(13)/(6.1)%	56/5.1%
Retail	**€3,905/31.1%**	**€3,909/30.3%**	**€4,083/30.8%**	**€893/32.0%**	**€890/32.4%**	**€4,080/30.9%**
Travel Agency	288/11.6%	289/11.8%	303/11.7%	64/10.2%	68/10.2%	307/11.7%
Information Technology	172/23.5%	184/25.1%	189/25.6%	45/28.7%	43/30.1%	187/25.9%
Insurance	89/41.2%	107/35.1%	121/63.4%	29/59.2%	34/64.1%	126/64.6%
Other businesses	57/38.5%	58/40.3%	56/40.8%	13/40.6%	12/46.1%	55/41.2%
Consolidation adjustments	(51)	(42)	(67)	(17)	(19)	(69)
Total	**€4,460/29.3%**	**€4,505/29.1%**	**€4,685/29.4%**	**€1,027/30.1%**	**€1,028/30.1%**	**€4,686/29.4%**

	Year ended February 29, 2016	Year ended February 28, 2017	Year ended February 28, 2018	Three months ended May 31, 2017	Three months ended May 31, 2018	Twelve months ended May 31, 2018
	(€ in millions)					
EBITDA[(a)]/margin by segment						
Retail	€741/5.9%	€836/6.5%	€890/6.7%	€96/3.4%	€92/3.3%	€886/6.7%
Information Technology	15/2.0%	28/3.8%	32/4.3%	3/1.9%	3/2.1%	32/4.4%
Travel Agency	60/2.4%	53/2.2%	54/2.1%	4/0.6%	7/1.0%	57/2.2%
Insurance	55/25.5%	58/19.0%	65/34.0%	16/32.6%	20/37.7%	69/35.4%
Other businesses	3/2.0%	4/2.8%	5/3.6%	2/6.2%	2/7.7%	5/3.8%
Consolidation adjustments	39/(4.3)%	2/(0.2)%	8/(0.8)%	1/(0.4)%	(1)/(0.4)%	6/(0.6)%
Total	**€913/6.0%**	**€981/6.3%**	**€1,054/6.6%**	**€122/3.5%**	**€123/3.6%**	**€1,055/6.6%**

(a) See "*Reconciliation Tables*" for reconciliations from operating result to EBITDA for each of our five reporting segments.

RISK FACTORS

An investment in the Notes involves risk. You should carefully consider the following risks, together with other information provided to you in this offering memorandum, in deciding whether to invest in the Notes. The occurrence of any of the events discussed below could be detrimental to our financial performance. If these events occur, the trading price of the Notes could decline, we may not be able to pay all or part of the interest or principal on the Notes, and you may lose all or part of your investment. Additional risks not currently known to us or that are presently deemed immaterial may also harm us and affect your investment.

This offering memorandum contains "forward-looking" statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences are discussed below and elsewhere in this offering memorandum. See "Forward-Looking Statements."

Risks Related to Our Business and our Operations

Unfavorable economic conditions, particularly in Spain, can affect consumer confidence and spending patterns and adversely impact our business.

Our sales, profitability, cash flow and future growth are sensitive to, and may be adversely affected by, general economic conditions, consumer confidence, spending patterns and market disruptions, especially in Spain. They may also be adversely affected by negative local, regional, national or international political or economic, actual or perceived, trends or developments that reduce the consumers' ability or willingness to spend, including levels of unemployment, inflation or deflation, levels of real disposable income, changes in interest rates and/or VAT, the availability of consumer credit, consumer debt, consumer confidence and general uncertainty regarding the overall future economic environment. Such a political development may include the future situation in Spain with respect to Catalonia's declaration of independence in October 2017. In addition, market disruptions due to severe or unseasonal weather conditions, natural disasters, health hazards or other major events or the prospect of these events could also impact consumer spending and confidence levels. Consumer purchases of discretionary items, including our merchandise, often decline during periods when disposable income is adversely affected or there is economic uncertainty. In such circumstances, we may increase the number of promotional sales, or may experience a further decline in like-for-like sales or a loss of market share as consumers "trade-down" to cheaper products offered by some of our competitors or purchase fewer products from us or forego purchasing altogether.

Our business and results of operations are particularly affected by economic conditions in Spain, such as during the most recent recessionary period. From 2008 to 2013, Spain experienced a significant recessionary period with GDP declines and record unemployment levels, which negatively impacted consumer sentiment and household consumption and during which time we experienced an approximate 3.9% compound annual rate decline in our net turnover. The Spanish retail sector was severely affected by the decline in consumer confidence and household consumption, which had a significant impact on our sales and margins and any decline in prices was difficult to fully pass through to suppliers. From 2007 to 2012, we pursued an intensive expansion strategy in new store openings across Spain. Some of these new store openings were located in areas significantly impacted by the recessionary period and performed below expectations.

The Spanish economy has been gradually recovering during the last four years, with GDP, unemployment, consumption and other economic indicators revealing a steady improvement. As of the date of this offering memorandum, the European Commission forecasts a 2.9% GDP growth for Spain in 2018. However, we cannot assure that this improvement will be sustained. Any adverse changes in the Spanish economy or in any of the regions in which we sell our products could reduce consumer confidence and spending patterns, and thereby could negatively affect earnings and have a material adverse effect on our results of operations. If the current economic conditions deteriorate, our business, results of operations, financial condition and prospects may be materially and adversely affected, especially if customers reduce or eliminate discretionary spending. Just as we could suffer if customers "traded-down" to other market segments with lower prices, conversely we could also suffer if consumers "trade-up" their discretionary spending to competitors offering, or perceived to be offering, better quality or more upmarket merchandise. We cannot predict whether or when economic circumstances may worsen or improve, or what impact if any, such circumstances could have on our business. Any of these trends may have a material adverse effect on our business, results of operations, financial condition and prospects.

The current economic uncertainty regarding the future of the Eurozone and economic developments in Spain and the European Union together with the current favorable low interest rate environment result in comparably high valuations of residential real estate portfolios in Spain. Any rise in interest rates could have material adverse effects on the Spanish real estate market and on us.

The global financial and economic crisis and the slow and uncertain recovery of the global economy have resulted in increased uncertainty regarding future economic developments. This uncertain economic outlook has increased demand for investment opportunities that typically provide stable and largely predictable cash flows, including investments for Spanish real estate. The low interest rate level in Europe contributes to this trend. As a result, property prices and the value of residential real estate have increased. These developments could reverse themselves if, for example, interest rates were to rise. A rise in interest rates could result from an improvement of the general economic situation, which could lead to greater interest in investments with a higher yield and less interest in real estate investments. Rising interest rates could adversely impact us in a number of other ways: the discount rate used to calculate the fair value of real estate portfolios tends to rise as the market prices paid for the units tend to decline. Rising interest rates therefore generally have a negative impact on the fair value of our real estate portfolio. Any such development would require us to recognize corresponding losses from the resulting fair value adjustments of our investment properties, resulting in a negative income from fair value adjustments of investment properties

The general economic situation could also deteriorate as a result of any number of factors, including, but not limited to, a worsening of the European sovereign debt crisis, an exit of one or more additional countries from the Eurozone following the United Kingdom's decision to leave the EU ("**Brexit**"), or even the end of the Eurozone. If general economic conditions deteriorate, or if a deflation scenario were to become likely, investors might prefer other, more liquid assets, which could reduce demand for Spanish real estate, thereby reducing the value of our real estate holdings. In addition, more stringent borrowing requirements could be introduced (including as a result of a deterioration in general economic conditions), which could impair our ability to finance property portfolio acquisitions through debt and our general ability to refinance maturing debts. In addition, until the terms of the Brexit become clear, it is not possible to determine the impact, if any, it might have on our business including tourism, import of goods or custom duties.

Higher interest rates or any deterioration in general economic conditions could lead to changes and circumstances that could have significant adverse effects on our business, financial condition and results of operations.

We operate in a highly competitive market, and our business may be adversely affected by the actions of our competitors and our failure to successfully respond to competitive pressures.

All of our segments operate in highly competitive markets both in Spain, which is our main market, and internationally, and we compete with a wide variety of companies of varying sizes and covering different price points, product categories, distribution channels and geographic markets. Such competition places pressure on our net turnover, pricing strategy, margins and profitability. We face a variety of competitive pressures, including:

- anticipating and quickly responding to changing fashion trends and consumer preferences and tastes;
- designing and developing innovative and fashionable ranges of our own brand products, with sizes, colors, styles and features that appeal to consumers of varying age groups and tastes;
- attracting third-party brands to our distribution network on economically attractive terms;
- maintaining our corporate reputation and a strong brand image for both our own brands and store brands, with an attractive product offering across our stores;
- offering a high and consistent quality of products and services across the price spectrum;
- maintaining a diversified range of categories covering womenswear, menswear, footwear, accessories, household products, travel packages and insurance products, among others;
- sourcing merchandise efficiently, cost effectively and in line with our customers' expectations for ethical sourcing;
- competitively pricing our products and services and successfully meeting the customer perception of value;
- undertaking effective and appropriate advertising, branding and promotional activities, and actively maintaining profile and brand awareness in line with the market expectations and in light of competitors' promotional activities;
- adapting our store network to the changing needs of our customers and securing the most appropriate mix of multi-channel distribution;
- website design and mobile platform (including user-friendly interfaces incorporating recent technological advancements) and maintaining a positive online presence across various social media platforms;
- competing against new web-based competitors and other new entrants with low barriers to entry;

- offering an attractive store layout and shopping experience; and
- attracting, motivating and retaining talented people.

We compete with a wide range of retailers, including single-brand retailers, food retailers operating supermarkets, hypermarkets or convenience stores, sportswear retailers, footwear stores, home improvement stores, consumer electronic dealers, travel agencies, insurance brokers, personal insurance companies and many other specialist retailers such as fashion retailers and mail-order or internet retailers. In this highly competitive landscape, success is based on various factors such as product assortment and quality, price, service offered to customers, shopping experience and convenience. Our success relies on our capacity to differentiate from our competitors on these factors. Certain competitors have greater financial resources, greater purchasing economies of scale and/or lower cost bases than us. Consequently, they may be able to spend more on marketing and advertising campaigns, which could increase their market share. Some of our competitors may be able to react more swiftly to changes in market conditions or fashion trends and may have a material competitive advantage allowing them to utilize their greater market presence, stronger brand or other advantages when navigating new or evolving markets. They may also be able to accept lower prices than we can offer or accept higher costs for longer than we can withstand.

Our Information Technology segment competes with large and highly specialized global, regional and local players. Doing so requires an adequate and skilled workforce as well as the technical and financial resources necessary to consistently invest in new technologies and develop an attractive product and service portfolio. Our Information Technology segment business also operates in areas where there are lower barriers to entry for new competitors. Moreover, our Information Technology segment operations are exposed to project delivery and performance risks, the materialization of which could adversely impact its reputation and financial results.

The adoption by competitors of aggressive pricing, intensive promotional activities and markdown strategies, retail sales methods, marketing activities, new store openings and other business strategies, could have a material adverse effect on our business, results of operations, financial condition and prospects. For example, our competitors implement aggressive markdown strategies every year and may lead to certain customers expecting and only purchasing products that are heavily discounted, which may adversely affect our net turnover and increase pressure on our margins. In addition, new entrants into our markets may possess or be able to exploit any or all of these competitive advantages.

In those international markets in which we, through the Sfera banner or through exports or the sale of our own products in other international retailers, are a relatively new entrant, or which we may enter in the future, we are, or will be, facing similar competitive forces but will be competing against longer-established competitors who are more likely to have better developed brand recognition and customer loyalty, existing store and distribution networks and greater knowledge of customer tastes and preferences. Our e-commerce unit in new international markets may be competing against local and international competitors with a wider network of local stores and/or a broader range of delivery options enabling them to more effectively implement an integrated multi-channel strategy than we can. We might not be able to compete successfully, which may result in a material adverse effect on our business, results of operations, financial condition and prospects.

We face certain risks, including numerous risks associated with trading over the Internet and an omni-channel offering, in relation to e-commerce and online sales.

We face certain risks in relation to our e-commerce business and face strong competition from e-commerce providers, such as Amazon. Spain has a low digital shopping penetration rate compared to other Western European markets as a result of several factors, including the absence of a significant mail-order market historically and consumer preferences to purchase items in stores rather than via the Internet. Such rate is expected to increase in the future. We also expect competition in the market to intensify in the future.

Barriers to entry for e-commerce are low, and current and new competitors can launch new e-commerce platforms at a relatively low cost. While certain premium mass retailers have historically been reluctant to introduce e-commerce offerings, nearly all retailers have now introduced internet distribution platforms. E-commerce providers are able to use the internet as a marketing medium to reach significant numbers of potential customers. Logistics linked to e-commerce could be a significant barrier to entry, depending on scope, reach and quality of service. As a result of competition from other e-commerce providers, we may experience pricing pressure and loss of market share, which could have a material adverse effect on our business, results of operations, financial condition and prospects.

Furthermore, we sell merchandise over the internet, both domestically and internationally, via our e-commerce business. Our e-commerce business is additionally subject to numerous risks, including:

- reliance on third parties for computer hardware/software (including website development, maintenance, hosting and payment processing), the need to keep up with rapid technological change and the implementation of new systems and platforms;

- the risk that our website may become unstable or unavailable due to necessary upgrades or the partial or complete failure of our computer systems or the related IT support systems as a result of computer viruses, hacking attempts, telecommunication failures, security breaches and break-ins and similar disruptions, or disruption of internet service, whether for technical reasons or as a result of state-sponsored censorship or other causes;

- customers finding the website or the mobile application difficult to use, being less willing to use the site than we expect or not being confident that it is secure;

- difficulty integrating our e-commerce business and our store network, which may result in complications for our e-commerce customers (for example, a customer may experience difficulty returning products bought online to a store);

- logistical difficulties in delivering products to customers in a satisfactory and timely manner;

- technical difficulties to adjust the systems and networks to be compatible with the omni-channel platform;

- liability for online content, security breaches and consumer privacy concerns;

- inability to honor our usual delivery terms and quality of service in case of unexpected or higher than expected spikes in customer orders;

- adverse publicity or negative reviews from dissatisfied customers spreading online or through social media platforms, which may deter other potential customers from using our online or mobile channels;

- inability to manage our delivery capacity and to monitor our inventory on a real-time basis;

- violations of Spanish, foreign or international laws, including those relating to online privacy; and

- liability for online credit card fraud and problems adequately securing our payment systems.

Over the past few years, we have invested in direct marketing and communication through our e-commerce business, and plan to make further significant investments in order to expand and improve our e-commerce offering in the future. Our e-commerce business is an increasingly important part of our omni-channel strategy. We may, however, incur unexpected costs or face technical issues in connection with developing our e-commerce business, including in connection with *Click&Express*.

Our failure to respond appropriately to these risks and uncertainties could reduce our e-commerce net turnover, as well as damage our reputation, especially since e-commerce is an important part of our strategy.

Our strategy to continue growing the business through the integration and rationalization of certain business formats, selectively expanding our store base and brand portfolio may be unsuccessful or advance at a slower pace than planned.

We intend to continue our rationalization and repositioning of certain formats to better adapt to our customers' preferences in each business category. As a result, we are transforming selected stores (mostly under Sfera, Bricor, Supercor and Outlet brands) on a recurring basis, opening, closing or refurbishing depending on each particular situation and capital expenditure requirements. In addition, as part of our business activity, we are monitoring opportunities to expand our brands not only in our existing markets but also into new international markets. Furthermore, we are monitoring opportunities to transform selected stores to formats which may potentially attract more interest from consumers and improve our sales and profitability. We may not be able to implement our rationalization, expansion or selected transformations successfully and at the envisaged pace in the future. If we fail to identify attractive store locations on acceptable terms for any potential new store or to refurbish or reposition the current ones, our expansion plans may be unsuccessful or advance at a slower pace than planned and the intended consolidation or increase of our market share may fail to materialize. The success of new stores or repositioning of current ones may also be affected if we fail to correctly estimate customer demand in the local market or are unable to successfully establish our brand. This risk is relatively higher in new international markets where our lack of experience may make it more difficult to assess customer demands. Furthermore, we may not be able to efficiently incorporate new subsidiaries or locations into our existing organization and logistics or may struggle with local regulatory issues. These risks could, individually or cumulatively, have a material adverse effect on our business, results of operations, financial condition and prospects.

From 2006 to 2012, we carried out an intensive expansion strategy to further our presence in Spain. Some of these new store openings were located in areas significantly impacted by the recessionary period and performed below expectations. Although we do not foresee any relevant department store opening in the near future, we are constantly analyzing all the business opportunities that arise, and, therefore, we could undertake selected openings, closings or transformations. In recent years, we have selectively expanded our international activities through the commercialization of our own brands products via international retailers and the opening of Sfera stores and travel agencies in foreign countries. Our ability to selectively expand our international business and successfully compete also depends on our ability to develop products that appeal to customers in our targeted international markets with only minor adjustments to reflect particular features of different markets. There can be no assurance that we will successfully develop products with the necessary appeal in our targeted international markets, in particular:

- we have considerably less knowledge and experience with respect to the distinct tastes and preferences of customers in international markets than we do with respect to our Spanish customers;

- we may not have a network of stores or our network of stores may be smaller than our competitors, limiting our ability to offer products and to monitor customer responses to products;

- our style, value proposition and images of our brands may not be accepted in international markets, and we are likely to have lower levels of recognition of our brands in those international markets than in Spain; and

- we might fail to comply with, or otherwise be adversely affected by, applicable laws and regulations in international markets.

Our business could be harmed if we fail to appropriately manage our inventory.

Efficient inventory management is important to enable us to manage our net turnover and margins. Non-returnable inventory consists of a broad range of products. If we do not accurately predict customer demand in general or at particular stores when making buying and distribution decisions, we may have to offer markdowns and discounts or even recall stock to our distribution centers to clear the excess inventory. In case markdowns and discounts do not clear excess inventory, these will be written off. For these purposes, a physical inventory is carried out twice a year. Conversely, if we underestimate future demand for a particular product or do not respond quickly enough to replenish our best performing products, we may experience a shortfall in inventory of such products, likely leading to unfulfilled orders and foregone net turnover.

Seasonality has an impact on several segments of the Group which translates to substantially higher inventory levels during peak seasons. Any unpredictable reduction in demand, inaccurate forecast, extended period of unseasonal weather or any other unforeseen circumstances during these peak seasons might have a significant impact on our inventory management. Constraints on our inventory management systems or processes may cause excess inventory in one location and insufficient inventory in another. In response, we may be forced to markdown or discount stock, or incur additional costs to move inventory from one store to another. Maintaining adequate inventory requires significant attention and monitoring of market trends, local markets, developments with suppliers and our distribution network, and it is not certain that we will be effective in our inventory management at all times. As we expand our operations, it may be even more difficult to effectively manage our inventory. If we do not appropriately manage our inventory levels, our business, results of operations, financial condition and prospects may be adversely affected.

If we experience delays in receiving products from our suppliers as a result of delays in shipping times due to either a fault of the supplier, our fault, third-party fault or due to an external factor such as industrial action, piracy or weather-related delays affecting delivery, we may experience a shortfall in our inventory or products. Such inventory shortages may lead to unfulfilled orders, increased distribution costs and reduced net turnover, which could have a material adverse effect on business, results of operations, financial condition and prospects.

We are subject to obsolescence risk of our own brand merchandise. If we do not accurately predict customer demand for our own brand products when making the purchase and the associated steps including the design, manufacturing plan, transport and distribution, we may accumulate excess inventory with the consequent expenses and misuse of space, and may have to offer markdowns and discounts to clear the excess inventory.

We are dependent on the reliability and availability of our supply chain, including, in particular, our top suppliers, and any disruptions or other problems with our supply chain may materially adversely affect our business.

Our supply chain is integral to our operating model. Our business model depends on speed of product design and development, manufacture and delivery. We do not manufacture our products, but instead source them from various third-party overseas agents and manufacturers (collectively, "**suppliers**"), which source or produce the merchandise according to our specifications. Our customers expect us to offer products reflecting the latest fashion trends, which means that any disruption to our supply chain caused by failure of our suppliers is likely to have a negative impact on our competitive position and could have a material adverse effect on our business, results of operations, financial condition and prospects.

As of February 28, 2018, we had approximately 58,000 suppliers, primarily in Spain. Our top ten suppliers account for 12.1% of our merchandise. We may suffer disruption to our supply chain if our suppliers were to fail to meet their supply obligations to us for whatever reason, including unexpected closure or damage to a supplier's or their subcontractors' factories due to fire, employee strikes, work stoppages, financial difficulties, bankruptcy, political unrest or natural disaster, which, in turn, could have a material adverse effect on our business, results of operations, financial condition and prospects.

If we experience significant increases in demand or need to replace an existing supplier, substitute suppliers may not exist or be prepared to supply branded products to meet our requirements. For new substitute suppliers, we may encounter lack of capacity or delays in delivery. In the case of our own brand products, additional manufacturing capacity may not be available when required on terms that are acceptable to us and suppliers may not be willing or able to allocate sufficient capacity to us in order to meet our requirements. For any new manufacturing source, we may encounter delays in production and added costs as we train our suppliers in our methods, products, quality control standards, and environmental, labor, health and safety standards. Moreover, in the event of a significant disruption in the supply of the fabrics or raw materials used by our suppliers in the manufacture of our products, our suppliers might not be able to locate alternative suppliers of materials of comparable quality at an acceptable price. Any delays, interruption or increased costs in the supply of third-party brands products or in the manufacture of our own brands products could result in lower sales and net income.

Specifically, for our own brand products, we do not own or operate any manufacturing facilities and therefore depend entirely upon third parties for the manufacturing of our products. We change our suppliers from time to time as considered necessary or appropriate. If we experience a surge in demand or the need to replace an existing supplier, there can be no assurance that additional manufacturing capacity will be available when required on terms that are acceptable to us. In addition, even if we were able to expand existing manufacturing sources or find new ones, we may encounter delays in production and added costs as a result of the time it would take to train our manufacturers in our methods, products, quality control standards, labor, health and safety standards. There is also a risk that the production by one or more manufacturers could be suspended or delayed, temporarily or permanently, due to economic or technical problems such as the insolvency of the manufacturer, the failure of the manufacturing facilities or disruption of the production process, all of which are beyond our control. Any delay or interruption in the manufacturing of our products could negatively affect our ability to meet consumer demand and have a material adverse effect on our business, results of operations, financial condition and prospects.

Furthermore, if our suppliers are unable to obtain credit insurance with respect to the products they supply to us, they may be unable to fund the production of orders we place with them, which could limit the range of suppliers from which we could source our products. If our suppliers are unable to obtain sufficient credit insurance in the future, they may demand all or a proportion of payments from us earlier than would otherwise be the case, which could adversely impact our working capital and our operating cash flow.

Certain of our suppliers and, particularly in the case of our IT business, certain of our customers, require us to provide, in the normal course of business, letters of credit, supplier financing or letters of guarantee in connection with our purchase or delivery of products or services. We currently have ancillary facilities in place to provide letters of credit to our suppliers and customers. If an event, such as a default or an economic downturn, occurred that impaired our ability to use letters of credit to secure our payments to our suppliers, we may be unable to source certain lines of products or the supplier may insist on more stringent terms, such as standby letters of credit, earlier or advance payment of invoices, payment upon delivery or other assurances or credit support which could have a material adverse effect on our business, results of operations, financial condition and prospects. Similarly, if our IT business is unable to secure new guarantees or if it renegotiates existing guarantees on less favorable economic terms, the ability of our IT business to be awarded new business could be impaired or become significantly more costly, which could have a material adverse effect on its business, financial condition and results of operations.

We depend on a number of facilities for distribution of our products to our points of sale. Interruptions in distribution at any facility or any delay or failure in the delivery of our products could have a material adverse effect on our business.

We operate more than 90 department stores that operate as distribution centers, in Spain. We are dependent on our three large distribution centers in Madrid, Barcelona and the Canary Islands for the vast majority of our supply chain interactions, be it receiving products from our suppliers, or processing and packaging our products while the stock is present in the distribution center, or distributing our products to our points of sale. We are also dependent on logistics suppliers, which provide logistics and transport services to El Corte Inglés on a regular basis.

Our delivery expenses may increase due to increasing oil and gasoline prices, rising toll fees or wage levels for employees of our distribution service providers or increasing demand for shipping containers and shipping services resulting in higher fees, all of which are beyond our control. The cost of fuel is a component in transportation costs, so increases in the price of petroleum products can adversely affect our gross margins. We do not hedge against the increases in the price of fuel.

We face the risk that the delivery as well as the transport of our products to our customers could be delayed or fail due to technical problems, strikes, work stoppages or natural events, including adverse weather conditions. Such delays may require us to use faster, but more expensive, transportation methods such as aircraft, which could adversely affect our gross margins. Furthermore, any major breakdown of plant or equipment, or accident such as a serious fire, in any of our distribution centers might significantly impact our ability to distribute products to our stores and maintain an adequate product supply chain. Such disruption could have an adverse effect on our in-store inventory, and therefore could materially adversely affect our business, results of operations, financial condition and prospects. In addition, our two-hour delivery capabilities could be affected, resulting, e.g., in the loss of customers, decrease in sales values, reputational damage, etc. The operations of our distribution centers are also dependent on high levels of temporary staff during peak periods.

We currently lease logistics properties across the country. If we are unable to renew our leases, our ability to lease a suitable replacement location on favorable terms is subject to many factors that are not within our control, such as conditions in the local real estate market, competition for desirable properties and our relationships with current and prospective landlords. If our lease payments increase or we are unable to renew existing leases or lease suitable alternative locations, our profitability may be adversely impacted.

We are exposed to certain risks related to raw materials and other input costs across several jurisdictions incurred in manufacturing and distributing our products, which may result in higher costs or reduced sales.

Our products are composed of certain key raw materials, such as fabrics and packaging 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 and interest rate fluctuations, war, terrorism, labor unrest, global health concerns, the economic climate and other unpredictable factors. The price and availability of certain raw materials have fluctuated in the past and may fluctuate in the future. An increase in the price of certain raw materials, such as fabrics, may significantly impact our operating costs and thereby reduce our margins. Furthermore, our business model depends on an efficient and flexible supply chain able to manufacture and deliver in store the products responding to current fashion trends. Our average sourcing period is 200 days and 35 days for those raw materials sourced from Asia and Europe, respectively. If the raw material required for production is not immediately available in stock at our suppliers, this may cause delays and longer lead times between ordering and taking delivery of the products. This in turn may affect our ability to promptly respond to changing fashion trends and lead to lower sales than we could have realized. If products arrive in our stores once a certain fashion trend has passed or the season has changed we may then also experience lower margins if we are required to mark down prices to clear our inventory of slow selling products.

Price is a key driver of customers' purchasing decisions. If we are unable to pass cost increases related to raw material and other costs on to our customers, we may experience pressure on our gross margins and a material adverse effect on our business, results of operations, financial condition and prospects. Conversely, we may experience a decline in sales volume or may lose a share of our customer base if we choose to pass on such costs through increased prices. Our competitors may have hedged themselves against increases in costs or otherwise protected themselves against such cost increases. While we seek to offset inflationary cost pressure through ongoing cost management initiatives, we may not be able to achieve cost efficiencies and savings of a sufficient magnitude or any cost efficiencies and savings at all to offset cost inflationary pressures in our supply chain.

We may be adversely affected by increases in energy or fuel costs.

Increases in energy or other commodity costs, including electricity, gas and fuel, may adversely affect consumer spending and demand for our products and increase the cost of sales, adversely impact our result of operations due to consequential increases in operating costs and will divert financial and management resources from more beneficial uses. For instance, in the year ended February 28, 2018, we invested €34 million in LED lighting across our store portfolio.

Energy costs have fluctuated significantly in the past and may fluctuate in the future. Any future fluctuations in energy or fuel costs may result in an increase in our transportation costs for distribution, utility costs for stores and costs to purchase merchandise from third-party manufacturers. We may not be able to pass all or a portion of these higher costs on to our customers, which could adversely affect our margins, have a material adverse effect on our business, results of operations, financial condition and prospects.

We are exposed to political and other business risks in our sourcing markets, which exposes us to certain risks associated with conducting business in developing markets, which may be greater than the risks present in more mature markets.

We primarily source our raw materials from, and our products are primarily manufactured in, Europe and Asia. We source a significant proportion of our products from Europe and other developing markets. In the twelve months ended February 28, 2018, we sourced 92% of our products from European suppliers. As a result, we are subject to the general risks associated with conducting business in our sourcing markets, including:

- instability in political, economic or financial systems;
- less developed and rapidly evolving legal, regulatory and judicial systems that are characterized by gaps, conflicts and ambiguities;
- rapid changes to foreign government regulation;
- bribery and corruption;
- labor disputes, social conflict, civil strife or labor unrest;
- acts of warfare, armed conflicts, guerrilla activities or military repression;
- embargoes, strikes, work stoppages or slowdowns and shipment disruptions or delays;

- expropriation or nationalization of assets or properties;
- adverse weather conditions, natural disasters such as floods and earthquakes;
- terrorism;
- organized crime;
- health concerns and outbreaks of infectious diseases;
- difficulties and delays in obtaining new permits or licenses or in renewing existing ones;
- lack of, or less developed mechanisms of, protection against unauthorized sales of branded clothing items or other infringements of intellectual property rights;
- failure by our suppliers, transportation and other service providers and/or other business partners to maintain quality standards, comply with health and safety requirements and adhere to ethical business practices;
- trade restrictions, the introduction of import quotas for textiles and apparel, increased tariffs and stricter customs regulations;
- inability to repatriate profits and/or dividends; and
- material fluctuations in currency exchange rates and high inflation.

These factors could require us to modify our current business practices or to incur increased production costs. In addition, our sourcing of products could be delayed or interrupted due to port strikes, infrastructure congestion, embargoes, trade or import/export restrictions or other factors. If any of these risks were to materialize, our operations in the relevant country could be adversely affected. Risks related to our sourcing markets, if materialized, could have a material adverse effect on our business, results of operations, financial condition and prospects.

We depend on key personnel that are important to our business and the departure of such personnel, or the failure to recruit and retain additional personnel or to attract and retain suitable employees generally, could adversely affect our business.

We are dependent upon key senior management personnel who have extensive experience and knowledge of the industry in which we operate. Retention of senior management is important in our business due to the limited availability of experienced and talented retail executives. If we were to lose the services of members of our senior management team and were unable to employ suitable replacements in a timely manner, our business, results of operations, financial condition and prospects could be materially adversely affected. Our ability to anticipate and effectively respond to changing customer preferences and tastes depends, in part, on our attracting and retaining key personnel in purchasing, IT, financial, design, marketing and other functions, for the Retail, Travel Agency, Information Technology and Insurance segments. Competition for such personnel is intense, and we may not be able to attract and retain a sufficient number of qualified personnel in the future. We are also dependent on attracting and retaining qualified personnel to manage our stores and employees to staff such stores. Specifically in Retail, but also in the Travel Agency segment, we often encounter high employee turnover rates with our store employees, which can materially adversely affect our business, results of operations, financial condition and prospects.

We also depend on certain key designers to provide their services and the loss of these designers could have a material adverse effect on our business. The “El Corte Inglés” offering, which we maintain through our relationships with established and emerging designers, is a key factor in our reputation as a retailer of quality merchandise and our competitiveness and favorable reputation are based, in part, on our relationships with such designers. Our relationships with our designers may increase in significance as we expand existing designer ranges as part of our strategy to increase sales of our own label merchandise. If one or more of our top designers were to cease providing us with their services, or if designers were to demand significantly higher fees or royalties, our business, financial condition and results of operations could be materially adversely affected. In addition, any decline in the popularity of one or more of our “El Corte Inglés” brands could also have a material adverse effect on our business, financial condition or results of operations.

Our ability to attract customers to our stores depends on factors which are not within our control and any decrease in footfall at our retail destinations could adversely impact our net turnover.

In order to generate customer traffic, we have located many of our stores in prominent locations. Our net turnover at these stores is dependent, to a significant degree, on the volume of consumer traffic in those retail destinations and the surrounding areas and the continuing popularity of those areas as retail destinations. All these factors may impact the level of customer footfall in our stores and could have a material adverse effect on our business, results of operations, financial condition and prospects.

In addition, increased customer activity on our e-commerce platform may result in reduced footfall in our stores, particularly as customers take advantage of home delivery services for certain products. Any reduction in customer footfall may result in reduced sales and net turnover in stores. If we are not able to reduce the costs and expenses of operating our store base, including personnel expenses, commensurate with any such reduction in customer activity in our stores in a sufficiently rapid manner or at all, a reduction in footfall in our stores may reduce the profitability of our stores, and may have an adverse effect on our business, results of operations, financial condition and prospects.

Our reputation could be jeopardized by negative public perceptions of us or our suppliers and any events that negatively impact the reputation of the brands or services we commercialize could adversely affect our business.

Our success depends on the value of the brands we sell, both our own brands and third-party brands, and our corporate reputation. These brands and our corporate reputation are integral to our business. Our ability to add value and maintain the reputation of third-party brands, our own brands and our services with respect to the quality, fashion attributes, design of our products, value for money and customer service are important factors in earning and maintaining customer goodwill. Further, because of our high profile, our actions tend to draw close scrutiny in the press. If our customer proposition deviates from our customers' perception of our product and service offerings or demand of quality, design and value for money or if our customer proposition is inconsistent across our geographic markets or our channels, it could harm our brands. Unfavorable publicity concerning us, our products, our stores, our suppliers, our key personnel or our e-commerce unit, failure to deliver consistency in our product ranges or substantial erosion in the reputation of our own brands or third-party brands we commercialize for whatever reason could adversely affect our business, results of operations, financial condition and prospects.

Our reputation could also be harmed if we fail to maintain ethical standards for the manufacture of our products. Any negative publicity regarding these types of concerns may reduce demand for our merchandise. Our products are manufactured primarily by suppliers based in Europe and Asia. The working conditions and living standards of employees in some of these countries historically have been and continue to be subject to criticism from international bodies, such as the International Labor Organization. Different legal systems and political and cultural influences in some of these countries make it more difficult to introduce acceptable living standards. Failure to comply with ethical, social, product, labor, health and safety or environmental standards, or related political considerations, could damage our reputation and potentially lead to various adverse consumer actions, including boycotts.

We seek to ensure that our suppliers operate in an ethical manner. We monitor this in line with our Ethical Code, the Ethical Channel, and the Statute for the Regulatory Compliance Function. We do not, however, control our suppliers or their employment practices and there is therefore a risk that our suppliers or their subcontractors may not comply with our standards, or may otherwise fail to operate their businesses in an appropriate ethical manner. The quality standards we impose on our suppliers may also not be sufficiently rigorous as a result of heightened public demand for ethical business practices. Unfavorable publicity concerning our own ethical practices or those of our suppliers could lead to substantial erosion in the reputation of, or value associated with, our brand, customer boycotts and the incurrence of costs and potential shortfall in the supply of products as we address the underlying concern with the supplier.

Failure to comply with local laws and regulations or other matters affecting compliance with corporate government best practice could also harm our corporate reputation. Damage to our corporate reputation or loss of consumer confidence for any of these or other reasons could have a material adverse effect on our business, results of operations, financial condition and prospects, as well as require additional investment to rebuild our reputation. Public perceptions about our products or our stores, whether justified or not, could impair our reputation, involve us in litigation, damage our brands and have a material adverse effect on our business, results of operations, financial condition and prospects.

Our marketing campaigns and our communications strategy may prove ineffective and could adversely affect our business.

Our sales depend to a large extent on the success of our marketing approach and communication strategy. We use various marketing platforms as part of our marketing approach, including brochures, marketing events, TV and radio campaigns, social media, internet advertising, direct mailing, visual merchandizing and celebrity endorsements. Our marketing campaigns featuring celebrities may not be well-received if the reputation of one of these celebrities becomes undermined. Our advertising expense for the year ended February 28, 2018 was €237 million. From time to time, we will need to refresh or reinvent our marketing campaigns, which will require additional expense.

If one of our marketing campaigns fails, the investments made will turn out to be ineffective and we could face a decrease in customer demand and a resulting decline in sales which, especially if marketing campaigns repeatedly prove ineffective, may have a material adverse effect on our business, results of operations, financial condition and prospects.

Any negative developments with respect to the ECI Cards could adversely affect our business.

We also have a customer relationship management ("**CRM**") platform that is based in part on the information collected through Financiera El Corte Inglés, both thanks to payment deferral plans and to purchases undertaken by customers using the ECI Card as payment method. In addition, holders of the ECI card benefit from further advantages, like for example free parking for two hours or bonus repayments when used at Repsol, Campsa or Petronor gas stations. We believe this provides us with deep customer knowledge that is useful to design and rationalize our advertising strategy and promotions to customers, optimize resource management and improve the offering and services proposition to customers.

The continued successful operation and growth of the ECI Card is subject to a number of risks and uncertainties, including regulatory or security risks in connection with the collection or maintaining of customer data, including personal data, and their level of activity, both in stores and online. Any negative developments with regard to the ECI Card could adversely affect our business, results of operations, financial condition and prospects.

We may not be able to predict accurately or fulfill customer preferences or demand.

The availability of new products and changes in customer preferences has made it more difficult to predict sales demand accurately. As a multi-category retailer, our success depends, in part, on our ability to predict and respond to changing consumer demands and preferences and to translate market trends into appropriate, saleable merchandise offerings. Our ability to anticipate and respond to changing customer preferences and tastes depends, in part, on our ability to attract and retain key personnel in our buying, design, merchandising, marketing, IT, finance and other functions. Competition for such personnel is intense and we may not be able to attract and retain a sufficient number of qualified personnel in future periods. In some instances, for our private label brands we must enter into contracts for the purchase and manufacture of merchandise well in advance of the applicable selling season. The long lead times between ordering and delivery make it more important to predict accurately, and more difficult to fulfill, the demand for items. There can be no assurance that our orders will match actual demand. If we are unable to predict or respond to sales demand or to changing styles or trends successfully, our sales will be lower, our market share will be reduced and we 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 of which could have a material adverse effect on our business, financial condition and results of operations.

Interruption or failure of our information technology systems, including any interruption or failure resulting from our ongoing investment in information technology systems, could disrupt our business.

We rely heavily on our information technology systems to operate our websites, record and process transactions, respond to customer inquiries, monitor sales trends, manage inventory, purchase, sell and ship merchandise on a timely basis and maintain cost-efficient operations. Given the significant number of transactions that are completed annually, it is necessary to maintain constant operation of our computer hardware and software systems and maintain cyber security. Our information technology systems are vulnerable to damage or interruption from power loss, telecommunications failures, data corruption, network failure, computer viruses, security breaches, natural disasters, third-party intrusions or other technical malfunctions despite, where possible, efforts to prevent such damage or interruption.

In addition, as our reliance on information technology systems has increased with the expansion of our e-commerce unit business, the risks associated with operating an internet-based platform have increased as well, particularly the risk of cyber-attacks, which are attempts to gain unauthorized access to, or disrupt the operation of, our information technology systems. The number of cyber-attacks has generally increased in recent years, with perpetrators targeting retailers, financial institutions and other companies that process online payments and/or otherwise are in possession of customer financial data (such as credit or debit card information). A cyber-attack on our information technology systems, if successful and significant, could result in damage to our reputation and materially adversely affect our business, results of operations, financial condition and prospects.

In the year ended February 28, 2018, we invested €12 million in the externalization of our informational technology systems to enhance reliability and business continuity. The damage to or malfunction of our systems may require capital expenditure to rectify and may cause delays in our operations. Any material disruption or slowdown of our systems, including those caused by our failure to successfully upgrade our systems, could cause information, including data related to customer orders, to be lost or delayed. Such a loss or delay could (particularly if the disruption or slowdown occurred during our peak selling seasons) result in delays of merchandise delivery to our stores and customers, reducing demand for our merchandise and causing our sales and profitability to decline.

Our assets, such as goodwill, are subject to the risk of impairment. Potential negative changes in the value of our assets may result in write-downs and therefore negatively affect our financial position.

We determine the value of the intangible assets in accordance with applicable accounting principles. Goodwill is subject to an impairment test which must be performed at least annually or if particular circumstances or changes in circumstances occur that indicate impairment. Within the context of carrying out the annual impairment tests in accordance with IFRS 3/IAS 36, goodwill is allocated to cash generating units where synergies are to be expected. A comparison of the fair values attributed to the units with their carrying values including goodwill has so far not resulted in the need for impairments. Due to the significance that general economic factors have in the context of assessing the value of goodwill, a continued global downturn and a potential rise in interest rates worldwide could potentially necessitate an impairment of our goodwill. These non-cash impairment charges could adversely affect our results of operations in future periods, and could also significantly impact certain financial ratios.

In addition, deferred tax assets for tax loss carry forwards are only recognized if it is probable that taxable income will be available for the loss carry forwards to be utilized. Deferred tax assets are calculated on the basis of management estimates on the expected timing and amount of income to be taxed and the future tax planning strategies. Therefore, an impairment loss may have to be recognized if the expectations on which the amount of deferred taxes is based are not fulfilled.

An impairment loss with respect to goodwill or deferred tax assets could have a material adverse effect on our financial position and our ability to fulfill our obligations under the Notes and the Notes Guarantees.

We are exposed to risks associated with investments in commercial real estate.

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

- downturns in national, regional and local economic climate;
- 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 or a combination of the factors listed above could significantly decrease the value of our real estate assets.

Additionally, properties that we acquire 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 us based upon ownership of an acquired property, we may be required to pay significant sums to settle it, and this could adversely affect our business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

The valuation report provided by Tinsa may incorrectly assess the value of our property, and we may be required to adjust the current fair value of our properties, which could result in the recognition of losses.

Due to the illiquid nature of property, the report on the fair value of our real estate portfolio provided by Tinsa as independent and external appraiser, is based on standard valuation principles, represents the opinion of Tinsa and thus is subject to uncertainty. The valuation report is based on the valuation method and various assumptions that could subsequently turn out to be incorrect. In addition, the valuation of real estate may be based on a multitude of factors such as expected rental income, property's condition, historical vacancy level, real estate tax rates, operating expenses, potential claims for environmental liabilities and risks associated with certain construction material and is therefore subject to numerous uncertainties. In particular, some of these assumptions are based on information that we provide and assumptions based on such information may turn out not to be correct. Accordingly, the valuations may not accurately reflect the value of the property to which they relate and do not necessarily represent current or future sales prices that we would be able to realize on the sale of our properties or participations. Furthermore, a change in the factors underlying the valuation and/or the assumptions may lead to gains or losses with respect to the book value of the properties and influence our profit or loss, as reflected in our consolidated income statement and consolidated balance sheet. Such profit or loss would be realized in the event that the relevant property is sold.

There is no guarantee that the valuations will reflect actual sale or market prices (even where any such sales occur shortly after the relevant valuation date) or that the estimated rental yield and annual rental income of any property will actually be attained. In particular, during times of limited transaction in the real estate markets in general or in particular market segments thereof, market prices for properties may be especially difficult to assess. The particular assessment of the mandated external professional appraiser is, to a certain extent, discretionary and may differ from the opinion of another appraiser. As a consequence, we would have to revise the value of our portfolio to reflect the decrease of the fair value of our properties and would be required to recognize the negative change in value as a non-cash loss in the relevant accounting period.

Due to the risks described above, erroneous valuations of our portfolio or a change in the factors underlying the valuation and/or the assumptions could have a material adverse effect on our business, financial condition or results of operations.

Product defects or failure to meet our quality standards may cause supply shortages, expose us to claims for damages and/or administrative sanctions and damage the public perception of our brand.

As we do not manufacture our products, we depend on our third-party manufacturers to ensure that our products comply with our specifications and quality standards. If a defect or quality issue is identified during quality controls conducted by us, we will not accept delivery of the relevant product. In this case, we may be unable to replace the rejected merchandise in a timely manner, which may result in supply shortages and foregone net turnover. In addition, there is a risk that our quality control procedures may not detect defects or quality issues in the merchandise that we receive. If we sell defective or low-quality merchandise, we could lose customer loyalty, harm our brands or be exposed to increased product returns and claims for damages by customers. In addition, by offering products that are defective, for example due to the use of harmful substances, raw materials or chemicals, we could violate applicable health, safety or environmental regulations and become subject to administrative sanctions, such as fines. Moreover, our reputation and brands could be damaged by the marketing of defective or poor-quality products, including in the case of serious defects or errors (such as incorrect fit or shrinkage) or products containing substances causing physical harm or other health problems. Defects or quality issues could also lead to a significant decline in sales. Additionally, in connection with the installation and post-sale services we offer, we may face an increase in costs or in labor requirements. Similarly, we may face liability in connection with improper installations and warranties that we offer on our products.

Consumption of a misbranded, altered, contaminated or spoiled food product may result in personal illness or injury. We could be subject to claims or lawsuits relating to an actual or alleged illness or injury or death stemming from the consumption of the products we source from third parties, which could negatively affect our business. While we are not currently the subject of material product liability claims for damages as a result of the consumption or use of our products, and we submit our products to extensive testing, we may still be exposed to liability claims in the future. Awards of damages, settlement amounts and fees and expenses resulting from such claims and the public relations implications of any such claims, could have an adverse effect on our business. The availability and price of insurance to cover claims for damages are subject to market forces that we do not control, and such insurance would not cover damage to our reputation. Even if product liability claims against us are not successful or fully pursued, these claims could be costly and time-consuming and may divert our management's time and resources towards defending them rather than operating our business.

In all such cases, the images of our brands, competitive position, business, results of operations, financial condition and prospects may be materially adversely affected.

We face the risk of theft, misappropriation or inappropriate utilization of our customer data, which may adversely affect our business and reputation.

The regulatory environment governing the use of individually identifiable data of customers, employees and others is complex. Privacy and information security laws and requirements change frequently, and compliance with them may require us to incur costs to make necessary system changes and implement new administrative processes. If a data security breach occurs, our reputation could be damaged and we could experience lost sales, fines or lawsuits.

We collect customer data conditional upon the customers' express consent. The customer data could be either stolen or misappropriated at any stage of data processing such as receipt, transmission, use or storage of the data. In this case, customers may be unwilling to provide us with their data and direct marketing could be negatively affected as a result. Furthermore, due to the negative publicity of companies where customer data was stolen or misappropriated, our reputation could be negatively affected which could result in lower sales. Therefore, the theft or misappropriation of customer data could have a material adverse effect on our business, results of operations, financial condition and prospects.

In addition, in the European Union, the new General Data Protection Regulation ("**GDPR**") entered into force on May 25, 2018. The GDPR implements more stringent operational requirements for processors and controllers of personal data, including, for example, expanded disclosures about how personal information is to be used, limitations on retention of information, mandatory data breach notification requirements and higher standards for data controllers to demonstrate that they have obtained valid consent for certain data processing activities. Although we have taken all action required in order to be compliant with the guidelines, we operate in an industry in which we process a considerable amount of personal data and therefore are inevitably more exposed to the risk of being penalized for failing to comply with the regulations imposed. If we fail to maintain compliance with applicable data collection and privacy laws or with credit card industry standards or other applicable data security standards, we could be exposed to fines, penalties, restrictions, litigation or other expenses, which could adversely affect the reputation of us and our brands. Any inability to adequately address privacy concerns, even if unfounded, or comply with applicable privacy or data protection laws, regulations and policies, could result in additional cost and liability to us, damage our reputation, and adversely affect our business.

Changes in credit and debit card provider requirements or applicable regulations could adversely affect our business.

Since a substantial portion of our sales is made to customers that pay for their purchases with credit or debit cards, rather than with cash, we are exposed to a variety of risks associated with credit and debit cards. For credit and debit card payments, we pay interchange and other fees. These fees may increase over time and thus increase our operating expenses and adversely affect our business, results of operations, financial condition and prospects. We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply.

Any failure to comply with applicable requirements or regulations may subject us to fines and higher transaction fees, the loss of our ability to accept credit and debit card payments from our customers or the cessation of payments from credit and debit card providers to us for purchases already made. Any of these factors could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our business operations could be adversely affected by natural disasters, public health crises, political crises, terrorist attacks or other catastrophic events.

Natural disasters, such as hurricanes, tornadoes, floods, earthquakes, and other adverse weather and climate conditions; unforeseen public health crises, such as pandemics and epidemics; political crises, such as terrorist attacks, war, and other political instability; or other catastrophic events, whether occurring in the Spain or internationally, could disrupt our operations or the operations of one or more of our suppliers. In particular, these types of events could impact our product supply chain from or to the impacted region and could impact our ability or the ability of third-parties to operate our stores or websites. In addition, these types of events could negatively impact consumer spending in the impacted regions or, depending upon the severity, globally.

To the extent that such events were to result in the closure of one or more of our offices, distribution centers or stores, or impair our ability to purchase, receive or replenish inventory, our business, results of operations, financial condition and prospects could be materially adversely affected. In particular, acts of terrorism could result in us experiencing a decline in our net turnover if consumers are deterred from shopping in general or if one or more of our stores, due to their location, are perceived to be particularly at risk from such acts of terrorism. In addition, any of these events could result in price increases for, or shortages of, fuel, delays in opening new stores, and/or temporary or long-term disruption to our supply chain. In addition, these events can have indirect consequences such as increases in the cost of insurance if they result in significant loss of property or other insurable damage. Moreover, our disaster recovery plans may be insufficient to cope adequately with such unforeseen circumstances. To the extent any of these events occur, our business, results of operations, financial condition and prospects could be materially adversely affected.

Our financial condition and results of operation may be adversely affected by fluctuations in currency exchange rates.

Exchange rate fluctuations could have an adverse effect on our business, results of operations, financial condition and prospects. 2% of our net turnover for the twelve months ended February 28, 2018 was derived from countries outside of the Eurozone. Sales made by our stores outside of the Eurozone are denominated in the currency of the country in which the store is located, and any non-euro currency could become less valuable prior to conversion when converted into euros as a result of exchange rate fluctuations. We generally have limited exposure to exchange rate risk in our purchases because we negotiate our prices in euros, although some purchases related to our private labels are U.S. dollar denominated and could be affected by exchange rates fluctuations. In the year ended February 28, 2018, 90% of purchases and 99% of our net turnover were denominated in euros. During the same time period, 9.3% of our costs of sales in Retail were purchases made in U.S. dollars. In addition, we may be exposed to competitive pressures as a result of exchange rate risks as certain of our suppliers also sell goods in U.S. dollars, and certain competitors that source products in U.S. dollars may be able to lower their euro prices, in the event the euro appreciates against the U.S. dollar. Our exposure to the U.S. dollar also reflects the cost of international transport. If the U.S. dollar appreciates relative to the euro, our transportation costs rise. If the increase in transportation costs cannot be passed on to customers without a corresponding decrease in sales, a rise in the U.S. dollar's value relative to the euro will result in lower sales and pressure on margins.

Our current policy is to arrange derivative instruments (currency forwards) to reduce the exchange rate risk arising from transactions in foreign currencies. We have in place USD/EUR hedging agreements for a total aggregate principal amount of $524 million as of February 28, 2018. However, our hedging policies do not protect us from all risks related to exchange rate fluctuations.

Our hedging and other derivative arrangements may not effectively or sufficiently offset the negative impact of interest rate or currency fluctuations.

We may use a combination of natural hedging techniques and financial derivatives to protect against certain interest rate risks and exchange rate fluctuations. We have made use of hedging arrangements to protect our business against interest rate fluctuations on our Syndicated Loan Facility, and we may continue to make use of hedging and other derivative arrangements going forward. Although we may enter into and maintain certain hedging arrangements designed to fix a portion of our floating interest rates or hedge against exchange rate fluctuations, there can be no assurance that hedging will continue to be available on commercially reasonable terms. Hedging itself carries certain risks, including that we may need to pay a significant amount (including costs) to terminate any hedging arrangements. Such hedging activities may be ineffective or may not offset more than a portion of the adverse financial impact resulting from interest rate volatility or foreign currency variations. Gains or losses associated with hedging activities also may negatively impact operating results.

Sales of our products are subject to seasonal fluctuations and could be adversely affected by extreme or unfavorable weather conditions, and our results of operations are particularly dependent on the Christmas season.

The retail industry in which we operate is seasonal by nature, and our net turnover and profits are therefore subject to seasonal fluctuations. Our results are affected by periods of abnormal, severe or unseasonal weather conditions. Adverse weather such as heavy snowfall or flooding can deter consumers from shopping. Moreover, unforeseen periods of warm or cold weather could render a portion of our inventory incompatible with prevailing conditions. Like other retailers, our most important trading period is the November to January period over the Christmas season. We also experience a sales increase in June and July during the pre-summer period. The seasonal influences have a direct impact on our earnings in the corresponding quarter. Any factors that harm our operating results in peak sales periods, including adverse weather or unfavorable economic conditions, would have a disproportionate effect on our results of operations and financial condition for the entire fiscal year. If we cannot offset the lower-sales seasons with those having stronger sales, our business, results of operations, financial condition and prospects may be adversely affected. Because of the seasonal influences, our net turnover and earnings of individual quarters can fluctuate significantly. Also the travel industry is seasonal and fluctuates over the course of the year, with the highest demand in the summer season and lower in the winter season (except for the days around Christmas, New Year, Epiphany and Easter).

Unseasonable weather conditions can also have a significant negative impact on the sale of our products. For example, particularly mild weather conditions during the fall can harm sales of winter clothing and, similarly, particularly cold and wet weather conditions during the pre-summer period, can harm sales of spring and summer clothing. Any of the foregoing factors can have a material adverse effect on our business, results of operations, financial condition and prospects.

We rely on the effectiveness of our promotional campaigns to drive sales volumes during peak selling and promotional periods. Our net turnover during the first fiscal quarter is typically lower due, in part, to the traditional slowdown in retail sales immediately following the holiday retailing season. If sales during peak selling and promotional periods, particularly the Christmas season, are significantly lower than expected for any reason, we may be unable to adjust our expenses in time to react to reduced levels of sales. As a result, we may be left with a substantial amount of unsold inventory, especially in seasonal merchandise that is difficult to liquidate, or with excess staffing costs relative to the level of sales. In such circumstances, we may be forced to rely on markdowns or promotional sales to dispose of excess inventory, which could have a material adverse effect on our business, financial condition and results of operations.

Our existing risk management system may not adequately protect us against credit, market, liquidity, operational and other risks.

Our risk management capability is limited by the information, tools or technologies available to us. We may not be able to effectively monitor, assess and control credit risk due to limited information or tools. We may not be able to design and implement risk management measures or policies to effectively manage risks associated with new products or information or in a timely manner or at all. If we are unable to effectively improve our risk management and internal control policies, procedures and systems, or if we are unable to achieve the intended results of such policies, procedures or systems in a timely manner, our business, financial condition and results of operations may be materially and adversely affected.

Our insurance may be insufficient and, due to factors beyond our control or a claim by us, our insurance premiums may increase significantly, which may adversely affect our financial results.

Insurance costs may increase substantially in the future and may be affected by natural catastrophes, fear of terrorism, intervention by governments or a decrease in the number of insurance carriers. In addition, the carriers with which we hold our policies may go out of business, or may be otherwise unable to fulfill their contractual obligations. Generally, the Group's policy is to take out insurance policies to cover the risks to which its inventories are exposed. Furthermore, for certain types or levels of risk, such as risks associated with earthquakes, hurricanes or terrorist attacks, we may determine that we cannot obtain commercial insurance at acceptable prices, if at all. We do not maintain separate funds or otherwise set aside reserves to cover losses or claims by third parties. Therefore, if an uninsured loss were to occur, we could experience significant disruption to our operations, suffer significant losses and be required to make significant payments for which we would not be compensated, any of which in turn could have a material adverse effect on our business, results of operations, financial condition and prospects. In addition, in the event of any significant claims by us, our insurance premiums may increase significantly.

We may be subject to investigations or challenges with respect to our tax liabilities or subject to changes in tax legislation that may adversely impact our business.

From time to time, we are involved in discussions or disputes with tax authorities regarding our tax liabilities, which may lead to revision of our tax liabilities, and therefore impact our financial position. For example, we currently have ongoing litigation with Spanish tax authorities related to the Large Commercial Store Tax in Cataluña, Aragón and Asturias regions. We filed a collective appeal under the ANGED (Asociación Nacional de Grandes Empresas de Distribución) which is currently pending a ruling from the Spanish Supreme Court of Justice. Please refer to "*Business—Legal Proceedings*" for further information. In the event of such a dispute, we may be subject to negative public attention, which could have an adverse impact on our reputation or relations with our customers, employees, suppliers or other third parties. The current political climate and recent political/media focus on tax optimization schemes and austerity increases the risk of such discussions or disputes with tax authorities. If such tax audits, investigations or challenges render decisions that are unfavorable to us, we may be required to pay settlement amounts, fees or penalties, which may adversely impact our business, results of operations, financial condition and prospects. In addition, regardless of the outcome of any such investigations or challenges, such proceedings could result in substantial costs and may require that we devote substantial time and resources to defend ourselves. Furthermore, tax legislation may be enacted in the future, domestically or abroad, that adversely affects our current or future tax structure and tax liability.

We are exposed to risks related to taxation in Spain and other jurisdictions.

We are subject to many different forms of national, regional and local taxation, both direct and indirect, including, but not limited to, income tax, withholding tax, value added tax, sales tax and other payroll taxes in Spain and other jurisdictions. Tax laws and administration criteria are not a clear-cut area, are subject to changes and often require us to make subjective interpretations. In this respect, as a result of any future audit, additional taxes could be identified, which could lead to a substantial increase in our tax obligations (including any accrued interest and penalties). For example, in Spain, economic instability and difficult economic conditions have resulted in a decline in tax revenue obtained by the Spanish public administration, which has resulted in the past and may result in the future in higher effective tax rates. In the event of an increase of our tax burden, our profit may be reduced or we may need to increase prices to our customers which could reduce demand for our products.

An increase in export or import duties and controls may have an adverse effect on our business.

While we have historically been able to locate and purchase quality merchandise at prices which offer a higher margin, such merchandise may become subject to higher import taxes than apply as at the date of this offering memorandum.

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 we operate are beyond our control and could result in difficulties in obtaining quality, low-cost merchandise from these countries. Consequently, this could have a material adverse effect on our business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

We may be subject to complaints and litigation which may adversely affect our business.

We may be the subject of complaints and litigation from our customers, employees and other third parties, alleging intellectual property infringement, injury, breaches of data protection or health, environmental, safety, privacy, tax or operational concerns, nuisance, negligence or failure to comply with applicable laws and regulations. These claims, even if successfully defended, could have a material adverse effect on our reputation and divert the attention of our management team. In addition, if we were to be found liable under any such claims, our business, results of operations, financial condition and prospects could be materially adversely affected.

We may be subject to liability if we are found to have infringed upon the trademarks or other intellectual property rights of third parties. In addition, our business and competitive position could be harmed if we are unable to protect and enforce our intellectual property rights.

We are at risk of infringing third-party intellectual property rights. We may, from time to time, be subject to claims by third parties that products we sell infringe their intellectual property rights. If we are found liable for any such infringement, we could be required to pay substantial damages, destroy offending merchandise or comply with injunctions against us to prevent further infringement. Any payments we may be required to make and any injunctions with which we may be required to comply as a result of such infringement actions could materially adversely affect our business, results of operations, financial condition and prospects. In addition, such infringement claims could harm the perception of us by our customers or otherwise harm the images and reputations of our brands.

In addition, we are subject to the risk of third-parties counterfeiting our products or otherwise infringing our intellectual property rights (such as our trademarks and design rights). We may need to resort to litigation in the future to enforce our intellectual property rights. Any litigation could result in substantial costs and a diversion of resources. We may not be successful, particularly in developing countries or in new markets which we choose to enter, in securing protection for our intellectual property rights, combating the production and sale of counterfeit products and preventing and halting other infringements of our intellectual property rights. Any failure by us to protect and enforce our intellectual property rights could have a material adverse effect on our business, results of operations, financial conditions and prospects.

We are subject to advertising, consumer protection, planning, employment, environmental and other laws and regulations that could require us to modify our current business practices, incur increased costs and subject us to potential liabilities.

We are subject to numerous advertising, consumer protection, planning, employment, environmental and other laws and regulations which apply to retailers generally and govern the import, promotion and sale of products and the operation of retail stores and warehouse facilities. If any of our management, employees, partners, suppliers, buying agents or trading companies were to fail to comply with them, we could experience delays in shipments of our goods, be subject to fines or penalties, or suffer reputational harm, which could reduce demand for our products and damage our business, results of operations, financial condition and prospects.

Changes in consumer legislation or the interpretation of the legislation by the relevant authorities could materially affect the operating costs or sales of the business. Our failure to comply with the provisions of such laws, rules or regulations may give rise to civil or criminal liability (with consequences including public censure or financial penalties), result in the imposition of disciplinary sanctions by such governmental authorities, impair the enforceability of certain consumer agreements or give rise to the loss of a license, and more generally may impair our reputation.

We are subject to various employment laws and regulations, including the minimum wage legislation and collective bargaining agreements. We pay our staff a wage equal to or higher than the minimum statutory wage and materially comply with our obligations in our collective bargaining agreements. However, we could be subject to remedial pay obligations and penalties deriving from claims filed by our staff requesting the payment of certain specific wage supplements such as overtime or special allowances for working over the weekend. To date these claims have been constrained to non-material issues and to a non-significant number of employees and we believe that any potential claim in the future would likely be similar and not affect a wide number of employees. We have not been found to be in breach of any immigration and work visa rules or requirements to date.

In addition, changes in employment-related laws and regulations could result in additional compliance and other costs for our business. In the recent past there has not been any change that has triggered a material increase of our obligations and costs and we do not currently foresee a potential change in the short term that could result in such material increase of our obligations and costs. Further increases in statutory minimum wage will result in increases in our personnel costs. Other changes in labor, healthcare and other employment-related laws could cause us to incur additional employment costs.

Our operations are also subject to various environmental laws, including carbon emission regulations. We have undertaken several measures and have implemented different projects in order to comply with applicable environmental laws. These include measures to ensure recycling of packaging in our premises, to encourage energy savings, to promote the use of recycled materials and to implement our system of packaging and encasement management.

Legal requirements are subject to frequent changes and differing interpretations, and we are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations. We may be required to make significant expenditures or modify our business practices in order to comply with amendments to existing laws and regulations and with future laws and regulations, which may increase our costs and limit our ability to operate our business. As a result, our business, results of operations, financial condition and prospects could be materially adversely affected.

We are exposed to risks related to noncompliance with law and regulations and conducting operations in multiple jurisdictions, any of which could have a material adverse effect on our business.

We had business operations in over 28 countries as of February 28, 2018. Although the majority of our operations are located in Spain, we do source products from outside Spain and sell products and services internationally. Notwithstanding the benefits of geographic diversification, our business is subject to risks related to the differing legal, political, social and regulatory requirements and economic conditions of many jurisdictions. Risks generally inherent in international operations include the following, among others:

- general economic, social or political conditions in the countries in which we operate could have an adverse effect on our earnings from operations in those countries;

- exposure to different legal standards and the burden of complying with a variety of foreign laws and regulations and changing foreign government policies;

- compliance with a variety of laws and regulations, including tax and anti-trust, in various jurisdictions may be burdensome;

- unexpected or potentially adverse changes in laws or regulatory requirements in various jurisdictions may occur;

- exposure to civil or criminal liability under, to the extent applicable, the UK Bribery Act (the "**UKBA**"), the U.S. Foreign Corrupt Practices Act ("**FCPA**"), and the restrictions imposed by the Office of Foreign Assets Control ("**OFAC**") of the U.S. Department of Treasury;

- compliance with, and changes to, import and export restrictions and regulations; and

- the imposition of taxes, duties or other charges on imports or exports.

We are required to comply with a number of anti-bribery and money laundering regulations, which generally prohibit us from making improper payments, including bribes or facilitation payments. In addition, as a result of doing business in certain foreign countries, we are exposed to a potential compliance risk with respect to anti-corruption laws and sanctions regulations applicable in those countries where we, our partners or agents operate. Although we enforce and monitor controls to prevent violations of applicable laws, including internal control procedures and compliance policies, we nevertheless risk being associated with unauthorized or improper payments or offers of payments by one of our employees or agents that could be in violation of applicable law, even if these parties are not subject to our control. The risks associated with potential violations of such regulations may negatively affect future results of operation or subject us to criminal or civil enforcement actions and penalties, including fines, denial of export privileges, injunctions, asset seizures, and revocations or restrictions of licenses. In addition, any major violations could have a significant impact on our reputation and consequently on our ability to conduct our business. We could also be exposed to a variety of other negative consequences as a result of any potential violations of law, such as costs in connection with internal or external investigations of any potential violations of which we become aware, costs to undertake additional compliance training and programs to ensure we have effective policies and procedures in place and the focus on such matters by our senior management that could impinge on the time they have available to devote to other matters relating to our business. Any of these risks could have a material adverse effect on our business, results of operations, financial condition and prospects.

The interests of our principal shareholders may conflict with your interests.

Our principal shareholders have and will continue to have, directly or indirectly, the power, among other things, to affect our legal and capital structure and our day-to-day operations, as well as the ability to elect and change our management and advisory board and to approve or prevent any other changes to our operations. The interests of our shareholders, in certain circumstances, may conflict with your interests as holders of the Notes. For example, the shareholders could vote to cause us to incur additional indebtedness, to sell certain material assets, in each case, as permitted under the Indenture governing current financing agreements and the Notes. Incurring additional indebtedness would increase our debt service obligations and selling assets could reduce our ability to generate net turnover, each of which could affect you adversely.

Even if our current shareholders make divestitures such that they control less than a majority of the equity in our parent companies, they may still be able to effectively control or strongly influence our decisions. Such divestitures may not trigger a change of control under the Indenture governing the Notes. See "*Description of the Notes*."

Antitrust laws could limit our ability to expand our business through acquisitions or joint ventures.

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

We purchase and sell assets in the ordinary course of our business. These acquisitions and divestments can expose us to both operational and financial risks.

In the ordinary course of our business, we evaluate certain acquisition and divestment opportunities of certain of our assets, including real estate. There can be no assurance that any such acquisition or divestment will be successful. We recently divested more than €500 million of certain noncore real estate assets, and we are currently evaluating the divestment of additional non-core real estate assets. 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 our 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's financial and business results may fluctuate as a result of cyclical changes in the insurance industry.

Historically, the results of companies in the insurance industry have been subject to significant fluctuations and uncertainties. The industry's profitability can be affected significantly by:

- competition;
- capital capacity;
- rising levels of actual costs that are not foreseen by companies at the time they price their products;
- volatile and unpredictable developments, including man-made, weather-related and other natural catastrophes or terrorist attacks;
- changes in loss reserves resulting from the general claims and legal environments as different types of claims arise and judicial interpretations relating to the scope of insurers' liability develop; and
- fluctuations in interest rates, inflationary pressures and other changes in the investment environment, which affect returns on invested assets and may affect the ultimate payout of losses.

The demand for insurance can also vary significantly, rising as the overall level of economic activity increases and falling as that activity decreases. The insurance industry historically is cyclical in nature. These fluctuations in demand and competition could produce underwriting results that would have a negative impact on the Group's consolidated results of operations and financial condition.

Our food distribution business sources fresh products from local producers and climate changes may affect their ability to produce, consequently affecting our 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. Our hypermarket and supermarket businesses have a significant focus on perishable products. As we source part of our fresh products from local producers, such changes in climate could impair or limit our ability to source such products, thus affecting our capacity to offer the full assortment of products that it normally carries.

Labor disruptions and the rising of labor costs could have an adverse effect on our results of operations.

All of our employees, except for those employed directly by third-party brands, are covered by collective bargaining agreements. Although we believe we presently have good relations with our employees, we 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 we cannot estimate the effect of any such work slowdown, work stoppage or strike on our sales or the effect of an adverse material change in the conditions of the bargaining agreements in force as at the date of this offering memorandum upon their renewal. As of the date of this offering memorandum, we have in place (i) a one-time extraordinary voluntary redundancy plan covering 1,345 employees that were employed between 2015 and 2017, and (ii) an early retirement program covering approximately 2,265 employees that were employed between 2015 and 2017. As we do have more than 92,000 employees as of February 2018, any significant increase in labor costs, extensive work slowdowns, work stoppages or strikes could have a material adverse effect on our business, financial condition and results of operations and the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

For the years ended February 29, 2016 and February 28, 2018, our personnel expenses were €2,607 million and €2,587 million, respectively. In particular, for the years ended February 29, 2016 and February 28, 2018, our personnel expenses for the Retail segment were €2,240 million and €2,201 million, respectively.

Unanticipated changes to the regulatory environment of our consumer finance affiliate and of our Insurance segment, as well as increased interest in these sectors by regulators, could have an adverse effect on our operations.

Laws and regulations issued by banking, financial and insurance authorities regulate our consumer finance and insurance operations. Material or unexpected changes to the regulations of our 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.

We 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 our business, financial condition and results of operations and on the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

Our consumer finance affiliate may be exposed to increased credit and financial risk, which may adversely affect its financial condition and results of operations, and may consequently negatively impact dividend distribution to El Corte Inglés.

Financiera El Corte Inglés assumes responsibility for account approval and credit risk of its finance operations. In the twelve months ended December 31, 2017, approximately 41% of our sales to retail customers were financed by Financiera El Corte Inglés. As a result, Financiera El Corte Inglés is exposed to credit and financial risk, which may adversely affect its financial condition and results of operation. These risks include:

- its credit card income is affected by general economic conditions beyond our 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 Financiera El Corte Inglés 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 Financiera El Corte Inglés' credit risk management is affected by the quality and scope of information available.

Financiera El Corte Inglés is subject to the credit and financial risk described above. In assessing customers' creditworthiness, Financiera El Corte Inglés relies largely on the credit information available from its own internal databases and other sources. Due to limitations in the availability of information, its assessment of the credit risks associated with a particular customer may not be based on complete, accurate or reliable information. In addition, Financiera El Corte Inglés cannot assure that its credit scoring systems collect complete or accurate information reflecting the actual behavior of customers or that their credit risk can be assessed correctly. Without complete, accurate and reliable information, Financiera El Corte Inglés 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 its business, financial condition and results of operations and, to the extent affected by Financiera El Corte Inglés' dividend distribution, the Issuer's and Guarantor's ability to pay any amounts due under the Notes.

Future changes in International Financial Reporting Standards ("IFRS") could result in unfavorable changes to our reported earnings and financial position.

We prepare our consolidated financial statements in accordance with the IFRS as issued by the International Accounting Standards Board and endorsed by the European Union. Changes in these accounting standards and accompanying accounting pronouncements, implementation guidelines, and interpretations could significantly impact our reported results and financial position, and may even retroactively affect previously reported financial statements. For example, IFRS 15 is a new standard for recognition of revenue from customers which may affect the net turnover recognition of our Information Technology segment given the interpretation of long-term service contracts inherent in that activity and the consequent definition of our policies with regard to the definition of the performance obligations, the allocation of prices to these, and the handling of possible obligations. In addition, IFRS 16 is a new standard that establishes the principles for the recognition, valuation, presentation and disclosure of leases which may also have an impact on our consolidated financial statements.

Our Travel Agency segment could be adversely affected by the occurrence of events affecting travel safety, such as natural disasters and political and social instability, which are outside our control.

The travel industry is sensitive to safety concerns. Our Travel Agency segment 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 travelers 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 our financial condition and results of operations and the Issuer's and Guarantors' ability to pay any amounts due under the Notes.

Our relationships with certain concessions are important to our business and the loss of a significant concession partner could have an adverse impact on our business.

Over 1,500 external brands currently operate concessions in our stores in Spain, and over 290 external brands currently trade through our website. For the twelve months ended February 28, 2018, almost 80% of our sales were derived from third-party brands. As concessions constitute an important part of our business, the loss of a number of important concession partners, an inability to attract new and desirable concession partners or any other disruption to our concession arrangements may have an adverse effect on our gross transaction value and in turn our results of operations. The same applies for possible difficulties we may encounter when renegotiating or extending concession contracts with concession partners or if existing concession contracts are terminated, resulting in new contracts with less favorable terms for us, especially in light of the new framework we are in the process of implementing for our commercial agreements with third-party brands which require a minimum guaranteed return per square meter utilized at our stores, regardless of realized sales, in addition to our variable fees generated from sales by third-party brands in our stores.

We are vulnerable to fluctuations in the availability and price of food ingredients and packaging material.

We and our suppliers use significant quantities of food ingredients and packaging materials. These ingredients and materials are subject to fluctuations in availability and price. Such fluctuations are attributable to, among other things, changes in supply and demand for crops or other commodities, energy prices, and government-sponsored agricultural and livestock programs. In particular, the availability and the price of vegetables and other agricultural commodities, including meat and fish, can be volatile. General economic conditions, unanticipated demand, problems in production or distribution, natural disasters, adverse weather conditions during the growing and harvesting seasons, plant and livestock diseases and local, national or international quarantines can also adversely affect availability and prices of commodities in the long and short terms. In the future, we may be affected by the imposition of national or international quotas regulating, for example, volumes of raw materials, especially on fish and seafood products. If a regulatory regime establishes such measures, the price of raw materials could increase, and our gross margins could be affected.

While we generally have long-term relationships with our suppliers, we do not have long-term contracts with our suppliers, and, as a result, they could increase the prices of their products or fail to deliver sufficient quantities to us. Although alternative suppliers are available, there are difficulties in moving products from one supplier to another without affecting the availability of products in our stores. Although we attempt to reduce our exposure to price fluctuations to a limited extent by buying certain inventory at opportune moments during the year and holding it for sale until periods of high demand or shortages, our ability to avoid the adverse effects of a pronounced, sustained price increase in raw materials is limited. As part of our strategy, we aim to further enhance our profitability by continuing to focus on the productivity of our existing stores, by using our purchasing power to achieve more favorable pricing terms from our suppliers and by closely monitoring our operating expenses, as well as seeking to optimize our supplier and product mix. Our failure to maintain or improve pricing terms from our suppliers or to maintain the profitability of our stores as our business grows would have an adverse effect on our profit and EBITDA margins in the future.

A failure in our cold chain could lead to unsafe food conditions and increased costs.

"Cold chain" requirements, setting out the temperatures at which our ingredients and products are stored, are established both by statute and by us to help guarantee the safety of our food products. Our cold chain is maintained from the moment the ingredients arrive at, or are frozen by, our suppliers, through our products' transportation phase and ultimately to the time of sale in our stores or through online sales. These standards ensure the quality, freshness and safety of our products, and those characteristics are recognized by our customers and have become associated with our brand. A failure in the cold chain could lead to food contamination, risks to the health of our customers, fines and damage to our brand and reputation, each of which could subsequently affect our business, financial condition and results of operations.

Sales of our products are subject to changing consumer preferences.

The success of our business depends on the continued appeal of the range of products we offer through our network of stores. A shift in consumer preferences could have a material adverse effect on our business. Given the varied backgrounds and tastes of our customer base, we must offer a sufficient range of products to satisfy a broad spectrum of preferences. We may not be successful in accurately predicting customer preferences or demand for certain products. Failure to accurately identify or effectively respond to changing customer preferences or demand could negatively affect our relationship with our customers, the demand for our products and our market share. Further, if we misjudge the demand, we may build up excess inventory for certain products, which could result in a decrease in sales prices for those products and inefficient working capital management which, if material, could have an adverse effect on our business, financial condition and results of operations.

In addition, consumers have been increasingly focused on food safety, health and wellness with respect to the food products they buy and their ingredients. Demand for our products could be affected by consumer concerns regarding the health effects of ingredients such as trans fats, sugar, processed wheat or other product attributes. If we do not anticipate or react quickly to such changes in consumer demand, it could have a material adverse effect on our business, financial condition and results of operations. We devote significant resources to developing and marketing new products, as well as to expanding and improving existing product lines. However, our efforts may not result in the volume of sales or profitability anticipated. If we are unable to accurately predict, identify and interpret the changing tastes and dietary habits of consumers, our sales may decline, which would have a material adverse effect on our business, financial condition and results of operations.

There may be a decrease in demand for our products in the event of health concerns and pandemics.

In recent years there have been outbreaks of a number of diseases that have had the potential to spread rapidly over very large geographic areas and/or other health-related concerns which have been, or have been perceived to be, associated with food products. Any outbreak of disease and/or other widespread health-related food concerns could increase our costs in sourcing alternative suppliers and/or have an adverse impact on consumer preferences and spending. A widespread outbreak of any disease or concerns in Spain or elsewhere could have an adverse effect on our suppliers and customers, and on the economy in general, with a consequential adverse effect on the demand for products sold by us, our financial condition and future prospects.

A decline in demand for traditional pre-packaged holidays and/or changes in consumer behavior may have a material adverse effect on our business, operating results, financial condition or prospects.

Our Travel Agency segment has historically generated most of our business from traditional pre-packaged holidays. In recent years, consumer behavior has changed in a number of ways as a result of various factors. For example, the growth of the internet has increased price transparency and choice, leading both to a significant increase in the availability of travel products and services, and to a proliferation of online information and reviews about travel experiences and destinations. Availability and choice of airline routes has also expanded, as the rise of low-cost carriers has led to a significant increase in the online distribution of seats to a wide range of destinations at competitive prices.

These changes have made it easier for customers to research and build their own travel experiences, leading to growth in the independent travel sector, the increase of online distribution as compared with traditional high street travel agents and increased sales of travel products directly to customers rather than via tour operators. In recent years, customers in some markets have tended to book holidays nearer the time of travel than has traditionally been the case, making it more difficult for us to engage in effective seasonal planning (such as capacity adjustments), and making us more vulnerable to short-term changes in customer demand and potential adverse impacts on product pricing. If we do not succeed to adapt and develop in response to these and other market developments and changes in consumer preferences for leisure travel products, this may have a material adverse effect on our Travel Agency segment, operating results, financial condition and prospects.

Our strategy for profitable growth, which is in part intended to address recent changes in consumer behavior, may not be effective and may not be delivered within their targeted timescales. For example, we may fail to anticipate correctly the level of demand in future periods and thus may adjust capacity at the wrong time or to an inappropriate level or may fail to achieve our targeted levels of online penetration. In addition, other providers of travel and tourism products and services may make adjustments to meet demand, thereby reducing any anticipated benefits of our activities. Consequently, also this may have a material adverse effect on our Travel Agency segment, operating results, financial condition or prospects.

Fraud and other crimes could have an adverse effect on our business.

There is a risk of fraudulent behavior by our employees, customers or members of the public. In particular, there is the risk of theft of stock or cash from our stores or during delivery or collection. While we have not experienced significant levels of inventory shrinkage in the past, there can be no assurance that incidences of inventory loss or theft will not increase in the future or that the measures we are taking will effectively decrease inventory shrinkage. We are also subject to the risk of inventory loss and theft. If we were to experience higher rates of inventory shrinkage or incur increased security costs to combat inventory theft, our business, results of operations, financial condition and prospects could be adversely affected. In addition, there is a risk that we may experience in the future, significant losses resulting from online fraud where, for example, users of our website use a stolen credit or debit card.

We may not be able to keep pace with technological developments.

To achieve our strategic objectives and remain competitive, we must continue to develop and enhance our information technology systems. This may require the acquisition of equipment and software and the development, either internally or through independent consultants, of new proprietary software. Our omni-channel offering depends on our ability to ensure that our website and store network interact seamlessly with each other so that customers are able to have uninterrupted access to these different channels (by, for example, returning products bought online to a store). No assurance can be given that we will be able to continue to design, develop, implement or utilize, in a cost-effective manner, information systems that provide the capabilities necessary for us to operate or compete effectively.

Continued enhancement and development of our systems will require considerable expense, and while we plan to invest significantly in our information technology systems and capability in the medium term, we may not be able to make the necessary investments to maintain and upgrade our systems in a manner that will avoid interruptions or disruptions of such systems. Any such interruptions or disruptions may adversely affect the stability and proper-functioning of our website and may affect our results of operations as a result. We may in the future redesign or replace our website, and in doing so may be subject to the risk of interruptions during any transitional period or to the risk that the new website does not function properly. Any new website may also have a negative effect on our search engine rankings, reducing or eliminating our visibility on search engines and reducing the amount of traffic to our website as a result.

In addition, if we do not keep pace with developments on our competitors' websites, our customers may find our website less appealing and so may be less willing to use the website than we expect. We intend to continue to upgrade our website to include new features, but such upgrades may not be successful and may not appeal to customers. We are reliant on our website being fit-for-purpose and providing customers with an experience that matches and, where possible, surpasses that of our competitors' websites. Any failure to adapt to technological developments or any inability to maintain and upgrade our information technology systems may have a negative impact on our appeal to customers and may have a material adverse effect on our business, financial condition, results of operations and prospects.

Changes to search engines' algorithms or terms of services could cause our website to be excluded from or ranked lower in "natural" search results.

A significant number of our customers access our website by clicking on a link contained in search engines' "natural" listings (i.e., listings not dependent on advertising or other payments). Search engines typically do not accept payments to rank websites in their natural listings and instead rely on algorithms to determine which websites are included in the results of a search query. We endeavor to enhance the relevancy of our website to common consumer search queries and thereby improve the rankings of our website in natural listings, a process known as search engine optimization ("**SEO**"). Search engines frequently modify their algorithms and ranking criteria to prevent their natural listings from being manipulated, which could impair our SEO activities. These algorithms and ranking criteria may be confidential or proprietary information, and we may not have complete information on the methods used to rank our website. If we are unable to recognize and adapt quickly to such modifications in search engine algorithms, or if the effectiveness of our SEO activities is affected for any other reason, we could suffer a significant decrease in traffic to our website which may impact our net turnover as a result and may in turn have a material adverse effect on our business, financial condition, results of operations and prospects.

We may experience a significant increase in the cost of, or become more reliant on, search engine marketing.

We market our stores, brands and products both in traditional media and online channels. In order to place these listings with a search engine, we frequently place bids on key words at a certain cost per click that we pay to the search engine. Under the bidding system, the order in which websites appear in a search engine's paid search results is determined by a combination of the price bid by the website and the historical and expected rate at which consumers click through to the website. Bids on generic search terms (such as "handbag") typically cost more than bids on branded search terms (such as "El Corte Inglés"). The click-through rate is, in turn, influenced by the strength of the website's brand and the popularity of the website.

The location of our stores may become less attractive over time.

Our stores are situated in high footfall locations in some of Spain's largest shopping areas. We consider these locations to be well-positioned for reasons including their accessibility to a large customer base or their iconic status. There is no guarantee that our store locations will retain their attractiveness over time. Changing consumer habits, such as a move away from city or town center shopping, may mean that our store locations become less attractive over time as a result of lower numbers of visiting customers. This may have a negative impact on the net turnover experienced in stores and have an adverse impact on our results of operations and financial performance as a result.

Risks Related to our Indebtedness

Our substantial leverage and debt service obligations could adversely affect our business and prevent us from fulfilling our obligations with respect to the Notes and the Notes Guarantees.

As of May 31, 2018, the Issuer had €4,399 million of outstanding indebtedness to third-parties. As of May 31, 2018, on an as adjusted basis after giving effect to the Transactions, the Issuer and its consolidated subsidiaries would have had €4,399 million principal amount of indebtedness. This does not include €557 million available under the Revolving Credit Facility. The terms of the Indenture permit the Issuer and its restricted subsidiaries to incur substantial additional indebtedness, including in respect of borrowings under any Credit Facility (as defined in the Indenture) of up to €3,000 million (as defined in the Indenture). In addition, the Indenture allows us to enter into factoring and similar arrangements, including with respect to our payables.

The degree to which we will continue to be leveraged following the issuance of the Notes could have important consequences to holders of the Notes, including:

- making it difficult for us to satisfy our obligations with respect to the Notes;
- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal of, and interest on, indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditure, acquisitions, joint ventures, product research and development or other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the competitive environment and the industry in which we operate;
- placing us at a competitive disadvantage compared to competitors with lower leverage; and
- limiting our ability to borrow additional funds and increasing the cost of any such borrowing.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations, including the Notes.

Despite our current level of indebtedness, we may still be able to incur substantially more debt in the future, which may make it difficult for us to service our debt, including the Notes, and impair our ability to operate our businesses.

We may incur substantial additional debt in the future. Any debt that our subsidiaries incur could be structurally senior to the Notes, and other debt could be secured or could mature prior to the Notes. Although the Indenture will contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. If new debt is added to our and our subsidiaries' existing debt levels, the related risks that we now face would increase. In addition, the Indenture will not prevent us from incurring obligations or entering other arrangements that do not constitute indebtedness under those agreements, such as receivables securitization financings.

We will be subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities.

The Indenture restricts our ability to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions;
- prepay or redeem subordinated debt or equity;
- make certain investments;

- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to, and on the transfer of, assets to the Issuer or any restricted subsidiary;
- sell, lease or transfer certain assets, including stock of restricted subsidiaries;
- engage in certain transactions with affiliates; and
- consolidate or merge with other entities.

Our Term Loan B1 and our Revolving Credit Facility will in addition require us to comply with a leverage ratio. See "*Description of Certain Indebtedness—Syndicated Loan Facilities Agreement.*" Our ability to meet this test can be affected by events beyond our control, and we cannot assure you that we will meet it. A breach of this test could result in a restriction on the ability to make new drawings under the Revolving Credit Facility. Upon the occurrence of any event of default under our Revolving Credit Facility, subject to applicable cure periods and other limitations on acceleration or enforcement, the relevant creditors could cancel the availability of the facilities and elect to declare all amounts outstanding under the Revolving Credit Facility, together with accrued interest, immediately due and payable. In addition, any default under the Term Loan B1 or the Revolving Credit Facility could lead to an event of default and acceleration under other debt instruments that contain cross default or cross-acceleration provisions, including the Indenture. If our creditors, including the creditors under our Term Loan B1 or Revolving Credit Facility, accelerate the payment of those amounts, we cannot assure you that our assets and the assets of our subsidiaries would be sufficient to repay in full those amounts, to satisfy all other liabilities of our subsidiaries which would be due and payable and to make payments to enable us to repay the Notes, in full or in part.

All of these limitations will be subject to significant exceptions and qualifications. See "*Description of the Notes—Certain Covenants."* The covenants to which we are subject could limit our ability to finance future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interests.

We will require a significant amount of cash to meet our obligations under our indebtedness and to sustain our operations, which we may not be able to generate or raise.

Our ability to make principal or interest payments when due on our indebtedness, including the Term Loan B1, the Revolving Credit Facility and our obligations under the Notes, and to fund our ongoing operations, will depend on our future performance and our ability to generate cash, which, to a certain extent, is subject to general economic, financial, competitive, legislative, legal, regulatory and other factors, as well as other factors discussed in these "*Risk Factors*," many of which are beyond our control.

The Notes will mature on March 15, 2024 and loans under the Revolving Credit Facility may be utilized until 2023. At the respective maturity of the Notes and any other debt which we incur, if we do not have sufficient cash flows from operations and other capital resources to pay our debt obligations, or to fund our other liquidity needs, or we are otherwise restricted from doing so due to corporate, tax or contractual limitations, we may be required to refinance our indebtedness. The type, timing and terms of any future financing will depend on our cash needs and the conditions prevailing in the financial markets. If we are unable to refinance all or a portion of our indebtedness or obtain such refinancing on terms acceptable to us, we may be forced to reduce or delay our business activities or capital expenditure or sell assets or raise additional debt or equity financing in amounts that could be substantial. We cannot assure you that we will be able to accomplish any of these measures in a timely manner or on commercially reasonable terms, if at all. In addition, the terms of our Term Loan B1, Revolving Credit Facility, the Indenture and any future debt may limit our ability to pursue any of these measures.

The Syndicated Loan Facility, as well as other financial indebtedness of El Corte Inglés, will bear interest at floating rates that could rise significantly, increasing our costs and reducing our cash flow.

The loans under our Syndicated Loan Facility as well as other financial indebtedness of El Corte Inglés will bear interest at floating rates of interest per annum equal to EURIBOR (as the case may be), as adjusted periodically, plus a margin. These interest rates could rise significantly in the future. To the extent interest rates were to rise significantly, our interest expense associated with the Syndicated Loan Facility as well as with other financial indebtedness of El Corte Inglés would correspondingly increase, thus reducing our cash flow. As of May 31, 2018, we had in place interest rate swaps for a total amount of €2,199 million, resulting in approximately 84% of our financial liabilities with banks and financial institutions being fixed-rate. Certain of these agreements, while being economic hedges, are not treated as hedges for accounting purposes.

Spanish tax legislation may restrict the deductibility, for Spanish tax purposes, of all or a portion of the interest on our indebtedness, thus reducing the cash flow available to service our indebtedness.

The Spanish Corporate Income Tax Law contains a general limitation on the deductibility of certain net financial expenses incurred by a Spanish Corporate Income Tax taxpayer (or by the Corporate Income Tax consolidated group to which such entity belongs) exceeding 30% of its annual operating profit (defined as EBITDA subject to certain adjustments); €1 million will be deductible in any case. Deductible interest after the application of these limitations is referred to as the "Maximum Threshold."

The apportionment of non-deducted interest in a given fiscal year may be deducted in the following fiscal years, subject to the Maximum Threshold in each subsequent fiscal year. If the amount of net financial expenses in a given fiscal year is below the Maximum Threshold, the difference between the net financial expenses deducted in that year and the Maximum Threshold may increase such Maximum Threshold in the immediate subsequent 5 years.

The impact of these rules on our ability to deduct interest paid on indebtedness could increase our tax burden and therefore negatively impact our business, financial position, results of operation and prospects.

Risks Related to the Notes and the Notes Guarantees

Subsidiaries representing a significant portion of our net turnover, EBITDA and total assets will not guarantee the Notes, and the Notes and each of the Notes Guarantees will be structurally subordinated to present and future liabilities and preference shares (if any) of our non-Guarantor subsidiaries.

Generally, claims of creditors of a non-Guarantor subsidiary, including trade creditors, and claims of preference shareholders (if any) of the subsidiary, will have priority with respect to the assets and earnings of the subsidiary over the claims of creditors of its parent entity, including claims under any intercompany loans and claims by holders of the Notes under the Notes Guarantees. In the event of any foreclosure, dissolution, winding-up, liquidation, reorganization, administration or other bankruptcy or insolvency proceeding of any of our non-Guarantor subsidiaries, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to such subsidiary's parent entity. As such, the Notes and each Notes Guarantee will each be structurally subordinated to the creditors (including trade creditors) and preference shareholders (if any) of our non-Guarantor subsidiaries for the Notes. As of and for the twelve months ended May 31, 2018, the Issuer and the Guarantors represented 87.8%, 83.7% and 87.6% of our consolidated net turnover, EBITDA and total assets, respectively. As of and for the twelve months ended May 31, 2018, subsidiaries that do not guarantee the Notes represented 12.2%, 16.3% and 12.4% of our consolidated net turnover, EBITDA and total assets, respectively. As of May 31, 2018, non-guarantors had €51.3 million of debt outstanding.

The Notes and the Notes Guarantees will be unsecured and effectively subordinated to our and the Guarantor's future secured indebtedness.

The Notes and the Notes Guarantees will be general unsecured obligations ranking effectively junior in right of payment to all of our future secured indebtedness and that of each Guarantor, up to the amount of the value of the relevant security calculated according to article 94.5 of the Spanish Act 22/2003 of July 9, 2003 on Insolvency Proceedings (*Ley 22/2003, de 9 de julio, Concursal*, the "Spanish Insolvency Act"). Although the Indenture governing the Notes contains a negative pledge restriction that applies to the Issuer and its Restricted Subsidiaries, such restriction is subject to a wide range of exceptions, including any future bank debt, credit facilities or Confirming Lines (as defined in "*Description of the Notes—Certain Definitions*"). In the event that we or a Guarantor should be declared bankrupt, become insolvent or be liquidated or reorganized, any indebtedness that is effectively senior to the Notes and the Notes Guarantees will be entitled to be paid in full from our assets or the assets of such Guarantor, as applicable, securing such indebtedness before any payment may be made with respect to the Notes or the affected Notes Guarantees. Holders of the Notes will participate ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as the Notes, and with all of our other ordinary creditors, based upon the respective amounts owed to each ordinary creditor, in our remaining assets. As of the May 31, 2018, none of the Issuer and its subsidiaries indebtedness was secured.

Each Notes Guarantee will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability.

The Guarantors will guarantee the payment of the Notes on a senior basis. Each Notes Guarantee will provide the holders of the Notes with a direct claim against the relevant Guarantor. The Indenture, however, will include language to the effect that each Notes Guarantee will be limited so as to ensure compliance with local law. Spanish law limits the amount of the Notes Guarantees that can be granted by the subsidiaries of El Corte Inglés, S.A.. The Notes Guarantees will also be subject to applicable corporate and other laws. In general, these laws prohibit companies from providing financial assistance to anyone for the purpose of acquiring their shares or the shares of their holding companies and limit the circumstances in which companies can transfer economic benefits to their shareholders outside the payment of properly declared dividends. They also provide for limitations that affect the rights of creditors generally in case an entity becomes insolvent. See "*Limitations on Validity and Enforceability of the Notes Guarantees and Certain Insolvency Law Considerations*" for more details regarding limitations on Notes Guarantees in Spain.

Moreover, certain transaction documents are governed by U.S. law. Judgments rendered by a U.S. court will generally not be directly enforceable in Spain. Instead, in Spain as a pre-condition to enforcing a U.S. judgment, a local court will subject the judgment to a multi-factor test. Several of the factors the court will consider involve a considerable amount of discretion. Even if the court ultimately finds that the judgment is enforceable, the process may take a lengthy amount of time to complete. For all of these reasons, an investment in the Notes involves unique risks that may not apply or apply differently in a more conventional secured bond offering. If any of these risks materializes, your ability to collect payments of principal and interest under the Notes may be materially adversely affected. See "*Enforceability of Judgments*" for more information.

The insolvency laws of Spain may not be as favorable to you as the U.S. bankruptcy laws and may preclude holders of the Notes from recovering payments due on the Notes.

The Issuer and the Guarantors are incorporated under the laws of Spain. In the event that the Issuer, the Guarantors, any future Guarantors, if any, or any other of our subsidiaries experienced financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings. Any enforcement of the Notes Guarantees or security after bankruptcy or an insolvency event will be subject to the insolvency laws of the relevant entity's jurisdiction of organization or other jurisdictions. The insolvency and other laws of Spain and other applicable jurisdictions may be materially different from, or in conflict with, U.S. bankruptcy laws, including in the areas of rights of secured and other creditors, the ability to void preferential transfer, priority of governmental and other creditors, ability to obtain post-petition interest and duration of the proceeding. For instance, certain provisions of Spanish insolvency law could affect the ranking of the Notes and the Notes Guarantees or claims relating to the Notes and the Notes Guarantees on an insolvency proceeding of the Issuer or the Guarantors, as the case may be. In particular, under Spanish law, a creditor's rights will be subordinated to the preferential and ordinary debts of a debtor in an insolvency proceeding if such creditor is determined to be a "specially related party" to the debtor. Under Spanish law, one factor considered in determining if a party is "specially related" is (i) whether such party is a limited liability shareholder holding, directly or indirectly, 10% or more of the capital of the debtor (for companies that are not listed, as in the case of the Issuer) or 5% (for companies that are listed or has securities listed in a secondary official market) at the time the credit right is generated or (ii) in the event of companies pertaining to the same group as the insolvent debtor and their common shareholders; *provided that* such shareholders meet, directly or indirectly, the minimum shareholding requirements set out before. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction's laws should apply, adversely affect your ability to enforce your rights under the Notes or the Notes Guarantees in these jurisdictions and limit any amounts that you may receive. See "*Limitations on Validity and Enforceability of the Notes Guarantees and Certain Insolvency Law Considerations—Spain*."

Insolvency laws and other limitations on the Notes Guarantees may adversely affect their validity and enforceability.

Our obligations under the Notes will be guaranteed by the Guarantors. The Guarantors are organized or incorporated under the laws of Spain. In general, applicable fraudulent transfer and conveyance laws, equitable principles and insolvency laws and limitations on the enforceability of judgments obtained in New York courts in Spain could limit the enforceability of the Notes Guarantee against a Guarantor. The following discussion of fraudulent transfer, conveyance and insolvency law, although an overview, describes generally applicable terms and principles, which are defined under Spain's fraudulent transfer and insolvency statutes. See "*Limitations on Validity and Enforceability of the Notes Guarantees and Certain Insolvency Law Considerations*" and "*Enforceability of Judgments*" for more information.

In insolvency proceedings, it is possible that creditors of the Guarantors or the appointed insolvency administrator may challenge the Notes Guarantees, and intercompany obligations generally, as fraudulent transfers or conveyances or on other grounds. If so, such laws may permit a court, if it makes certain findings, to:

- avoid or invalidate all or a portion of a Guarantor's obligations under its guarantee provided by such Guarantor;
- direct that the Issuer and/or the holders of the Notes return any amounts paid under a guarantee to the relevant Guarantor or to a fund for the benefit of the Guarantor's creditors; and
- take other action that is detrimental to holders of the Notes.

If we cannot satisfy our obligations under the Notes and any Notes Guarantee is found to be a fraudulent transfer or conveyance or is otherwise set aside, we cannot assure the holders of the Notes that we can ever repay in full any amounts outstanding under the Notes. In addition, the liability of each Guarantor under its guarantee of the Notes will be limited to the amount that will result in such guarantee not constituting a fraudulent conveyance or improper corporate distribution or otherwise being set aside. The amount recoverable from a Guarantor will also be limited. However, there can be no assurance as to what methodology a court would apply in making a determination of the maximum liability of each Guarantor and whether a court would give effect to such attempted limitation. Also, there is a possibility that the entire guarantee may be set aside, in which case, the Guarantor's entire liability may be extinguished.

Different jurisdictions evaluate insolvency on various criteria, but a Guarantor generally may in different jurisdictions be considered insolvent at the time it issued a guarantee if:

- its liabilities exceed the fair market value of its assets;
- it cannot pay its debts as and when they become due (and it is unable to get further credit); or
- the present saleable value of its assets is less than the amount required to pay its total existing debts and liabilities, including contingent and prospective liabilities, as they mature or become absolute.

We cannot assure you which standard a court would apply in determining whether a Guarantor was "insolvent" as of the date the Notes Guarantees were issued, regardless of the method of valuation, a court would not determine that we or a Guarantor were insolvent on that date, or that a court would not determine, regardless of whether or not a Guarantor was insolvent on the date the respective guarantee was issued, that payments to holders of the Notes constituted fraudulent transfers on other grounds.

You may not be able to recover in civil proceedings for U.S. securities law violations.

The Issuer and all of the Guarantors and their respective subsidiaries are organized outside the United States. All of the directors and executive officers of the Issuer and the Guarantors are non-residents of the United States, and substantially all of their assets are located outside of the United States. Although we and the Guarantors will submit to the jurisdiction of certain New York courts in connection with any action under U.S. securities laws, you may be unable to effect service of process within the United States on our directors and executive officers located outside of the United States. In addition, as the assets of the Issuer and certain of the Guarantors and their respective subsidiaries and those of their directors and executive officers are located outside of the United States, you may be unable to enforce judgments obtained in the U.S. courts against them. Moreover, in light of recent decisions of the U.S. Supreme Court, actions of the Issuer and the Guarantors may not be subject to the civil liability provisions of the federal securities laws of the United States. See "*Enforceability of Judgments*" for more information.

The transfer of the Notes is restricted, which may adversely affect their liquidity and the price at which they may be sold.

The Notes and the Notes Guarantees have not been, and will not be, registered under the Securities Act or the securities laws of any other jurisdiction and, unless so registered, may not be offered or sold except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and any other applicable laws. See "*Transfer Restrictions*." It is the obligation of holders of the Notes to ensure that their offers and sales of the Notes within the United States and other countries comply with applicable securities laws.

We are not providing all of the information that would be required if this offering were being registered with the SEC.

This offering memorandum does not include all of the information that would be required if we were registering the offering of the Notes with the SEC. In particular, this offering memorandum does not contain separate financial information about our Guarantor and non-Guarantor subsidiaries or certain historical executive compensation information. We urge you to consider this factor in connection with your evaluation of your investment in the Notes.

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

Unless and until definitive Notes (each a "**Definitive Registered Note**") are issued in exchange for book-entry interests in the Notes (which will only occur in very limited circumstances), owners of the book-entry interests will not be considered owners or holders of Notes. The common depositary (or its nominee) for the accounts of Euroclear and Clearstream will be the registered holder of the Notes. After payment to Euroclear and Clearstream, we, the Trustee, the Paying Agent, the Transfer Agent, and the Registrar will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of Euroclear or Clearstream, as applicable, and if you are not a participant in Euroclear or Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder under the Indenture. See "*Book-Entry, Delivery and Form*."

Unlike holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon our solicitations for consents or other actions from holders of the Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear or Clearstream or, if applicable, from a participant. We cannot assure you that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any requested actions on a timely basis.

Similarly, upon the occurrence of an Event of Default under the Indenture, unless and until Definitive Registered Notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear or Clearstream. We cannot assure you that the procedures to be implemented through Euroclear or Clearstream will be adequate to ensure the timely exercise of rights under the Notes.

There may not be an active trading market for the Notes, in which case your ability to sell the Notes may be limited.

We cannot assure you as to:

- the liquidity of any market in the Notes;

- your ability to sell your Notes; or

- the prices at which you would be able to sell your Notes.

Future trading prices for the Notes will depend on many factors, including, among other things, prevailing interest rates, our operating results and the market for similar securities. Historically, the market for non-investment grade securities has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. The liquidity of a trading market for the Notes may be adversely affected by a general decline in the market for similar securities and is subject to disruptions that may cause volatility in prices. The trading market for the Notes may attract different investors and this may affect the extent to which the Notes may trade. It is possible that the market for the Notes will be subject to disruptions. Any such disruption may have a negative effect on you, as a holder of the Notes, regardless of our prospects and financial performance. As a result, there is no assurance that there will be an active trading market for the Notes. If no active trading market develops, you may not be able to resell your holding of the Notes at a fair value, if at all.

Although the Issuer will use its commercially reasonable efforts to have the Notes listed on the Official List of the Exchange and admitted to trading on the Exchange's Global Exchange Market after the Issue Date, respectively, and to maintain such listing as long as the Notes are outstanding, we cannot assure you that the Notes will become, or remain so listed. If we cannot maintain the listing on the Official List of the Exchange and the admission to trading on the Global Exchange Market or it becomes unduly burdensome to make or maintain such listing, we may cease to make or maintain such listing on the Official List of the Exchange; *provided that* we will use commercially reasonable efforts to obtain (prior to the delisting of the Notes) and maintain the listing of the Notes on another stock exchange, although there can be no assurance that we will be able to do so. Although no assurance can be made as to the liquidity of the Notes as a result of listing on the Official List of the Exchange or another recognized listing exchange for comparable issuers, failure to be approved for listing or the delisting of the relevant notes from the Official List of the Exchange or another listing exchange may have a material adverse effect on a holder's ability to resell Notes in the secondary market.

Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time.

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed herein and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgment, circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the Notes by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of our financing and could adversely affect the value and trading of such Notes.

We may not have the ability to raise the funds necessary to finance an offer to repurchase the Notes upon the occurrence of a change of control as required by the Indenture, and the change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events.

Upon the occurrence of certain events constituting a "change of control," the Issuer will be required to offer to repurchase all outstanding Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase plus accrued and unpaid interest to the date of purchase. If a change of control were to occur, we cannot assure you that we would have sufficient funds available at such time, or that we would have sufficient funds to provide to the Issuer to pay the purchase price of the outstanding Notes or that the restrictions in our Syndicated Loan Facility Agreement or our other existing contractual obligations would allow us to make such required repurchases. A change of control may result in an event of default under, or acceleration of, our Syndicated Loan Facility Agreement and other indebtedness. The repurchase of the Notes pursuant to such an offer could cause a default under such indebtedness, even if the change of control itself does not. The ability of the Issuer to receive cash from its respective subsidiaries to allow it to pay cash to the holders of the Notes, respectively, following the occurrence of a change of control may be limited by our then existing financial resources. Sufficient funds may not be available when necessary to make any required repurchases. If an event constituting a change of control occurs at a time when we are prohibited from providing funds to the Issuer for the purpose of repurchasing the Notes, we may seek the consent of the lenders under such indebtedness to the purchase of the Notes or may attempt to refinance the borrowings that contain such prohibition. If such a consent to repay such borrowings is not obtained, the Issuer will remain prohibited from repurchasing any Notes. In addition, we expect that we would require third-party financing to make an offer to repurchase the Notes upon the occurrence of a change of control. We cannot assure you that we would be able to obtain such financing.

Any failure by the Issuer to offer to purchase the Notes would constitute a default under the Indenture, which would, in turn, constitute a default under the Syndicated Loan Facility Agreement and certain other indebtedness. See "*Description of the Notes—Change of Control*."

The change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events, including a reorganization, restructuring, merger or other similar transaction involving us that may adversely affect you, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a "change of control" as defined in the Indenture. Except as described under "*Description of the Notes—Change of Control*," the Indenture will not contain provisions that would require the Issuer to offer to repurchase or redeem the Notes in the event of a reorganization, restructuring, merger, recapitalization or similar transaction.

The definition of "Change of Control" in the Indenture will include a disposition of all or substantially all of the assets of the Issuer and its restricted subsidiaries, taken as a whole, to any person. Although there is a limited body of case law interpreting the phrase "all or substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances, there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the Issuer's assets and its restricted subsidiaries taken as a whole. As a result, it may be unclear as to whether a change of control has occurred and whether the Issuer is required to make an offer to repurchase the Notes.

Investors may face foreign exchange risks by investing in the Notes.

The Notes will be denominated and payable in euros. If investors measure their investment returns by reference to a currency other than euros, an investment in the Notes will entail foreign exchange-related risks due to, among other factors, possible significant changes in the value of the euro relative to the currency by reference to which investors measure the return on their investments because of economic, political and other factors over which we have no control. Depreciation of the euro against the currency by reference to which investors measure the return on their investments could cause a decrease in the effective yield of the Notes below their stated coupon rates and could result in a loss to investors when the return on the Notes is translated into the currency by reference to which the investors measure the return on their investments. Investments in the Notes, which are denominated in a currency other than U.S. dollars, by U.S. Holders (as defined in "*Tax Considerations—Certain United States Federal Income Tax Considerations*") may have tax consequences as a result of foreign exchange gains or losses, if any. See "*Tax Considerations—Certain United States Federal Income Tax Considerations*."

The trading prices of the Notes will be directly affected by our ratings with major credit rating agencies, the prevailing interest rates being paid by companies similar to us and the overall condition of the financial and credit markets.

The trading prices of the Notes in the secondary market will be directly affected by our ratings with major credit rating agencies, the prevailing interest rates being paid by companies similar to us and the overall condition of the financial and credit markets. It is impossible to predict the prevailing interest rates or the condition of the financial and credit markets. Credit rating agencies continually revise their ratings for companies that they follow, including us. Any ratings downgrade could adversely affect the trading price of the Notes or the trading market for the Notes, to the extent a trading market for the Notes develops. The condition of the financial and credit markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future.

Certain covenants will fall away if the Notes receive investment grade ratings.

The Indenture will provide that, if at any time following the date of the Indenture, the Notes receive an investment grade rating from both Standard & Poor's and Moody's (BBB− or higher from Standard & Poor's and Baa3 or higher from Moody's or if no rating of Moody's or S&P then exists, the equivalent of such by any other Nationally Recognized Statistical Ratings Organization), certain covenants will cease to be applicable to the Notes. See "*Description of the Notes—Certain Covenants—Fall-Away of Covenants on Achievement of Investment Grade Status*."

There are risks related to Spanish withholding tax, including in conjunction with the collection of certain documentation from the Paying Agent.

The Issuer considers that, pursuant to the provisions of the 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 or not. The foregoing is subject to the fulfillment of certain information procedures described in "*Tax Considerations—Spanish Tax Considerations—Disclosure of Information in Connection with the Notes*" below.

In this regard, according to Royal Decree 1065/2007, any interest paid by the Issuer under securities that (i) can be regarded as listed debt securities issued under Law 10/2014, of 26 June, on organization, supervision and solvency of credit institutions ("**Law 10/2014**") and (ii) are initially registered at a foreign clearing and settlement entity that is recognized 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 fulfills the information procedures described in "*Tax Considerations—Spanish Tax Considerations—Disclosure of Information in Connection with the Notes*" 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 subject to the Paying Agent providing us, in a timely manner, with a duly executed and completed statement providing certain details relating to the Notes (the "**Payment Statement**"). Accordingly, if we do not receive the Payment Statement from the Paying Agent in a timely manner, income in respect of the Notes will be subject to a current 19% withholding tax. If this were to occur, affected holders of the Notes will receive a refund of the amount withheld, with no need for action on their part, if the Paying Agent submits a duly executed and completed Payment Statement to the Issuer no later than the 10th calendar day of the month immediately following the relevant payment date. In addition, following the 10th calendar day of the month immediately following the relevant Interest Payment Date, holders of the Notes may apply directly to the Spanish tax authorities for any refund to which they may be entitled. See "*Tax Considerations—Spanish Tax Considerations*" for a more detailed explanation. The Issuer will not gross up payments in respect of any such withholding tax. See "*Description of the Notes—Withholding Taxes*."

It is expected that the Paying Agent will follow certain procedures to facilitate the timely provision by the Paying Agent to the Issuer of a duly executed and completed Payment Statement in connection with each payment of income under the Notes. If such procedures are not followed, however, the Issuer will make the relevant Spanish withholding tax at the applicable rate (currently 19%) from any income payment in respect of the Notes. Such procedures may be revised from time to time in accordance with changes in the applicable Spanish laws and regulations or administrative interpretations thereof. Accordingly, while the Notes are represented by a Global Note, holders of the Notes must rely on such procedures in order to receive payments under the Notes free of any Spanish withholding tax, to the extent applicable. Prospective investors should note that none of the Issuer, the Paying Agent, the Trustee or the Initial Purchasers will be liable for any damage or loss suffered by any holder of the Notes who would otherwise be entitled to an exemption from Spanish withholding tax because these procedures prove ineffective. Moreover, the Issuer will not pay any additional amounts with respect to any such Spanish withholding tax. Therefore, to the extent a payment of income in respect of the Notes is not exempt from Spanish withholding tax, including due to any failure by the Paying Agent to deliver a duly executed and completed Payment Statement, holders of the Notes may have to apply directly to the Spanish tax authorities for any refund to which they may be entitled.

Notwithstanding the above, in the case of Notes held by Spanish tax resident individuals (and, under certain circumstances, by Spanish entities subject to Corporate Income Tax 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 (19%).

Noteholders must seek their own advice to ensure that they comply with all procedures to ensure the correct tax treatment of their Notes. None of Issuer, any Guarantor, the Paying Agent, the Transfer Agent, the Registrar, or any Initial Purchaser assumes any responsibility thereof.

The proposed financial transactions tax (the "FTT").

The European Commission published in February 2013 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 (excluding Estonia, the "participating Member States"). Estonia has since stated that it will not participate.

The Commission's Proposal has a very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's Proposal the 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.

In the ECOFIN meeting of June 17, 2016, the FTT was discussed between the EU Member States. It has been reiterated in this meeting that participating Member States envisage introducing an FTT by the so-called enhanced cooperation.

On October 28, 2016, the Council of the European Union published document No. 13608/16 concerning the status of the FTT at that time, according to which a certain degree of progress in the FTT negotiations have been observed. However, further work at the Council and its preparatory bodies will be required before a final agreement can be reached among the participating Member States that respects the competences, rights and obligations of the Member States not participating in the FTT. The ECOFIN Council indicated on December 6, 2016 and on June 12, 2017, that the ten Participating Member States agreed to pursue the on-going work and discussions on the main features of the FTT. The June 2018 report reiterate that further work is still required before a final agreement can be reached.

However, the FTT proposal remains subject to negotiation between participating Member States and the scope of any such tax is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and participating Members States may withdraw.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

USE OF PROCEEDS

The gross proceeds from the Offering will be €600 million. The gross proceeds from the Offering will be used for general corporate purposes, including to partially repay our Existing Employees' Promissory Notes as and when maturities come due.

The following table illustrates the estimated sources and uses of funds from the Offering. Actual amounts are subject to adjustment and may significantly vary from expected amounts depending on several factors. Transaction costs associated with the Offering, including initial purchaser discounts and other transaction costs and professional expenses, are estimated to be €7 million and will be paid using available cash. €10 million of borrowings under Term Loan A1 will be repaid from cash and the Term Loan A1 Facility will be terminated and canceled immediately prior to the issuance of the Notes.

Sources of Funds	**(€ in millions)**	**Uses of Funds**	**(€ in millions)**
Notes offered hereby[1]	€600	General corporate purposes[2]	€600
Total sources	**€600**	**Total uses**	**€600**

(1) Assumes issuance at par.

(2) From time to time, as amounts outstanding under the Existing Employees' Promissory Notes become payable, we intend to use the proceeds to reduce our obligations under the Existing Employees' Promissory Notes. We may refinance up to €325 million of the Existing Employees' Promissory Notes with new Promissory Notes with a two-year maturity. As of August 31, 2018, €105 million two-year maturity new Promissory Notes had been issued.

CAPITALIZATION

The following table sets forth our consolidated available cash and cash equivalents and capitalization as of May 31, 2018 on an actual basis and on an adjusted basis as of August 31, 2018 after giving *pro forma* effect to the issuance of the Notes, the use of proceeds therefrom and interim trading.

The historical information has been derived from our unaudited consolidated financial statements as of and for the three months ended May 31, 2018, included elsewhere in this offering memorandum. The as adjusted information below is presented for illustrative purposes only and does not purport to be indicative of our cash and cash equivalents or our capitalization following the completion of the Offering. You should read this table in conjunction with "*Use of Proceeds*," "*Selected Historical Consolidated Financial Information*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," "*Description of Certain Indebtedness*," "*Description of the Notes*" and our financial statements included elsewhere in this offering memorandum. Except as set forth below, there have been no other material changes to our capitalization since May 31, 2018.

	Issuer May 31, 2018 Actual	Issuer August 31, 2018 Actual	Issuer August 31, 2018 As Adjusted(1)
		(€ in millions)	
Cash and cash equivalents(2)	**€148**	**€183**	**€773**
Indebtedness:	4,547	3,835	4,425
Revolving Credit Facility	593	247	247
Notes offered hereby	—	—	600
Existing Employees' Promissory Notes(3)(4)	933	675	675
New Promissory Notes(4)	70	105	105
Term Loan A1(1)	—	10	—
Term Loan B1	1,450	1,450	1,450
3.875% Hipercor Unsecured Notes	600	600	600
Existing MARF Commercial Paper Program	493	411	411
Bank Loan (Severance Payments)	106	93	93
Existing EIB Loan(5)	116	116	116
Leasing(6)	101	78	78
Other debt(7)	86	50	50
Total net indebtedness(8)	**€4,399**	**€3,652**	**€3,652**
Total equity(9)	**€8,328**		
Total capitalization	**€12,727**		

(1) The "as adjusted" amount reflects changes to our capital structure as a result of the Offering. We intend to use the proceeds of the offering to reduce our obligations under the Existing Employees' Promissory Notes as they come due. €10 million of borrowings under Term Loan A1 will be repaid from cash and the Term Loan A1 Facility will be terminated and canceled immediately prior to the issuance of the Notes.

(2) For the purposes of calculating Total net indebtedness, this amount includes Cash and cash equivalents, as well as other short-term cash investments.

(3) We intend to use the proceeds of the Offering to reduce our obligations under the Existing Employees' Promissory Notes as and when they come due.

(4) We may refinance up to €325 million of the Existing Employees' Promissory Notes with new Promissory Notes with a two-year maturity. As of August 31, 2018, €105 million two-year maturity new Promissory Notes had been issued.

(5) The Existing EIB Loan has annual mandatory amortization payments starting in 2021 with final maturity in 2027.

(6) This amount reflects finance leases obligations.

(7) This amount includes, among other, financial debt related to the Information Technology segment and commercial financing (discounts).

(8) Represents the principal amount of indebtedness, without giving effect to unamortized issuance costs.

(9) Equity is not adjusted for the capitalization of transaction costs incurred in connection with the Offering.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

We present below selected audited consolidated financial data for El Corte Inglés, S.A. and its subsidiaries as of and for the years ended February 29, 2016, February 28, 2017 and February 28, 2018, which has been derived from the Audited Consolidated Financial Statements prepared in accordance with IFRS and are included elsewhere in this offering memorandum. We also present below selected unaudited consolidated financial data for El Corte Inglés, S.A. and its subsidiaries as of and for the three months ended May 31, 2017 and 2018, which has been derived from the Interim Financial Statements prepared in accordance with IAS 34 and are included elsewhere in this offering memorandum.

Except as otherwise indicated in this offering memorandum, we present and discuss the restated financial information for the year ended on February 28, 2017 rather than the corresponding financial information from the February 28, 2017 Audited Consolidated Financial Statements. The cash flow statement was not affected by the restatement. For additional information on the accounting change and restatement, see Note 2.6 of the Audited Consolidated Financial Statements for the year ended February 28, 2018.

We believe that presenting the results in this manner provides useful data for comparison given the complexity involved with comparing periods that do not include all members of the Group for the entirety of the periods indicated. Prospective investors should read the selected data presented below in conjunction with "*Presentation of Financial and Other Information*," "*Use of Proceeds*," "*Capitalization*," and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," our Audited Consolidated Financial Statements and the related notes, and Interim Financial Statements and the related notes included elsewhere in this offering memorandum.

Statement of Profit or Loss

	Year ended February 29, 2016 (audited)	Year ended February 28, 2017 (restated)	Year ended February 28, 2018 (audited)	Three months ended May 31, 2017 (unaudited)	Three months ended May 31, 2018 (unaudited)	Twelve months ended May 31, 2018 (unaudited)
			(€ in millions)			
Net Turnover	**€15,220**	**€15,505**	**€15,935**	**€3,413**	**€3,417**	**€15,939**
Supplies	(10,760)	(11,000)	(11,249)	(2,385)	(2,389)	(11,253)
Personnel Expenses	(2,608)	(2,522)	(2,588)	(629)	(639)	(2,598)
Other operating income and expenditure[(a)]	(939)	(1,002)	(1,044)	(277)	(266)	(1,033)
EBITDA[(b)]	**913**	**981**	**1,054**	**122**	**123**	**1,055**
Depreciation of fixed assets	(521)	(520)	(510)	(138)	(138)	(510)
Excessive provisions, impairment and gains or losses on disposal of non-current assets and other results	(5)	7	(96)	(15)	(10)	(91)
Obligations for provisions to personnel	(86)	(211)	(36)	(10)	(7)	(33)
Operating Result	**299**	**257**	**412**	**(41)**	**(32)**	**421**
Net financial income and expenses[(c)]	(241)	(192)	(189)	(49)	(41)	(181)
Variation in fair value of financial instruments	(10)	34	11	7	(7)	(3)
Impairment and gains or losses on disposals of financial instruments	(2)	23	(4)	—	—	(4)
Result of companies accounted for using the equity method	31	39	46	9	9	46
Pre-tax Result	**77**	**161**	**276**	**(74)**	**(71)**	**279**
Income tax	81	(38)	(74)	23	21	(76)
Result of the Financial Year	**€158**	**€123**	**€202**	**€(51)**	**€(50)**	**€203**

(a) Represents sum of other operating expenses, other operating income, in-house work on non-current assets and change in inventories of finished goods in our Audited Consolidated Financial Statements.

(b) We refer to profit from operations before depreciation and amortization as EBITDA. Different companies and analysts may calculate EBITDA-based measures differently and therefore making comparisons among companies on this basis should be done carefully. EBITDA-based measures are not measures of performance under IFRS and should not be considered in isolation or construed as substitutes for profit from operations before depreciation and amortization as an indicator of our operations in accordance with IFRS. See "*Presentation of Financial and Other Information*."

(c) Represents sum of financial income, translation differences, less financial expenses in our Audited Consolidated Financial Statements. The financial expenses mainly include interest on financial liabilities as well as interest payable to Financiera El Corte Inglés in relation to deferred payment plan sales.

Select Balance Sheet Data

	As of February 29, 2016 (audited)	As of February 28, 2017 (restated)	As of February 28, 2018 (audited)	As of May 31, 2018 (unaudited)
		(€ in millions)		
Cash and cash equivalents	€171	€154	€213	€136
Working capital	(585)	(465)	(502)	(105)
Property, plant and equipment and investment property	12,777	12,432	12,262	12,244
Total assets	18,631	18,348	18,324	18,332
Total equity	8,727	8,520	8,498	8,328
Total liabilities	9,904	9,828	9,826	10,004

The following table presents the elements of our working capital:

	As of February 29, 2016	As of February 28, 2017	As of February 28, 2018	As of May 31, 2018
		(€ in millions)		
Inventories	€1,898	€1,861	€2,086	€2,234
Receivables[(a)]	783	984	938	900
Payables[(b)]	(3,266)	(3,310)	(3,526)	(3,239)
Working capital	**€(585)**	**€(465)**	**€(502)**	**€(105)**

(a) Represents sum of trade and other receivables, trade receivables from associates and related parties and current tax assets in our Audited Consolidated Financial Statements.

(b) Represents trade and other payables and current tax liabilities in our Audited Consolidated Financial Statements.

Historical Cash Flow Data

	Year ended February 29, 2016 (audited)	Year ended February 28, 2017 (audited)	Year ended February 28, 2018 (audited)	Three months ended May 31, 2017 (unaudited)	Three months ended May 31, 2018 (unaudited)
			(€ in millions)		
Net cash flows from operating activities	€498	€234	€706	€(215)	€(436)
Net cash flows used in investing activities	(286)	(57)	(370)	(84)	(113)
Net cash flows from (used in) financing activities	(183)	(195)	(271)	261	474
Net variations of exchange rate	17	1	(6)	0	(1)
Net increase (decrease) in cash and cash equivalents	**€46**	**€(17)**	**€59**	**€(38)**	**€(76)**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following review relates to our financial condition and results of operations as of and for the periods discussed below. This "Management's Discussion and Analysis of Financial Condition and Results of Operations" is based on the historical and combined financial statements included in this offering memorandum and should be read in conjunction with "Presentation of Financial and Other Information," "Summary Consolidated Financial Information and Other Data," "Selected Historical Consolidated Financial Information," and the historical financial statements included in this offering memorandum. Prospective investors should read the entire offering memorandum and not just rely on the information set out below. The following discussion of our results of operations and financial condition contains forward-looking statements. Our actual results could differ materially from those that we discuss in these forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this offering memorandum, particularly under "Risk Factors" and "Forward-Looking Statements."

Overview

With over 80 years of experience in the Spanish retail sector, we are a leading retail group operating primarily in Spain and Portugal. Based on management's estimates, we contributed approximately 2.4% of Spain's total GDP for the year ended February 29, 2016 and our Retail division accounted for approximately 7.3% of total Spanish retail sales during the same time period. In addition, with over 92,000 employees as of February 2018, we are the largest private employer in Spain. In the year ended February 28, 2018, we had more than 700 million store visits to our department stores and our webpages registered approximately 392 million visits. For the twelve months ended May 31, 2018, we generated € 15,939 million of net turnover and €1,156 million of Adjusted EBITDA.

We run our business through two main divisions—Retail and Non-Retail. Our financial reporting segments include Retail and (constituting the Non-Retail divisions) Information Technology, Travel Agency, Insurance and Other businesses.

- The business areas that comprise our Retail business division are Fashion, Food, Household, Culture & Leisure and Other Retail, all of which are offered under one roof in most of our department stores and are testament to our unique retail concept. We are the leading department store chain in Spain, with an approximate 99% market share by sales in 2017, according to Euromonitor. We operate 94 department stores, 92 of which are located in Spain and two of which are located in Portugal, 176 convenience stores (of which 174 are located in Spain and two in Portugal) and 41 hypermarket stores. Our department stores offer third-party brand products and own brand products. We also operate independent stores such as Sfera (apparel), Bricor (DIY/home improvement) or Óptica2000 (hearing and vision products). For the twelve months ended May 31, 2018, our Retail business division generated net turnover and EBITDA of €13,201 million and €886 million, representing 78.2% and 83.9% of our total aggregate net turnover and consolidated EBITDA, respectively.

- We also operate a Non-Retail division. Our Non-Retail division targets both consumers and businesses. It leverages the retail footprint and scale of the Group. For the twelve months ended May 31, 2018, our Non-Retail division generated net turnover and EBITDA of €3,682 million and €163 million, representing 21.8% and 15.5% of our total aggregate net turnover and consolidated EBITDA, respectively.

We also offer consumer financing services, which are operated by Financiera El Corte Inglés, a joint venture with Santander Consumer Finance, in which we hold a 49% stake. Financiera El Corte Inglés is consolidated using the equity method.

We seek to offer our customers a comprehensive omni-channel shopping experience through both our physical and online stores, both of which have strong market positions in the respective retail space. For example, according to Euromonitor, we are one of the leading e-commerce retailers in Spain, currently ranking second only behind Amazon. Our existing infrastructure of physical retail network and strong logistics platform allow us to have nation-wide delivery capabilities. With more than 90 distribution centers (three of which are dedicated distribution centers and 94 of which are department stores with distribution center functions) and more than 640 stores, substantially all of which are located in Spain, we have started to offer delivery of more than 500,000 stock keeping units in a number of cities in less than two hours immediately following order, or in a time frame specified by the client. We offer a wide range of own and third-party brands, many of which are operated on a concession model. Concession agreements typically have low inventory risks. Our network and capillarity will allow us to extend this offering to the rest of Spanish cities where we are present, covering all autonomous regions in Spain. This offering supports purchases across all different channels, including in store, via catalogue, online, via mobile device or via *Click&Collect*.

We are a household brand in Spain and are a preferred destination for Spanish consumers and tourists to fulfill numerous shopping needs as a result of our best-in-class brand awareness and leading position in the distribution of top-of-mind retail brands in most of the categories in which we operate, according to internal market studies conducted during the last three years. We intend to remain a top retail destination for Spanish consumers and tourists by earning and retaining our customers' trust and constantly adapting our products and services to provide customers with a highly relevant and convenient offering while optimizing their retail experience. Across our two divisions (Retail and Non-Retail), we offer a relevant, comprehensive and high-quality product range with an extensive and diversified spectrum of third-party and own brands and services to address our customers' needs. Our product offering seeks to offer consumers a one-stop shop destination, providing all categories of products and, within each product category, a broad offering across the price spectrum. We believe that our extensive range of third-party and own brands and services combined with the customer satisfaction guarantee of the products and services that we offer has established a trust-based relationship between us and our customers. In addition, there were more than 11 million holders of the ECI card as of December 2017 (compared to a Spanish population of 46.6 million according to the World Bank as of 2017 and a household number of 18.5 million according to the Instituto Nacional de Estadística as of April 2018), which not only evidences the strength of our relationship with customers and the level of trust placed in us, but also provides us with insights into customer trends and preferences, allowing for a tailored customer service offering.

We believe that our real estate portfolio, developed since the company's inception in 1935, is valuable due to the prime location of its various properties and the portfolio's asset quality and scale, resulting in a level of penetration across all Spanish regions, major cities and population hubs that is very hard to replicate. ECI's real estate property, which is almost all wholly owned, represents one of the largest in Europe with over 10.0 million square meters of total built area, including department stores, hypermarkets, retail warehouses, offices and mixed industrial buildings. As of February 28, 2018, the properties that we own were valued, in aggregate, at €17,147 million by Tinsa, an independent third-party evaluator.

The following chart sets out our net turnover for the twelve months ended May 31, 2018 across our Retail and Non-Retail divisions.

	(€ in millions)	**(Percent of net turnover)**
Retail		
Fashion	€4,919	30.9%
Food	2,782	17.5%
Household	1,501	9.4%
Culture & Leisure	2,205	13.8%
Other Retail	703	4.4%
Interco sales and other	1,091	6.8%
Total Retail	**€13,201**	**82.8%**
Non-Retail		
Travel Agency	2,634	16.5%
Information Technology	722	4.5%
Insurance	195	1.2%
Other businesses	131	0.8%
Total Non-Retail	**€3,682**	**23.1%**
Consolidation adjustments	(944)	(5.9)%
Net turnover	**€15,939**	**100%**

Retail:

- *Fashion:* We offer a wide range of third-party and own brands' products through our network of department stores. Our collection of third-party brands offers a curated shopping experience for our customers and a compelling sales platform for apparel brands. At the same time, our comprehensive store and online network provide third-party brand owners with a "plug-and-play" capability to enter and access the Spanish market and to develop their brand value and proposition in Spain. Our own brands make our portfolio unique and provide a key factor of differentiation, especially in comparison to online retailers. We also offer a range of fashion and accessory products commercialized through our 157 stores of Sfera, ECI's own brand, as of February 28, 2018. For the twelve months ended May 31, 2018, our Fashion area generated €4,919 million of net turnover, representing 30.9% of our net turnover.

- *Food:* Our Food area is comprised of hypermarkets (41 stores under the Hipercor banner), supermarkets (56, all located within El Corte Inglés' department stores) and proximity and convenience stores (176 stores under the Supercor banner). Our Food business provides customers with a wide variety of high-quality fresh food products, groceries, household products and other items, ranging from staple items to more premium, gourmet options and includes third-party and our own brands. For the twelve months ended May 31, 2018, our Food area generated €2,782 million of net turnover, representing 17.5% of our net turnover. In 2017, we entered into a strategic agreement with Repsol, a major player in the Spanish oil and gas market, by which we agreed to act as a purchasing platform for Repsol, which will add over 3,200 points of sale to our food offering.

- *Culture & Leisure:* Our Culture & Leisure area offers a wide range of products including consumer electronics, stationery, books, music, movies, toys and sports-related products sold in our department stores and our omni-channel platforms. For the twelve months ended May 31, 2018, our Culture & Leisure area generated €2,205 million of net turnover, representing 13.8% of our net turnover.

- *Household:* Our household products are sold in our department stores and across all other platforms. Our Household area also includes 64 DIY/home improvement stores under the Bricor banner. For the twelve months ended May 31, 2018, our Household business area generated €1,501 million of net turnover, representing 9.4% of our net turnover.

- *Other Retail:* Our Other Retail area includes a range of vision and hearing products sold through our department stores, our omni-channel platforms, 108 Óptica2000 stores and a B2B subdivision that sells goods and executes refurbishment projects for corporations and public entities. For the twelve months ended May 31, 2018, our Other Retail area generated €703 million of net turnover, representing 4.4% of our net turnover.

Non-Retail:

- *Travel Agency:* Our Travel Agency segment, operated under the Viajes El Corte Inglés banner, provides travel packages and travel planning services to individual and corporate clients. Viajes El Corte Inglés operates the leading high street travel network in Spain with 497 stores and additionally operates 130 stores outside of Spain. For the twelve months ended May 31, 2018, our Travel Agency segment generated €2,634 million of net turnover, representing 16.5% of our net turnover.

- *Information Technology:* Our Information Technology segment, operating under the Informática El Corte Inglés brand, provides solutions and consulting services in the information and communication technology fields and also sells electronic and telecommunications products and services to both the public and the private sectors. For the twelve months ended May 31, 2018, our Information Technology segment generated €722 million of net turnover, representing 4.5% of our net turnover.

- *Insurance:* Our Insurance segment provides brokerage services (via Centro de Seguros y Servicios) and offers insurance products (via Seguros El Corte Inglés) through a network of 144 points of sale. The brokerage business sells medical, motor, life, home and accident insurance products at El Corte Inglés' points of sale from almost all leading insurance companies with presence in Spain. The Insurance business provides personal life and accidents insurance, savings insurance and pension plans, commercialized both at El Corte Inglés' points of sale and through other independent brokerages, through a network of more than 500 exclusive agents across Spain). For the twelve months ended May 31, 2018, our Insurance segment generated €195 million of net turnover, representing 1.3% of our net turnover.

- *Other businesses:* We also engage in other commercial activities, which mainly generate net turnover from the rental of offices and commercial premises to third parties in Spain, from purchasing centers and from other minor subsidiaries not included in any of the categories mentioned above. For the twelve months ended May 31, 2018, our Other businesses segment generated €131 million of net turnover, representing 0.8% of our net turnover.

Financing Services:

We began offering consumer finance services in 1965 with the launch of the ECI Card and our Financing Services affiliate, Financiera El Corte Inglés, began operations in 1995. In 2013 we entered into a joint-venture agreement with Santander Consumer Finance, pursuant to which we now hold a 49% equity interest and Santander Consumer Finance owns the remaining 51%. It offers financing solutions for the acquisition of goods, travel packages and services sold at El Corte Inglés' points of sale and Repsol gas stations in Spain and Portugal. The ECI Card, issued by Financiera El Corte Inglés, is used as a payment method by card holders to acquire and finance these acquisitions. As of December 2017, there are more than 11 million card holders of the ECI Card. Financiera El Corte Inglés is also the exclusive offeror of deferred payment plans to individuals within El Corte Inglés' stores. Overall, approximately 41% of our sales to retail customers for the twelve months ended December 31, 2017 were financed through Financiera El Corte Inglés' own payment methods (the ECI Card or deferred payment plans). For the year ended February 28, 2018, El Corte Inglés received a dividend of €37 million from Financiera El Corte Inglés. Financiera El Corte Inglés is consolidated under the equity method.

Key Factors Affecting Our Business and Results of Operations

General economic conditions, competitive position and industry and pricing environment

Our results of operations are affected by global economic and political conditions as well as specific conditions in Spain. Such conditions include, most significantly, levels of employment, but also other macroeconomic factors such as inflation, growth in gross domestic product, real disposable income, the availability of consumer credit, consumer confidence, consumer willingness to spend and interest rates. Following a recessionary period from 2009 to 2013 that negatively impacted our growth, Spain has had a declining unemployment rate. Since the current unemployment rate in Spain (17.2% as of 2017) is still significantly higher than the pre-recessionary level of 8.2% in 2007, we believe that the forecasted further improvement in economic conditions in Spain with unemployment rate expected to further decline to 15.8% in 2019 (compared to 19.6% in 2016), according to the International Monetary Fund (April 2017), will support our future sales growth in Spain. In addition, we typically have outperformed the general retail market in Spain. For example, from 2013 to 2016, the Spanish retail market has grown at a compound annual rate of 2.6% per year while our department store net turnover has grown at a compound annual rate of 4.5%.

Segment Mix and Performance

Retail is our most significant segment driven primarily by our department store business, constituting 78.2% of our aggregate net turnover and 83.9% of our EBITDA for the twelve months ended May 31, 2018 and 82.0% of our total assets as of May 31, 2018. Operating results in the Retail segment is affected by the product and channel mix as certain product and selling channel offers higher margin than others. Travel Agency is the next largest segment, constituting 15.6% of our aggregate net turnover and 5.4% of our EBITDA for the same period and 3.3% of our total assets as of May 31, 2018, driven primarily by our leading market position in the travel agency industry. Accordingly, the performance of these two segments (Retail in particular) drives our overall results. The strategic change in our Information Technology segment, with the focus shifted from hardware sales to the provision of consultancy services, also affects our results of operations as the change increases gross margin in the Information Technology segment.

Brand awareness and customer loyalty

We believe that our customer engagement is one of the strongest elements of our brand strategy. The awareness and perception of, and customer loyalty to, our brand has a significant impact on our sales performance. These factors are driven by our history, scale and marketing efforts, including marketing campaigns as well as our loyalty programs.

In addition to brand awareness, we also seek to increase customer loyalty and allow more targeted marketing to customers through our customer loyalty initiatives. As of December 31, 2017, we had more than 11 million holders of the ECI Card. Through Financiera El Corte Inglés, we offer customers the financing solutions to purchase goods, services and travel packages in our stores using our ECI Card. In addition, holders of the ECI Card benefit from further advantages, like free parking for two hours or bonus repayments when used at Repsol, Campsa or Petronor gas stations. We are also able to gain knowledge of our customers and utilize this data with analytics to manage promotions that are targeted to specific customers. These tools increase loyalty among our customer base and allow us to focus on our most valuable customers. In addition, these tools allow us to reduce advertising costs through direct contacts and allow for cross-selling from understanding customer behavior. We also utilize data collected via our ECI Card to understand customer behavior and help forecast customer preferences.

Relationships with third-party brands

We believe that our ability to assist third-party brands in enhancing their brand value with Spanish consumers is one of our key competitive advantages. In our view, there is no equivalent distribution channel in the geographical areas where we operate that can provide third-party brands as much exclusive business and trusted customer relationships as El Corte Inglés has to offer. As such, there are a number of third-party brands that distribute all their merchandise through El Corte Inglés in the areas that we operate in, rather than trading with other retailers.

As a result, we have significant bargaining power with third-party brands when negotiating concession agreements for them to distribute their goods through our stores. In fact, the new concessions, or renewals of existing concessions, include, among other features, a demand for a minimum guaranteed return per square meter utilized at our stores by third-party brands regardless of realized sales. Such guaranteed return is in addition to the fees that we earn as a percentage of the net turnover that third-party brands generate at El Corte Inglés' stores.

Moreover, our choices with regards to the location of third-party brands in our stores are made with the aim of creating the best possible shopping experience for our customers. Appropriately curating the shopping space is a key traffic generator, which results in increased net turnover for both the third-party brands in our stores and us.

Cost management

Our costs of sales are impacted by a number of factors, including market prices for raw materials and transportation, general economic conditions and conditions in our industry. We have recently implemented a sourcing plan in order to improve our gross margins. We are working to reduce lead times both in our long-term (mainly Asia) and short-term (countries nearer to Spain) sourcing circuits. In our Fashion segment, in particular, reducing time to market allows us to base our purchasing decisions on a higher degree of information on fashion trends, which helps us reduce sales discounts and inventory write-offs. In addition, the creation of a matrix to define the optimal sourcing market for each product category, together with a more concentrated supplier base and an integrated negotiation model with suppliers, has allowed us to improve negotiations, quality and lead times. These initiatives have helped drive improvements in gross margin. Gross margin in our Retail business for the year ended February 28, 2018 improved to 30.8%, compared to 30.3% for the year ended February 28, 2017.

We have also implemented productivity criteria and managed personnel costs to remain stable as a percentage of our net turnover as part of our profitability improvement strategy to improve efficiency. Our personnel costs represented 18% of our net turnover for the three months ended May 31, 2018. We can also control personnel costs in our points of sale by varying staffing levels in anticipation of customer traffic. Our personnel costs can, however, also be impacted by changes in prevailing wage levels, such as adjustments to national or local minimum wages, especially for employees that are employed pursuant to standard collective bargaining agreements.

The improvement in our supply chain has also resulted in decreases in our cost base. On the one hand, we concentrate the negotiation with suppliers across several areas so as to enhance our bargaining power for better purchase prices. On the other hand, we have recently implemented penalties on infringement of service standards, such as delays, labeling and stocks, which have reduced our out-of-stocks and increased our net turnover.

Impact of Fixed Asset Portfolio

We own €17,147 million of real estate assets (based on Tinsa's valuation as of February 28, 2018). See "*Business—Real Estate Portfolio and Valuation*." We believe this is a significantly larger property portfolio than those of our peers. As of May 31, 2018, the book value of these fixed assets was €12,243 million. We expect depreciation of these assets to continue in line with current depreciation. Some of our strategic non-core real estate disposals were sold at a premium to their independent valuations even during the Spanish credit crisis, which provided an additional source of funds for deleveraging.

Further, we do not anticipate any significant increase in our lease expenses as most of our sites are owned. Without material exposure to rents and lease agreements, we have a competitive advantage that allows us to maintain financial and operational flexibility and is a strong buffer to short-term industry fluctuations.

Currency Fluctuation

For the year ended February 28, 2018, 9.3% of our costs of sales in Retail were purchases made in U.S. dollars. During the same time period, 99% of our net turnover was denominated in euros. Accordingly, a strengthening of the U.S. dollar against the Euro has a negative effect on our gross margin and our financial performance. To manage the foreign exchange transaction risk, we use forward currency contracts. For more information on our foreign currency hedging, see "*—Quantitative and Qualitative Market Risks—Exchange rate risk*" below.

Seasonal Effects

Our Retail and Travel Agency segments are subject to seasonality. Retail segment's sales are particularly seasonal, with a high peak from November to January due to the Christmas period, Black Friday and winter sales periods, as well as a peak in July, as a result of the summer sales season. We have historically realized a higher portion of our net turnover, EBITDA and operating cash flows in the second half of our financial year, attributable in large part to increased consumer spending during the Christmas and New Year sales periods. As a result of these factors and due to the significant stocking and de-stocking pre- and post-Christmas and winter and summer sales, our working capital requirements fluctuate during the year in response to seasonal trends in our business, and are normally at their highest in October-November when we are building up inventory for the peak Christmas season. The consolidated net turnover of the Group for the three months ended February 28, 2018, November 30, 2017, August 31, 2017 and May 31, 2017 was €4,748 million, €3,598 million, €4,175 million and €3,413 million, respectively. The percentage of our annual net turnover attributable to each of these periods was 29.8%, 22.6%, 26.3% and 21.4%, respectively.

Weather

Our results could be affected by periods of abnormal or unseasonal weather conditions. Adverse weather can deter customers from shopping in our stores. For example, in the three months ended May 31, 2018, the abnormal weather conditions in Spain resulted in lower sales in our Fashion area, which led to a slight decrease in our Retail segment's net turnover as compared to the three months ended May 31, 2017.

Key line items in the Consolidated Statement of Profit and Loss data

The following describes the line items presented in our consolidated income statement that we consider to be key in understanding our operating results.

Net turnover

Net turnover primarily consists of total sales of products through all sales channels. Net turnover is measured at the fair value of the consideration received or receivable and represents the amounts receivable for the goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Sales of goods are recognized when all the risks and rewards have been substantially transferred to the purchaser.

Supplies

Supplies represents our largest cost item, and mainly consists of the cost of inventories sold, packaging, customs and freight costs, and cost of transport and logistics costs from in-bound goods.

The primary drivers of the costs of individual products are the costs of raw materials and labor in countries where we source our products. We do not operate or own any manufacturing facilities, and we rely on independent third parties for the manufacture of our products. The majority of our products are purchased in euros.

Personnel costs

Personnel costs mainly consist of wage and salaries, and social security charges. Our personnel expenses primarily relate to the staff employed at our stores, which means that personnel expenses are directly related to the size of our store network. Other personnel expenses relate to employees in the general, commercial and distribution areas.

Personnel costs also reflect a variable salary structure for our store employees mainly based on sales objectives, and our staff located in central functions receive a variable remuneration based on the Issuer's performance and employees' quantitative and qualitative performance.

Other operating income and expenditure

Other operating expenses include the costs of advertising, leases and charges, repairs and maintenance, supplies, taxes and a range of other operating expenses. Advertising is our single largest cost item and mainly relates to our marketing and advertising campaigns. Marketing expenses primarily relate to communication and advertising campaigns.

Supplies include utility costs such as electricity, telephone, and similar items and cost allocations from mall operators.

Transport expenses relate to the transportation of merchandise to the points of sale. We outsource all transportation to logistic providers.

Operating expenses also include in-store maintenance, cleaning, security, bank fees and professional services.

Other operating income includes mainly promotional income from suppliers, advertising net turnover and rents.

Depreciation and amortization

Depreciation and amortization of our property, plant and equipment and intangible assets primarily consist of regular depreciation and amortization. In particular, this relates to commercial facilities, furniture, fixtures and IT equipment in stores, warehouse premises and head offices, and intangible assets, mainly relating to leasehold assignment rights, trademarks and IT licenses.

Provisions, impairment and gains or losses on disposal of non-current assets and other results

Provisions, impairment and gain or losses on disposal of non-current assets and other results consist of changes in the different accounts of the properly, plant and equipment section of the consolidated balance sheet. It also consists of movement in other intangible assets.

Employee restructuring

Employee restructuring consists of the impacts deriving from employment termination agreements within the partial retirement plan communicated as the close of the financial year ended February 28, 2018 to employees aged 61.

Net financial income and expenses

Net financial income and expenses consists of financial income, net exchange differences and financial expenses.

Financial income consists of gains from financial instruments. Financial expenses consists of the interest paid on our debt facilities, including the interests paid by El Corte Inglés to FECI in the context of the financing solutions offered to El Corte Inglés' customers.

Results of Operations

The following table sets out selected Consolidated Statement of Profit and Loss data and other data for the years ended February 29, 2016, February 28, 2017 and February 28, 2018, the three-month period ended May 31, 2017 and May 31, 2018, and the twelve months ended May 31, 2018, as extracted from our consolidated financial information included elsewhere in this offering memorandum.

	Year ended February 29, 2016 (audited)	Year ended February 28, 2017 (restated)	Year ended February 28, 2018 (audited)	Three months ended May 31, 2017 (unaudited)	Three months ended May 31, 2018 (unaudited)	Twelve months ended May 31, 2018 (unaudited)
			(€ in millions)			
Net Turnover	**€15,220**	**€15,505**	**€15,935**	**€3,413**	**€3,417**	**€15,939**
Supplies	(10,760)	(11,000)	(11,249)	(2,385)	(2,389)	(11,253)
Personnel Expenses	(2,608)	(2,522)	(2,588)	(629)	(639)	(2,598)
Other operating income and expenditure[(a)]	(939)	(1,002)	(1,044)	(277)	(266)	(1,033)
EBITDA[(b)]	**913**	**981**	**1,054**	**122**	**123**	**1,055**
Depreciation of fixed assets	(521)	(520)	(510)	(138)	(138)	(510)
Provisions, impairment and gains or losses on disposal of non-current assets and other results	(5)	7	(96)	(15)	(10)	(91)
Obligation for provision to personnel	(86)	(211)	(36)	(10)	(7)	(33)
Operating Result	**299**	**257**	**412**	**(41)**	**(32)**	**421**
Net financial income and expenses[(c)]	(241)	(192)	(189)	(49)	(41)	(181)
Variation in fair value of financial instruments	(10)	34	11	7	(7)	(3)
Impairment and gains or losses on disposals of financial instruments	(2)	23	(4)	—	—	(4)
Result of companies accounted for using the equity method	31	39	46	9	9	46
Pre-tax Result	**77**	**161**	**276**	**(74)**	**(71)**	**279**
Income tax	81	(38)	(74)	23	21	(76)
Result of the Financial Year	**€158**	**€123**	**€202**	**€(51)**	**€(50)**	**€203**

(a) Represents sum of other operating expenses, other operating income, in-house work on non-currents assets and change in inventories of finished goods in our Audited Consolidated Financial Statements.

(b) We refer to profit from operations before depreciation and amortization as EBITDA. Different companies and analysts may calculate EBITDA-based measures differently and therefore making comparisons among companies on this basis should be done carefully. EBITDA-based measures are not measures of performance under IFRS and should not be considered in isolation or construed as substitutes for profit from operations before depreciation and amortization as an indicator of our operations in accordance with IFRS. See "*Presentation of Financial and Other Information*."

(c) Represents sum of financial income, net exchange differences: gains/(losses), less financial expenses in our Audited Consolidated Financial Statements. The financial expenses mainly include interest on financial liabilities as well as interest payable to Financiera El Corte Inglés in relation to deferred payment plan sales.

Sales and other intercompany transactions primarily include the sales of El Corte Inglés, which acts as a purchasing center for the rest of the Group's retail companies, and for the Information Technology and Travel Agency segments. These transactions are eliminated for consolidation purposes.

Comparison of the three months ended May 31, 2018 with the three months ended May 31, 2017

Net turnover

Our net turnover increased by €4 million, or 0.1%, from €3,413 million in the three months ended May 31, 2017 to €3,417 million in the three months ended May 31, 2018. This was mainly due to decrease in the activity in the Retail and Information Technology segments, offset by the positive performance of the Travel Agency and Insurance segments.

Net turnover by segment

	Three months ended May 31, 2017	Three months ended May 31, 2018	% Change
	(€ in millions, unless otherwise stated)		
Net turnover and other income			
Retail	€2,787	€2,751	(1.3)%
Travel Agency	627	667	6.4%
Information Technology	158	143	(9.5)%
Insurance	49	53	8.2%
Other businesses	32	26	(18.8)%
Consolidation adjustments	(240)	(223)	(7.1)%
Net turnover	**€3,413**	**€3,417**	**0.1%**

Net turnover in our Retail segment decreased by €36 million, or 1.3%, in the three months ended May 31, 2018 compared to the prior year period. This decrease was driven by the negative performance of the Fashion area due to the abnormal weather conditions in Spain, partially offset by the positive performance of Supercor banners and our department stores in Portugal, as well as the Household and Culture & Leisure areas within our Retail segment. The adverse impact of the abnormal weather conditions on our Fashion area was less significant than the impact on the Fashion areas of our competitors. Although the Spanish fashion, textile and apparel retail sales, according to Acotex, generally dropped 4.4% in Spain from January to May 2018, the Group's sales and EBITDA continued to increase by 0.1% and 1.7%, respectively. The following table sets out the net turnover contributed by each area of our Retail segment:

	Three months ended May 31, 2017	Three months ended May 31, 2018	% Change
	(€ in millions, unless otherwise stated)		
Net Turnover by Retail Area			
Fashion	€1,071	€1,029	(3.9)%
Food	639	644	0.8%
Household	312	322	3.2%
Culture & Leisure	376	392	4.3%
Other Retail	166	151	(9.0)%
Interco sales and other	223	213	(4.5)%
Total	**€2,787**	**€2,751**	**(1.3)%**

The increase in the net turnover of our Travel Agency segment was driven by positive developments in both the holiday and corporate sub-segments. The former benefitted from improved macroeconomic conditions, while the latter benefitted from the procurement of new, large contracts. The decrease in the net turnover of our Information Technology segment reflects the ongoing change in the segment's focus from hardware sales to the provision of consultancy services. The change in the net turnover of our Insurance segment was driven by the success of our core Insurance businesses.

Supplies and gross margin

Supplies increased by €4 million, or 0.2% from €2,385 million for the three months ended May 31, 2017 to €2,389 million for the three months ended May 31, 2018. Gross profit remained the same at €1,028 million for the three months ended May 31, 2017 and the three months ended May 31, 2018. This represented a similar gross margin of 30.1% for the three months ended May 31, 2017 and the three months ended May 31, 2018.

The gross margins of the areas of our Retail division and our segments for the periods presented are as follows:

	Three months ended May 31, 2017	Three months ended May 31, 2018
Fashion	41.5%	41.4%
Food	30.7%	31.4%
Household	37.5%	37.9%
Culture & Leisure	24.2%	25.0%
Other Retail	34.9%	36.4%
Interco sales and other	(6.3)%	(6.1)%
Retail	**32.0%**	**32.4%**
Travel Agency	**10.2%**	**10.2%**
Information Technology	**28.7%**	**30.1%**

Insurance	**59.2%**	**64.1%**
Other businesses	**40.6%**	**46.1%**

The increase in Retail gross margin was driven by diversifying the mix of retail sourcing to better fit the retail cycle and negotiating more favorable terms with suppliers. The increase in Information Technology gross margin was driven by the ongoing change in the segment's focus, from hardware sales to the provision of consultancy services. The increase in Insurance gross margin was driven by an improved beneficial loss casualty rate (which is the decrease of amounts to be paid to customers under insurance agreements).

Personnel costs and other operating expenses

Personnel costs increased by €10 million, or 1.6%, from €629 million in the three months ended May 31, 2017 to €639 million in the three months ended May 31, 2018 and other operating expenses decreased by €11 million from €277 million in the three months ended May 31, 2017 to €266 million in the three months ended May 31, 2018. Personnel costs and other operating expenses decreased slightly in terms of percentage of sales, from 26.6% to 26.5%, due primarily to management's focus on reducing/control costs, including the headcount initiatives undertaken in the Retail segment, offset by the increases in the number of collective bargaining agreements.

We have also implemented productivity criteria and managed personnel costs to remain stable as a percentage of our net turnover as part of our profitability improvement strategy to improve efficiency. Our personnel costs remain at 18.7% of our net turnover for the three months ended May 31, 2018. We can also control personnel costs in our points of sale by varying staffing levels in anticipation of customer traffic. Our personnel costs can, however, also be impacted by changes in prevailing wage levels, such as adjustments to national or local minimum wages, especially for employees that are employed pursuant to standard collective bargaining agreements.

EBITDA

EBITDA increased by €1 million, or 0.8%, in the three months ended May 31, 2018 compared to the three months ended May 31, 2017, reaching €123 million, mainly driven by the reasons discussed above.

EBITDA and EBITDA margin of our segments for the periods presented were as follows:

	Three months ended May 31, 2017		**Three months ended May 31, 2018**	
	EBITDA	**EBITDA margin**	**EBITDA**	**EBITDA margin**
	(€ in millions, unless otherwise stated)			
Retail	€96	3.4%	€92	3.3%
Travel Agency	4	0.6%	7	1.0%
Information Technology	3	1.9%	3	2.1%
Insurance	16	32.6%	20	37.7%
Other	2	6.2%	2	7.7%
Consolidation adjustments	1	(0.4)%	(1)	0.4%
Total	**€122**	**3.5%**	**€123**	**3.6%**

Comparison of the Year ended February 28, 2018 with the Year ended February 28, 2017

Net turnover

Our net turnover increased by €430 million, or 2.8%, from €15,505 million for the year ended February 28, 2017 to €15,935 million for the year ended February 28, 2018. This was mainly due to a €350 million increase in our Retail business driven by increased sales volumes in our existing stores, particularly in respect of fashion and household appliance sales and a €144 million increase in our Travel Agency segment driven by increases in our corporate business and holiday business. This increase was offset by a €114 million decrease in our Insurance segment due to a one-time increase in net turnover for the year ended February 28, 2017 as we transferred the voluntary redundancy plan to our insurance company as required by changes in Spanish law.

Net turnover by segment

	Year ended February 28, 2017	**Year ended February 28, 2018**	**% Change**
	(€ in millions, unless otherwise stated)		

Net turnover and other income			
Retail	€12,887	€13,237	2.7%
Travel Agency	2,450	2,594	5.9%
Information Technology	733	737	0.5%
Insurance	305	191	(37.4)%
Other businesses	144	137	(4.9)%
Consolidation adjustments	(1,014)	(961)	(5.2)%
Net turnover	**€15,505**	**€15,935**	**2.8%**

	February 28, 2017	February 28, 2018	% of net turnover for the year ended February 28, 2018
Number of stores			
Department Store	94	94	70.1%
Sfera	142	157	2.6%
Supercor	174	176	4.3%
Bricor	58	64	0.7%
Óptica2000	108	108	0.5%
Hipercor	43	41	5.0%

Net turnover in our Retail business increased by €350 million, or 2.7%, for the year ended February 28, 2018 compared to the prior year period. This increase was driven by increased sales in our Fashion, Culture & Leisure and Household areas of the Retail business. This increase was driven by management's implementation of its business strategy and supported by general economic conditions. The increase in the net turnover of our Travel Agency segment was driven by positive developments in both the holiday and corporate sub-segments. The former benefitted from improved business conditions, while the latter benefited from the procurement of new, large contracts. The net turnover from the Information Technology segment was stable because the applicable management strategy was only in its early stages of implementation. The decrease in the net turnover of our Insurance segment was driven by a one-time increase in net turnover for the year ended February 28, 2017 as we transferred the voluntary redundancy plan to our insurance company as required by changes in Spanish law. The following table sets out the net turnover contributed by each area of our Retail division:

	Year ended February 28, 2017	Year ended February 28, 2018	% Change
	(€ in millions, unless otherwise stated)		
Net Turnover by Area			
Fashion	€4,807	€4,961	3.2%
Food	2,747	2,777	1.1%
Household	1,434	1,491	4.0%
Culture & Leisure	2,100	2,189	4.2%
Other Retail	737	718	(2.6)%
Interco sales and other	1,062	1,101	3.7%
Total	**€12,887**	**€13,237**	**2.7%**

Supplies and gross margin

Supplies increased from €11,000 million for the year ended February 28, 2017 to €11,249 million for the year ended February 28, 2018, an increase of €249 million, or 2.3%. Gross profit increased €181 million from €4,505 million for the year ended February 28, 2017 to €4,685 million for the year ended February 28, 2018. This represented an improvement in gross margin from 29.1% for the year ended February 28, 2017 to 29.4% for the year ended February 28, 2018.

The gross margins of the areas of our Retail division and our segments for the periods presented are as follows:

	Year ended February 28, 2017	Year ended February 28, 2018
Fashion	36.4%	36.9%
Food	31.3%	32.0%
Household	36.4%	37.0%
Culture & Leisure	24.8%	24.9%

Other Retail	28.4%	29.6%
Interco sales and other	4.4%	5.1%
Retail	**30.3%**	**30.8%**
Travel Agency	**11.8%**	**11.7%**
Information Technology	**25.1%**	**25.6%**
Insurance	**35.1%**	**63.4%**
Other businesses	**40.3%**	**40.8%**

The improvement in Retail gross margin resulted from improved gross margin management in general, including diversifying the mix of retail sourcing to better fit the retail cycle and negotiating more favorable terms with suppliers. The gross margin in our Travel Agency and Information Technology segments were relatively unchanged because the applicable management strategies were only in its early stages of implementation. The improvement in Insurance margin related to the one-time effect of transferring the voluntary redundancy plan to our insurance group in the year ended February 28, 2017 which increased net turnover but contributed comparatively less margin.

Personnel costs and other operating income and expenditure

Personnel costs increased by €66 million, or 2.6%, from €2,522 million for the year ended February 28, 2017 to €2,588 million for the year ended February 28, 2018, driven by a €50 million increase in our Retail business, and other operating income and expenditure increased from €1,002 million for the year ended February 28, 2017 to €1,044 million for the year ended February 28, 2018. Personnel costs and other operating income and expenses were stable in terms of percentage of sales, changing from 22.7% for the year ended February 28, 2017 to 22.8% for the year ended February 28, 2018, as a result of the management’s efforts to control costs.

EBITDA

EBITDA increased by €73 million, or 7.4%, for the year ended February 28, 2017 compared to the year ended February 28, 2018, reaching €1,054 million, mainly driven by the reasons discussed above.

EBITDA and EBITDA margin of our segments for the periods presented were as follows:

	Year ended February 28, 2017		Year ended February 28, 2018	
	EBITDA	**EBITDA margin**	**EBITDA**	**EBITDA margin**
	(€ in millions, unless otherwise stated)			
Retail	€836	6.5%	€890	6.7%
Travel Agency	53	2.2%	54	2.1%
Information Technology	28	3.8%	32	4.3%
Insurance	58	19.0%	65	34.0%
Other businesses	4	2.8%	5	3.6%
Consolidation adjustments	2	(0.2)%	8	(0.8)%
Total	**€981**	**6.3%**	**€1,054**	**6.6%**

Comparison of the Year ended February 28, 2017 with the Year ended February 29, 2016

Net turnover

In the year ended February 28, 2017, net turnover increased by €285 million, or 1.9%, from €15,220 million for the year ended February 29, 2016 to €15,505 million for the year ended February 28, 2017. This was mainly due to the general economic growth in Spain and a successful market strategy implemented in certain business areas.

Net turnover by segment

	Year ended February 29, 2016	Year ended February 28, 2017	% Change
	(€ in millions, unless otherwise stated)		
Net turnover			
Retail	€12,546	€12,887	2.7%
Travel Agency	2,478	2,450	(1.1)%
Information Technology	732	733	0.1%
Insurance	216	305	41.2%
Other businesses	148	144	(2.7)%
Consolidation adjustments	(900)	(1,014)	12.7%
Net turnover and other income	**€15,220**	**€15,505**	**1.9%**

	February 29, 2016	February 28, 2017	% of net turnover for the year ended February 28, 2017
Number of stores			
Department Store	94	94	69.7%
Sfera	123	142	2.4%
Supercor	175	174	4.2%
Bricor	54	58	0.7%
Óptica2000	108	108	0.5%
Hipercor	43	43	5.5%

Net turnover in our Retail business increased by €341 million, or 2.7%, for the year ended February 28, 2017 compared to the prior year period. This increase was driven by growing consumption demand and a successful marketing strategy implemented in certain areas. This increase in consumption demand was correlated with generally improved economic conditions in Spain. The decrease in the net turnover of our Travel Agency segment was driven by the loss of certain corporate client contracts. The net turnover of our Information Technology segment was stable because the applicable management strategies were only in its early stages of implementation. The increase in the net turnover of our Insurance segment related to the one-time effect of transferring the voluntary redundancy plan to our insurance group in the year ended February 28, 2017, which generated a one-time turnover of €127 million. The following table sets out the net turnover contributed by each area of our Retail division:

	Year ended February 29, 2016	Year ended February 28, 2017	% Change
	(€ in millions, unless otherwise stated)		
Net Turnover by Area			
Fashion	€4,682	€4,807	2.7%
Food	2,681	2,747	2.5%
Household	1,388	1,434	3.3%
Culture & Leisure	2,097	2,100	0.1%
Other Retail	744	737	(0.9)%
Interco sales and other	954	1,062	11.3%
Total	**€12,546**	**€12,887**	**2.7%**

Supplies and gross margin

Supplies increased from €10,760 million for the year ended February 29, 2016 to €11,000 million for the year ended February 28, 2017, an increase of €240 million or 2.2%. Gross profit increased €45 million from €4,460 million for the year ended February 29, 2016 to €4,505 million for the year ended February 28, 2017. This represented a decrease in gross margin from 29.3% for the year ended February 29, 2016 to 29.1% for the year ended February 28, 2017.

The gross margins of our segments for the periods presented were as follows:

	Year ended February 29, 2016	Year ended February 28, 2017
Fashion	37.9%	36.4%
Food	31.1%	31.3%
Household	35.4%	36.4%
Culture & Leisure	24.9%	24.8%
Other Retail	28.1%	28.4%
Interco sales and other	7.7%	4.4%
Retail	**31.1%**	**30.3%**
Travel Agency	**11.6%**	**11.8%**
Information Technology	**23.5%**	**25.1%**
Insurance	**41.2%**	**35.1%**
Other businesses	**38.5%**	**40.3%**

The decrease in Retail gross margin was driven by additional price repositioning, changes in the sale mix and foreign currency exchange fluctuations.

The decrease in Insurance gross margin related to the one-time effect of transferring the voluntary redundancy plan to our insurance group in the year ended February 28, 2017.

Personnel costs and other operating income and expenses

Personnel costs decreased by €86 million, or 3.3%, from €2,608 million for the year ended February 29, 2016 to €2,522 million for the year ended February 28, 2017, driven by an €89 million decrease in our Retail business as a result of a one-time extraordinary voluntary redundancy plan which affected 1,345 people, offset, in part, by slight increases in our other businesses. Other operating income and expenses increased from €939 million for the year ended February 29, 2016 to €1,002 million for the year ended February 28, 2017. Personnel costs and other operating income and expenses decreased in terms of percentage of sales, from 23.3% to 22.7%, due to management's focus on reducing costs.

EBITDA

EBITDA increased by €68 million, or 7.4%, from €913 million for the year ended February 29, 2016 to €981 million for the year ended February 28, 2017, mainly driven by the reasons discussed above.

EBITDA of our segments for the periods presented were as follows:

	Year ended February 29, 2016	Year ended February 28, 2017

	EBITDA	EBITDA margin	EBITDA	EBITDA margin
	(€ in millions, unless otherwise stated)			
Retail	€741	5.9%	€836	6.5%
Travel Agency	60	2.4%	53	2.2%
Information Technology	15	2.0%	28	3.8%
Insurance	55	25.5%	58	19.0%
Other businesses	3	2.0%	4	2.8%
Consolidation adjustments	39	(4.3)%	2	(0.2)%
Total	**€913**	**6.0%**	**€981**	**6.3%**

Liquidity

Liquidity

Liquidity describes the ability of a company to generate sufficient cash flows to meet the cash requirements of its business, including working capital needs, debt service obligations, capital expenditure, operating losses, acquisitions and contractual obligations and commitments. Our principal sources of liquidity have been cash generated from operations, available committed facilities including the Revolving Credit Facility, Existing Employees' Promissory Notes, Existing MARF Commercial Paper Program and working capital, which have been supported by certain divestments. We expect that following the Transactions, our principal sources of liquidity will be cash generated from operations, available committed facilities including the Revolving Credit Facility, our existing cash and cash equivalents and working capital.

Although we believe that our expected cash flows from operations and future borrowings will be adequate to meet our anticipated general liquidity needs and debt service obligations, we cannot assure you that our business will generate sufficient cash flows from operations to meet these needs or that future debt or equity financing will be available to us in an amount sufficient to enable us to fund our liquidity needs, including making payments on the Notes or other debt when due. If our cash flows from operating activities are lower than expected or our capital expenditure requirements exceed our projections, we may be required to seek additional financing, which may not be available on commercially reasonable terms, or at all. Our ability to arrange financing generally and our cost of capital depend on numerous factors, including general economic conditions, the availability of credit from banks, other financial institutions or the capital markets, restrictions in the instruments governing our debt and our general financial performance. See "*Risk factors—Risks Related to our Indebtedness—We will require a significant amount of cash to meet our obligations under our indebtedness and to sustain our operations, which we may not be able to generate or raise*."

Working capital requirements

Our working capital requirements are mainly guided by the level of our inventories, trade and other receivables, sundry receivables, trade and other payables and tax payable and other current assets, with an efficient management of our working capital, resulting, as explained, in a negative working capital as is usual for the retail sector.

The following table sets forth the principal components of our working capital as of the dates indicated:

	February 29, 2016	February 28, 2017	February 28, 2018	May 31, 2018
	(€ in millions)			
Inventories(1)	€1,898	€1,861	€2,086	€2,234
Trade and other receivables(2)	754	958	914	861
Receivable from associates and related parties	28	25	22	37
Current tax assets	1	1	2	2
Trade and other payables(3)	(3,238)	(3,278)	(3,498)	(3,199)
Payable to suppliers-associates and related parties(6)	(21)	(23)	(16)	(20)
Current tax liabilities	(7)	(9)	(12)	(20)
Working capital	**€(585)**	**€(465)**	**€(502)**	**€(105)**

(1) Inventories are mainly comprised of the stock held in our stores and merchandise in transit from the time the stock is shipped by the manufacturer until the date that the product arrives to our warehouses. Our investment in inventory generally peaks from March to May due to our spring/summer collections and from September to November (or December, depending on the year in question) due to our autumn/winter collections, with troughs from June to August and from December to January due to the sales periods.

(2) Trade and other receivables include the line items from our balance sheet and are mainly comprised of receivables from Travel Agency and Information Technology segments' activity and sundry receivables.

(3) Trade and other payables includes the Trade and other payables line items from our balance sheet and are mainly comprised of the amounts payable to clothing suppliers, operating expenditure creditors, tax payable and other current liabilities.

Our working capital trends are driven mainly by the Retail division. Accordingly, working capital fluctuates over the course of the year, with cash inflows peaking at calendar year end, as a result of increased holiday sales, and cash outflows peaking as we purchase additional inventory just ahead of the year-end peak selling season.

We may from time to time use confirming lines, which allow certain of our suppliers to obtain expedited payment of our invoiced trade payables from a bank or financial institution that we subsequently repay at the time such payables are due under their terms. Under confirming lines, which are sometimes referred to as "reverse factoring," the bank or other financial institution pays the supplier for the invoice amount and the company subsequently repays the bank the invoice amount on its due date. The bank or other financial institution typically receives a fee from the company for each invoice paid. We continue to recognize these amounts as trade payables in our financial statements until we repay the bank or other financial institution. We benefit from the use of confirming lines, as they eliminate the need for us to provide letters of credit or guarantee to our suppliers, and some suppliers offer discounts on the invoice amount if payment is received within a certain period of time after the invoice is issued.

The working capital investment in the year ended February 28, 2017 was due to the increase of debtor balances from sales of real estate assets. The decrease of inventories from the year ended February 29, 2016 to the year ended February 28, 2017 resulted from an extraordinary stock impairment and a change in channel mix that requires lower inventory investments.

Cash flows

The following table shows a summary of our cash flows from operating activities, investing activities and financing activities.

	Year ended February 28, 2016	**Year ended February 29, 2017**	**Year ended February 28, 2018**	**Three months ended May 31, 2017**	**Three months ended May 31, 2018**
			(€ in millions)		
Operating activities					
Consolidated profit/(loss) before tax	€77	€160	€276	€(74)	€(70)
Adjustments to Consolidated profit/(loss) before tax	710	606	691	201	202
Changes in working capital................	(15)	(120)	(10)	(283)	(517)
Other cash flows of operating activities............	(274)	(412)	(251)	(59)	(51)
Total net cash flow from operating activities	**498**	**234**	**706**	**(215)**	**(436)**
Total net cash flow used in investing activities	**(286)**	**(57)**	**(370)**	**(84)**	**(113)**
Total net cash flow from financing activities	**(182)**	**(195)**	**(271)**	**261**	**474**
Net variations of exchange rates....	17	1	(6)	0	(1)
Total net increase/(decrease) in cash and cash equivalents	**46**	**(17)**	**59**	**(38)**	**(76)**

Cash and cash equivalents at the beginning of the year	125	171	154	154	212
Cash and cash equivalents at the end of the year ...	171	154	213	116	136

Net cash flow from operating activities

Three months ended May 31, 2018 compared to three months ended May 31, 2017

Net cash flow from operating activities decreased by €221 million in the three-month period ended May 31, 2018 compared to the three-month period ended May 31, 2017. This was mainly due to additional investment in working capital made in anticipation of the need to make additional purchases from suppliers and lower sales in the Fashion area during the first three months of 2018. This was also due to a one-off transaction: due to the new VAT settlement system, the VAT payment (€107 million) was anticipated in May 2018 with respect to the same period in the previous year. During the first quarter of 2016, the Group collected €37 million from debtors related to asset disposals.

Year ended February 28, 2018 compared to the year ended February 28, 2017

Net cash flow from operating activities increased by €472 million for the year ended February 28, 2018 compared to the year ended February 28, 2017. This was mainly due to the improved gross margins in our Retail division as a result of improved gross margin management in general, the voluntary redundancy plan established for the employees of the entire Group during the year ended February 28, 2017 and lower investment in working capital in the year ended February 28, 2018.

Year ended February 28, 2017 compared to the year ended February 29, 2016

Net cash flow from operating activities decreased by €264 million for the year ended February 28, 2017 compared to the year ended February 29, 2016, primarily due to a one-time voluntary redundancy plan established for the employees of the entire Group which affected over 1,300 employees.

Net cash flow used in investing activities

We continuously face capital expenditure needs or store refurbishment and maintenance, IT transformation and digitalization and improvements to our central service activities.

Three months ended May 31, 2018 compared to three months ended May 31, 2017

Net cash flow used in investing activities was stable compared to the previous period.

Year ended February 28, 2018 compared to the year ended February 28, 2017

Net cash flow used in investing activities increased by €313 million for the year ended February 28, 2018 compared to the year ended February 28, 2017. This increase was mainly due to lower divestments, one-time investments in LED lighting, the externalization of IT systems and the acquisition of an office building for our Insurance segment.

Year ended February 28, 2017 compared to year ended February 29, 2016

Net cash flow used in investing activities decreased by €229 million for the year ended February 28, 2017 compared to the year ended February 29, 2016. This decrease was mainly due to the divestments of certain real estate properties.

Net cash flow used in financing activities

Three months ended May 31, 2018 compared to three months ended May 31, 2017

Net cash flow from financing activities increased by €213 million in the three-month period ended May 31, 2018 compared to the three-month period ended May 31, 2017, mainly due to the financing of additional investment in working capital.

Year ended February 28, 2018 compared to the year ended February 28, 2017

Net cash flow from financing activities decreased by €76 million for the year ended February 28, 2018 compared to the year ended February 28, 2017, on the back of the better performance of both Retail and Non-Retail divisions.

Year ended February 28, 2017 compared to the year ended February 29, 2016

Net cash flow used in financing activities decreased by €13 million for the year ended February 28, 2017 compared to the year ended February 29, 2016, on the back of the performance of the business and certain divestments partially offset by the to a one-time voluntary redundancy plan.

Capital Expenditure

We continuously invest in the refurbishment and maintenance of our stores and IT transformation and digitalization. Maintenance capital expenditure was stable during the period under review at 2.1% of net turnover. Our remaining capital expenditure is related to the limited expansion capital expenditure. Expansion capital expenditure was stable during the period under review at 0.3% of net turnover. Our capital expenditure budget for the year to end on February 28, 2019 is in line with our capital expenditure in the previous three years.

We have a consistent capital expenditure program to refurbish and maintain our stores. Refurbishment investments are agreed on a case by case basis based on the specific requirements of each store. In addition, we have strict controls on capital expenditure in order to ensure that they are in line with our strategy. We are planning to invest approximately €350 million to €400 million annually for maintenance purposes.

The following table shows a detail of our capital expenditure for the periods indicated.

	Year ended February 29, 2016	Year ended February 28, 2017	Year ended February 28, 2018	Three months ended May 31, 2017	Three months ended May 31, 2018
			(€ in millions)		
Total maintenance capital expenditure	**321**	**322**	**321**	**100**	**103**
Total expansion capital expenditure	**34**	**38**	**42**	**4**	**5**
One-off capital expenditure(1)	—	—	61	—	—
Total capital expenditure	**€355.4**	**€360**	**€424**	**€104**	**€108**

(1) One-off capital expenditure relates to an extraordinary investment in LED lighting (€34 million), the externalization of IT systems (€12 million) and the acquisition of an office building for the Insurance segment (€15 million).

During the years ended February 29, 2016, February 28, 2017 and February 28, 2018, between 93% – 95% of our total capital expenditure was related to our Retail business.

	Year ended February 29, 2016	Year ended February 28, 2017	Year ended February 28, 2018	Three months ended May 31, 2017	Three months ended May 31, 2018
			(€ in millions)		
Retail	€418	€352	€401(1)	€100	€105
Travel Agency	14	16	20	5	4
Information Technology	5	9	6	1	2
Insurance	3	4	7	1	1
Other businesses	2	1	8	1	0
Consolidation Adjustment	(87)	(22)	(18)	(4)	(4)
Total capital expenditure	**€355**	**€360**	**€424**	**€104**	**€108**

(1) One-off capital expenditure relates to an extraordinary investment in LED lighting (€34 million), the externalization of IT systems (€12 million) and the acquisition of an office building for the Insurance segment (€15 million).

Contractual Commitments

The following table summarizes certain categories of our contractual obligations owed to third parties and group companies by period as of February 28, 2018, on an as adjusted basis after giving effect to the Transactions.

	Payments due by period			
	Less than 1 year	1 – 4 years	After 4 years	Total
	(€ in millions)			
Bank loans and credits	€85	€1,566	€66	€1,717
Financial lease	€30	€68	€0	€98
Bonds and other negotiable securities	€1,631	€600	€0	€2,231
ADIF[(1)]	€68	€0	€0	€68
Total	**€1,814**	**€2,234**	**€66**	**€4,114**

(1) Balance outstanding under a purchase agreement dated January 27, 2015 entered into between the Issuer as buyer and Administrador de Infraestructureas Ferroviarias (*ADIF*) as seller relating to certain real estate in Paseo de la Castellana, Madrid.

	Payments due by period			
	Less than 1 year	1 – 5 years	After 5 years	Total
	(€ in millions)			
Operating lease obligations	€141	€355	€283	€930

Off-balance Sheet Arrangements

We enter into and maintain certain bonding lines and lines of credit for transactions with governments and as required by appeals of litigation results. We maintain one primary bonding line. Aside from bonds for litigation appeals, in our experience these facilities generally remain unfunded and conditional. As at February 28, 2018, we had guarantees committed with third parties of €382 million. See "*Business—Legal Proceedings*" and "*Audited Consolidated Financial Statements for the Year Ended February 28, 2018—Note 16.2.*"

Quantitative and Qualitative Market Risks

We are exposed to various market risks as part of our business activities, which are intrinsically linked to our business dealings, including liquidity risk, exchange rate risk and interest rate risk. See "*Risk Factors—Risks Related to Our Business and Our Operations—Our financial condition and results of operation may be adversely affected by fluctuations in currency exchange rates" and "—Our hedging and other derivative arrangements may not effectively or sufficiently offset the negative impact of interest rate or currency fluctuations*." The Issuer's overall risk management program focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects of these risks on the Issuer's financial performance.

The Issuer has a centralized treasury function, which is responsible for managing the liquidity, interest and currency risks associated with the Issuer's activities.

Liquidity risk

The Group maintains a prudent liquidity risk management policy. It maintains the appropriate level of cash and marketable securities, as well as contracting committed credit facilities for a sufficient amount to meet any anticipated needs. Final responsibility for liquidity risk management lies with the Issuer's management, which prepares an appropriate framework for controlling the Group's liquidity needs in the short, medium and long term. The Group manages liquidity by maintaining adequate reserves, appropriate banking services and the availability of credit and loans through ongoing monitoring of the forecasts and the current amounts of cash flows, and matching these with the maturity profile of financial assets and liabilities. The Issuer has started the process of cancellation of the debt formalized in its Existing Employees' Promissory Notes, which stood at €780 million at August 31, 2018, with the aim of optimizing its financial structure, increasing maturities and reducing the interest rates. The directors of the Issuer have ensured liquidity in this process with the signing of the Syndicated Loan Facilities Agreement, under which the Term Loan A1 in the amount of originally €1,200 million has been extended. As of August 31, 2018, the Term Loan A1 amounted to €765 million, with a maturity of two years, of which, as of August 31, 2018, €10 million have been drawn down and will be repaid from cash and the Term Loan A1 Facility will be terminated and cancelled immediately prior to the issuance of the Notes.

Exchange rate risk

The Group operates internationally and it is therefore exposed to exchange-rate risk from currency transactions denominated in US dollars. The exchange rate risk is managed in accordance with the Group management guidelines, which provide, fundamentally, the establishment of financial or natural hedges, the ongoing monitoring of fluctuations in the exchange rate and other earmarked measurements to mitigate this risk. The Group's policy is to contract financial instruments (exchange-rate insurance) in order to reduce the translation differences arising from transactions in foreign currency. Our exposure to exchange rate risk is also limited, as approximately 90% of our purchases and 99% of our net turnover is euro-denominated.

Details of the most significant balances and transactions in foreign currency of domestic companies in the Group, mainly denominated in US dollars, valued at the closing exchange rate and the average exchange rate, respectively, are as follows:

	Year ended February 28, 2017	Year ended February 28, 2018
	(€ in millions)	
Accounts payable	213	215
Sales	91	77
Services rendered	819	702
Purchases	799	852
Services received	5	3

On the other hand, the details of the most significant balances and transactions in foreign currency of companies operating in a currency other than the euro (mainly the subsidiaries located in Latin America), valued at the closing exchange rate and the average exchange rate, respectively, are as follows:

	Mexican Pesos		Other currencies		Total	
	Year ended February 28, 2017	Year ended February 28, 2018	Year ended February 28, 2017	Year ended February 28, 2018	Year ended February 28, 2017	Year ended February 28, 2018
			(€ in millions)			
Accounts payable	€21	€19	€20	€24	€40	€43
Other liabilities	—	—	0	0	0	0
Sales	91	93	23	20	113	112
Services rendered	91	106	110	111	201	217
Purchases	139	154	122	117	261	270
Services received	€21	€24	€10	€9	€30	€33

Interest rate risk

Variations in the interest rates modify future flows of assets and liabilities with reference to a variable interest rate. Financial instruments exposed to interest rates are basically financing with a variable rate and the financial instruments stemming from them.

According to the estimates of the Group regarding interest rate performance and the performance of the objectives of the long-term debt structure, derivatives are contracted to mitigate these risks. As of May 31, 2018, we had in place interest rate swaps for a total amount of €2,199 million, resulting in approximately 84% of our financial liabilities with banks and financial institutions being fixed-rate. Certain of these agreements, while being economic hedges, are not treated as hedges for accounting purposes.

Critical Accounting Policies

Inventories

For the Group's main activity, retail sales, inventories are valued using the "retail" method, given that the result of applying it does not produce significant differences compared to their real costs.

The retail method determines the cost of inventories starting from the sale price minus an estimated gross margin percentage, in which the sale price, possible discounts to be made on those sale prices and the age of the merchandise are considered, as well as the changes in seasons and trends, mainly in fashion items. This method is applied consistently for all the Group's product families.

With this method, inventories are valued at all times at the cost or the net production value, whichever is lower.

On the other hand, the inventories for the activities of the Technological Group (mainly comprising Informática El Corte Inglés, S.A.) are valued at their acquisition price or net realizable value, whichever is lower. Likewise, the inventories section of the aforementioned Group includes the amounts incurred in projects in progress, valued at their cost price in accordance with the degree of progress criterion. Those costs include both services rendered by third parties and internal costs.

Value impairment of non-current assets

In each financial year, and whenever there are indications of a loss of value, the Group evaluates the book values of its plant, property and equipment, investment property and intangible assets, including the goodwill and the intangible assets with indefinite useful lifetimes, by means of an "impairment test," in order to determine whether their recoverable value is lower than their book value (impairment loss). In the case of the goodwill and intangible assets with indefinite useful lifetimes, the impairment test is carried out at least once a year and more frequently if there are indications of impairment.

If the asset does not itself generate cash flows independent from other assets, the Group calculates the recoverable amount of the cash generation unit to which the asset belongs. The Group defines as basic cash generation units (CGUs) each one of the commercial premises (department stores, hypermarkets, supermarkets and offices) which make up its distribution network. However, when determining the CGU, those units may be aggregated at the geographical area level, depending on the real management of their operations.

With regard to the Group's assets (offices, warehouses, logistics centers, etc.) which do not fulfill the criteria outlined above, they have their own treatment in accordance with that mentioned in the "Value Impairment of non-current assets" section of the Audited Consolidated Financial Statement for the year ended February 28, 2018.

The recoverable amount is determined as either the fair value minus the estimated sales costs or the value in use, whichever is higher.

If it is estimated that the recoverable amount of an asset (or cash generation unit) is lower than its book value, the latter is reduced to its recoverable amount, recognizing a value impairment loss as an expense, using as the counterpart the "Impairment and gains or losses on disposals of assets" section of the consolidated income statement.

When a value impairment loss is subsequently reverted, the book value of the asset (or cash generation unit) is increased to the revised estimation of its recoverable value, but in such a way that the increased book value does not exceed the book value that would have been determined if no value impairment loss had been recognized for the asset (or cash generation unit) in previous financial years.

In the case of goodwill, at each accountancy close an estimation is made of whether it has suffered any impairment which reduces its recoverable value to an amount which is lower than the registered net cost and, if so, the appropriate write-down is applied. Impairment losses related to goodwill are not subject to subsequent reversion.

Finally, in the case of brands with indefinite useful lifetimes, the recoverable amount was determined as their value in use, using cash flow forecasts which, as a general rule, are based on the company forecasts, which cover a period of five years.

Value in use

For each cash generation unit (mainly Supercor supermarkets, Bricor stores and offices of Viajes El Corte Inglés), the value in use is calculated based on the estimated future cash flows, discounted at a rate which reflects the current market valuations with regard to the value of money, adjusted by the specific risks associated with the asset that were not taken into account when estimating the future cash flows.

The Group generally prepares the cash flow forecasts of the cash generation units for a period of 5 years, incorporating the best available estimations of income and expenses, using sectorial forecasts, past experience and future expectations (the entity's forecasts, business plans, etc.), as well as the macro-economic indicators which reflect the current and foreseeable economic situation of each market. Likewise, another estimation to be taken into consideration is the margin, depending on the CGU and the nature of the business or product.

The Group's management considers that the average weighted growth rate of sales for the next five years is consistent with past experience, taking into account the expansion plans, conversions of stores to new formats and the evolution of the macroeconomic indicators (population, inflation, GDP, etc.).

In addition, a residual value is calculated depending on the standardized cash flow of the last year of the forecast, to which a growth rate in perpetuity is applied (in the majority of cases, it is zero), which in no case exceeds the growth rates of previous years. The cash flow used for the calculation of the residual value takes into account the investments for replacement which are necessary for the future continuity of the business at the estimated growth rate.

For the discounting of the cash flows, the weighted average cost of capital is used, which is determined before taxes and is adjusted by the country risk, the corresponding business risk and other variables influenced by the current market situation. The average discount rate applied depends on the business and the country in which the activity is carried out. For the main assets of the Group it was 6.7% for the year ended February 28, 2018 and 7% for the year ended February 28, 2017.

Fair value

For the present year, the Group has determined the recoverable amount of the main assets (Department Stores and Hypermarkets) as the fair value based on the appraisals carried out by independent experts. For assets in operation, the valuation was made in accordance with the valuation principles, methodology and criteria contained in Ministerial Order ECO/805/2003, dated 27 May, modified by Orders EHA/3011/2007 and EHA/564/2008. For real estate intended to generate rental income, the fair value has been determined in accordance with the updating method according to the methodology described in articles 24 to 28 and 31 to 33 of Ministerial Order ECO/805/2003, depending on the likeliest cash flows to be generated in its remaining working life.

Investment Property

The "Investment property" section of the consolidated balance sheet includes the values of lands, buildings and other constructions which are held either to lease them out or to obtain a capital gain from their sale as a result of future increases in their respective market prices.

Investment property is presented at their acquisition cost, following, for all effects, the same criteria as elements of the same class of property, plant and equipment.

The income accrued for the year ended February 28, 2018 deriving from the rental of that investment property was €13 million (€6 million for the year ended February 28, 2017), and they are registered in the "Other operating income" section of the accompanying income statement.

The gain or loss on the disposal or removal of an asset is calculated as the difference between the profit from the sale and the book value of the asset, and it is recognized in the consolidated income statement.

Provisions

General Criteria

The Group follows the practice of provision to meet liabilities arising from ongoing litigation, compensation or any obligations, as well as for any guarantees and warranties granted which entail a probable payment obligation for the Group, provided the amount can be reliably estimated. In addition, the directors of the Issuer, together with the supervisory and control bodies of the Issuer, verify that the Issuer's activities are carried out in accordance with the laws and regulations applicable to them. In this sense, they respond appropriately, through appropriate investigations, to complaints about irregularities that may be received, in order to be able to conclude whether risks arise for the Issuer that could, if applicable, have an impact on the annual accounts. As of the date of the Audited Consolidated Financial Statements for the year ended February 28, 2018, no significant aspects have been identified that shows the need to book any provision in the consolidated annual accounts in relation to complaints received.

Provisions are quantified on the basis of the best available information about the situation and the evolution of the events which gave rise to them, and they are re-estimated at each accountancy close, leading to their total or partial reversion when the aforementioned obligations cease to exist or decrease.

Contingent liabilities, except in business combinations, are not recognized in the consolidated financial statements, rather they are reported in the report notes, in accordance with the requirements of IAS 37.

The Group considers onerous those contracts in which the inevitable costs of complying with the obligations they impose exceed the economic benefits expected to be derived from them.

The Group follows the criterion of recording a provision for the current value of the aforementioned difference between the costs and the benefits of the contract.

The discount rates used reflect current valuation of money in the market, as well as the specific risks of these contracts.

The Group also follows the practice of provision to meet liabilities arising from unearned premiums, life insurance provisions, accounting asymmetries, compensation, benefits and rebates and assigned reinsurance.

Recoverability of Deferred Tax Assets

The income tax expense represents the sum of the tax burden to be paid during the financial year plus the changes in deferred tax assets and liabilities.

The expense arising from income tax in the financial year is calculated using the sum of the current tax resulting from the application of the tax rate on the tax base for the year, after applying any fiscally permissible deductions, plus the variation in deferred tax assets and liabilities.

Deferred tax assets and liabilities include temporary differences which are identified as the amounts expected to become payable or recoverable deriving from the differences between the book values of assets and liabilities and their taxable values, as well as the negative tax bases pending offsetting and credits for tax deductions which have not been applied. These amounts are recorded by applying the tax rate at which it is expected they will be recovered or settled to the corresponding temporary difference or credit.

Deferred tax liabilities are recognized for all taxable temporary differences, except where the temporary difference arises from the initial recognition of the goodwill, whose depreciation is not deductible for tax purposes, or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction affecting neither the tax result nor the accounting result.

Deferred tax assets, identified with temporary differences, are only recognized when it is considered probable that the consolidated entities will in future have sufficient taxable profits against which they can be made effective and where they do not arise from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction affecting neither the tax result nor the accounting result. The remaining deferred tax assets (negative taxable amounts and deductions pending offsetting) are only recognized if it is deemed likely that the consolidated entities will in future have sufficient taxable profits against which to make them effective.

Income tax and variations in deferred tax assets and liabilities not arising from business combinations are recognized fully in the consolidated income statement or in the equity accounts of the consolidated balance sheet, depending on where the profit or loss which gave rise to them was recorded.

Deferred tax assets and liabilities are not updated, and they are classified as non-current assets/liabilities in the consolidated balance sheet.

At each accountancy close, any recorded deferred tax (both assets and liabilities) is reviewed, in order to ensure that it is up-to-date, and the appropriate corrections are made in accordance with the results of the analyses carried out.

The Issuer is taxed in accordance with the tax consolidation system, together with the Spanish subsidiaries in which it owns at least 75% of the capital, excluding those which have a different financial year to that of the Issuer for reasons of their sectoral regulation, in accordance with the legal regulations currently in force in this matter.

Since January 1, 2008, the Issuer, as the dominant company, has applied the Special Group of Entities System regulated in Chapter IX of Section IX of Law 37/1992 on Value Added Tax, together with certain Spanish subsidiaries.

INDUSTRY AND MARKET OVERVIEW

Unless otherwise stated, all information regarding markets, market position and other industry data contained in this offering memorandum is based on our own estimates, internal surveys, market research, customer feedback, publicly available information the cited sources. In many cases, there is no readily available external information (whether from trade associations, government bodies, other industry organizations or competitors) to validate market-related analyses and estimates, resulting in our relying on our own internally developed estimates. Certain of the information presented herein has been derived from external sources, including the cited sources, public websites and company financial reports and other independent third-party research. Any third-party sources we use generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information are not guaranteed, and that the projections they contain are based on significant assumptions. Similarly, while we believe that internal surveys, industry forecasts, customer feedback and market research we have used in making our estimates are generally reliable, none of this data has been independently verified. Market data and statistics are inherently subject to uncertainties and are not necessarily reflective of actual market conditions. We cannot assure you that any of the assumptions underlying these statements are accurate or correctly reflect our position in the industry or the relevant markets, and none of our internal surveys or information have been verified by any independent sources. Neither the Issuer nor any Initial Purchaser makes any representation or warranty as to the accuracy or completeness of the industry and market data set forth in this offering memorandum, and neither the Issuer nor any Initial Purchaser has independently verified this information and therefore cannot guarantee its accuracy.

The Spanish Macroeconomic Environment

In our opinion, our performance in the Spanish retail market is driven by a number of Spanish macro-economic factors, including: (i) gross domestic product ("**GDP**") growth; (ii) consumption per capita; (iii) consumer confidence; and (iv) unemployment rate.

GDP Growth

Spain demonstrates strong GDP growth fundamentals. According to the IMF, Spain's nominal GDP is expected to increase at an average growth rate of 4.0% between 2017 and 2020, which is a growth rate superior to any of the other major European economies.

[GRAPHIC]

Note: GDP, current prices—local currency

Source: IMF, World Economic Outlook Database, April 2018

Over the past few years, the population in Spain has been stable, reaching a national population of approximately 46.5 million in 2017. According to Euromonitor, this trend is expected to continue for the next five years, and Euromonitor expects the Spanish national population to continue to be below 47.0 million until 2022.

In addition, the number of households is expected to remain stable with modest growth. According to Euromonitor, Spain had 18.8 million households in 2017. Euromonitor expects the number of Spanish households to grow at a 0.4% CAGR over the next five years, which is faster than the rate of population growth in Spain. In our view, this growth is driven by the number of people per household decreasing as a larger proportion of people are prioritizing career development during their younger ages over starting families.

We believe this development serves as a positive driver for our growth, as we are geared to address people's needs by offering a shop for almost everything a normal household requires.

[GRAPHIC] [GRAPHIC]

Source: Euromonitor, September 2018

Consumption per Capita

According to Euromonitor, nominal consumption per capita in Spain is forecasted to grow at 4.1% CAGR between 2017 and 2020, exceeding the growth of the other major European economies (3.4% in France, 3.2% in UK, 2.9% in Germany and 2.4% in Italy).

During the same period, according to Euromonitor, the differential between growth in consumer expenditure per capita and growth in inflation in Spain (2.4%) is the largest compared to the differential of the other major European economies, relative to France (1.8%), Germany (1.1%), Italy (1.1%) and the UK (0.9%). Given that Spain has the highest expected consumption per capita growth with the smallest inflation component, we believe that Spanish consumption is driven by an increased willingness to spend and is currently experiencing a resurgence in consumer activity rather than an increase in prices in the economy.

[GRAPHIC]

Sources: Euromonitor, September 2018 (consumer expenditure per capita, current prices—local currency) and IMF, World Economic Outlook Database, April 2018 (inflation, average consumer prices)

Unemployment Rate

The average unemployment rate has been steadily decreasing in Spain following the financial crisis. The average unemployment rate in Spain was 17.2% in 2017, whereas the peak average unemployment rate during the Spanish financial crisis was 26.1%. The Spanish Ministry of Economy estimates that in the upcoming years, the unemployment rate in Spain is expected to continue decreasing, reaching approximately 14.0% by 2021.

[GRAPHIC]

Note: In percentage (%) of active population.

Source: Spanish Statistic Agency (INE), Spanish Ministry of Economy and Spanish Ministry of Treasury, July 2018

In our opinion, the lower unemployment rate coupled with increased consumer confidence contributed, in part, to the recent recovery of the Spanish economy, which in turn has had a positive impact on consumer expenditure in recent years, increasing at a CAGR of 2.9% from 2013 to 2017, with a larger growth rate in recent years (2015 – 2016 growth of 3.2%) resulting in total consumer expenditure in 2017 of approximately €692.0 billion.

According to Euromonitor, this trend is projected to continue, and consumer expenditure in Spain is expected to increase to approximately €835.0 billion in 2022, representing a CAGR of 3.8% from 2017 to 2022.

[GRAPHIC]

Source: Euromonitor, September 2018.

Spanish Tourism

[GRAPHIC]

Sources: EGATUR (2016) for 2012 data and Spanish Statistic Agency (INE) (2018) for 2017 data

[GRAPHIC]

Source: World Tourism Organization, August 2018

Spain is a leading global tourist destination, and we believe we are well positioned to capture a meaningful share of tourism retail expenditures. According to the World Tourism Organization, as of August 2018, Spain is the world's second most popular tourist destination, as measured by the number of international tourist arrivals and tourism income. According to EGATUR, the average spend for tourists visiting Spain has increased from 2012 to 2015, both on a per trip and on a daily average basis.

As Spain's one-stop-shop for consumers, we also benefit from an increase in tourism and especially from our stores located in popular tourist cities and prominent locations in the country. We believe we are one of the only "must visit" retail shops in Spain for medium- to high-income foreign clients, in part due to the fact that many of our shops are uniquely located in prominent locations of high-profile tourist hubs. Furthermore, we have always tried to actively adapt our product offerings and sales strategies to tourists. For example, we offer charter buses, employ a multi-lingual sales force and host special events for holidays such as Chinese New Year. They are all tailored to make the El Corte Inglés shopping experience attractive, cosmopolitan and seamless to tourists visiting Spain.

According to the World Tourism Organization, in 2017, the number of tourists visiting Spain increased to approximately 82.0 million, which represented an approximate 9.0% increase from the previous year. According to the World Bank, from 2013 to 2017, Spanish tourism grew by 7.9% CAGR, positively impacting our performance, with our current retail sales exposure to tourism amounting to approximately 10.0%. In stores with especially high tourist traffic, tourist sales account for a significant portion of our net turnover. For example, tourist sales accounted for 33.5% of our net turnover in our Plaza Cataluña, Barcelona store for the period from January 1, 2018 to August 31, 2018.

This positive tourism trend is expected to continue with Euromonitor predicting total tourist visits to reach over 93.0 million by 2022:

[GRAPHIC]

Source: The World Bank and World Development Indicators (1995-2016) and Spanish Ministry of Industry, Trade and Tourism and World Tourism Organization (2017)

Spanish Retail Market

We are the number one player in the department store channel, with a market share by sales of approximately 99% in 2017, according to Euromonitor. We are also the largest clothing and footwear retailer in Spain, through our department stores and standalone Sfera brand, which offer both third-party brands and private label brands.

According to Global Data, the Spanish retail market amounted to €213.4 billion in 2016. We are present in more than 80% of retail channels, as defined by Global Data, including the following retail channels: (i) hypermarkets and supermarkets; (ii) convenience stores and forecourts; (iii) clothing; (iv) footwear and accessories; (v) drug stores; (vi) health and beauty; (vii) home improvement and furnishing; (viii) department stores; (ix) online retail; (x) electrical specialists; and (xi) value retail.

From a product sector analysis, we are present the following product sectors: (i) food and grocery; (ii) clothing and footwear; (iii) health and beauty; (iv) electricals; (v) furniture and floor covering; (vi) do-it-yourself and garden and homeware.

[GRAPHIC]

Source: Global Data (September 2017) for 2016 data

Note: Home Improvement and Furnishing consists of home furniture and floor coverings specialists (2.3%) and home improvement and gardening supplies specialists (2.0%) channels

We believe we are a true one stop shop where our significant presence allows us to lead and compete across key retail channels and product categories to provide a seamless and high-quality experience for households and consumers.

In the food and grocery market, which according to Global Data, is a highly fragmented €125.8 billion market (2016), our product offering is made through 279 store locations, and we have approximately 4% market share. Despite our small store footprint, we are one of the leaders in the highly fragmented food and grocery sector in Spain, and we strive to offer premium quality products at competitive prices.

We are the market leader the clothing and footwear market in Spain, which according to Global Data, is a €27.1 billion market (2016) and we have approximately 14.2% market share. Our nearest competitors are Zara, Primark, H&M, and Massimo Dutti, who have approximately 8.3%, 3.4%, 2.7% and 1.9% market share, respectively.

We have a strong presence in the online retail market, which according to Global Data, is a €8.1 billion market (2016). According to Euromonitor, in 2017, we had the second-largest market share for online retail sales in Spain (9.1%), behind only Amazon (12.7%). We are able to maintain our strong presence because of our well-invested e-commerce and logistics infrastructure.

In our view, the shopping culture of the Spanish population is evolving, and we are well positioned to capitalize on these changes. First, we believe that consumers are seeking greater flexibility to shop anywhere at any time. As technology continues to penetrate shopping habits and consumers are increasingly valuing flexibility, an increasing number of retailers have to adapt their strategies to accommodate demand for freedom to shop at the customers' own time and style. We are well positioned to continue responding to this trend, because as the number one department store chain in Spain, we have a network of prominent retail locations in the most populated cities in Spain which enables us to provide a comprehensive omni-channel offering with our *Click&Express*, *Click&Collect* and *Click&Car* options. Second, customers are increasingly valuing the "experience" of shopping and are looking for a full suite of services and a certain "ambiance" when selecting venues in which to shop. Our retail assistants can provide and support this customer experience, as our salesforce are trained regularly to ensure quality of service and awareness of the latest products on offer. Specifically, we offer over 1.5 million hours of training, both online and in class. Additionally, we offer supplemental services such as gourmet experiences, cafeterias, food courts, financing services and parking lots. Finally, Spanish consumers are seeking speed and convenience. As a result of busier lifestyles and an increased emphasis on time prioritization, consumers are seeking faster shopping experiences and more convenient access to services. We offer a one-stop shop that ranges from food to fashion. Moreover, we have an extensive retail footprint that provides for both destination and convenience shopping.

El Corte Inglés in the Global Department Store Landscape

According to Euromonitor, in 2017, we were the fourth largest department store operator in the world and the largest department store operator in Europe, with a market share by sales of approximately 99% in 2017, in Spain. As a point of comparison, in 2017, the largest department store in the United Kingdom only had a 40% market share and the largest department store in the United States only had a 20% market share. In the rest of Europe, the department store landscape is not as prominent with none of the top 15 largest department stores globally being from Europe, apart from El Corte Inglés.

El Corte Inglés enjoys numerous competitive advantages compared to its global peers. First, the Spanish department store market is structurally different from those in the United States and the United Kingdom, as the Spanish department store market is resilient and growing, with performance correlated to the broader retail market. According to Euromonitor, from 2013 to 2016, the United States department store market contracted by 4.1% CAGR, even though the United States retail market grew by 3.7% CAGR. Similarly, over the same period, in the United Kingdom, the department store market contracted by 0.4%, despite 2.0% growth in the retail market. Conversely, over the same period, the Spanish retail market grew by 2.6% and El Corte Inglés experienced 4.5% growth. Furthermore, Euromonitor projects that, between 2017 and 2020, the United States and United Kingdom department store markets will contract by 4.7% and 0.9%, respectively, whereas the Spanish department store market will grow by 4.9%.

Second, Spain is a highly unsaturated market in terms of department store area per capita, far below that of the United Kingdom and the United States. While department store selling space per capita is 0.13 m^2 in the United States and 0.06 m^2 in the United Kingdom, department store selling space per capita in Spain is 0.05 m^2. As the dominant player in Spain, with approximately 99% of market share by sales in 2017, according to Euromonitor, El Corte Inglés is the natural, and we believe only, player with the resources, know-how and reputation to take advantage of the disparity.

In sum, the department store retail format in Spain is structurally different from global peers with positive correlation to broader retail performance and relatively low saturation, and as the industry leader, we believe we are best positioned to maintain and increase Spanish consumers' preference to shop at El Corte Inglés department stores.

[GRAPHIC]

Source: Company Financials calendarised to December for comparability with market, and Euromonitor as of Sep-2018

Note: ECI sales refer only to Department Stores sales. Dotted box represents Euromonitor estimated forecasted growth for Department Stores sector in Spain.

Real Estate Ownership

We are uniquely resilient to short-term industry fluctuations because we own almost all of the real estate used in our operations. The extent to which we own our real estate is unique among our global competitors. For example, according to publicly available company filings, Macy's and Nordstrom each own less than half of their occupied real estate. Without heavy exposure to rents and lease agreements, this competitive advantage allows us to maintain financial and operational flexibility and acts as a buffer to short-term industry fluctuations. Some of our selected strategic non-core real estate disposals were sold at a premium to independent valuations, even during the Spanish credit crisis.

Spanish Grocery Retail Market

Market Share of Key Players

The food and grocery market in Spain is uniquely highly fragmented. According to Alimarket, the top ten players in Spain had 71% of market share in 2016. In comparison, according to Kantar, the top ten market participants in the United Kingdom had 99% market share in 2016. Within the Spanish market, according to Alimarket, we had the seventh largest market share in 2016, accounting for approximately 4% of the market.

[GRAPHIC]

Source: Alimarket (2016) for Spain data and Kantar (2016) for United Kingdom data

Our two largest competitors in food and grocery in Spain are Mercadona and Carrefour. According to Global Data and Alimarket, as of and in 2016, Mercadona has 1,614 store locations and 27% market share, while the latter has 835 store locations and 10% market share. Our food and grocery offering is made through 269 store locations, and we have 4% market share. Despite our small store footprint, we are one of the leaders in the highly fragmented food and grocery sector in Spain, and we offer premium quality products at competitive prices.

[GRAPHIC]

Source: Alimarket (2016) for market share in 2016, Global Data (September 2017) for number of stores in 2016, Company Public Information (July 2018) for number of stores in 2017, and other public information for AhorraMas number of stores (2017) and Gadisa number of stores (September 2018)

Overview of the Food and Grocery Market by Channel

The Spanish food and grocery market is characterized by five channels: supermarkets, hypermarkets, discounters, convenience stores and forecourts. According to Euromonitor, the supermarket channel comprises approximately 70% of the market in 2017, and El Corte Inglés, through its Supermercado brand, has a strong presence in this channel. As of February 28, 2018, the Supermercado brand accounted for 37% of our grocery revenue. The hypermarket, discounter, convenience and forecourt channels account for approximately 15%, 12%, 1% and 1% of Spanish food and grocery retail market channels, respectively, according to Euromonitor. Because forecourts currently represent 11% and 3% of the food and grocery retail market channels in the United States and United Kingdom in 2017 according to Euromonitor, respectively, we believe that there is significant upside potential for growth in this channel in Spain. As of February 28, 2018, 29% of our grocery revenue was contributed by our large hypermarkets, and 25% was contributed by the fast-growing convenience and forecourt channels. In 2017, we entered into a strategic agreement with Repsol, the leading service station network in Spain to bring El Corte Inglés' Supercor *Stop & Go* forecourt concept to Repsol's approximately 3,230 refueling stations. Under this concept, we provide a wide product assortment, with approximately 35,000 food and beverage products, and approximately 60,000 non-food products.

El Corte Inglés' Competitive Positioning in the Food and Grocery Market

Players in the food and grocery market offer similar pricing propositions, which make quality of products, quality of services and freshness the key differentiating factors. Historically, we and the broader market have progressed towards lower pricing, and now the differentiating factor is primarily quality of products and quality of services. We offer higher quality and fresher produce to consumers for a similar price under our Supermercado and Supercor brands. We do so across the supermarket, hypermarket and convenience/forecourt formats. We are able to maintain our strong market position, despite our relatively smaller store footprint, due to our premium quality offerings at competitive prices. For example, we provide gourmet food offerings at 55 stores, and a total of 68 points of sale.

Spanish E-Commerce Dynamics

Overview of the Market

According to Euromonitor, in 2017, broadband penetration in Spain is 83%, compared to 79% in the United States, 87% in France, and 95% in the United Kingdom. Despite the similarity in broadband availability and penetration, Spanish customers display a general preference for physical retail channels, relative to consumers in other developed countries. According to Euromonitor, in 2017, e-commerce comprised 12% of retail sales in the United States, 16% in the United Kingdom and 8% in France, compared to only 4% in Spain. Moreover, Euromonitor projects that in 2022, e-commerce will comprise 19% of retail sales in the United States, 20% in the United Kingdom and 11% in France, versus only 6% of retail sales in Spain. We believe that factors such as cultural reasons, shopping experience preferences and climate, have uniquely impacted the penetration of e-commerce in Spain, as opposed to other developed countries like the United States or the United Kingdom. Despite the lower levels of e-commerce penetration in Spain, we believe we are uniquely positioned to benefit from the growth in e-commerce. According to Euromonitor, from 2012 to 2017, the CAGR in internet and mobile device retail sales was 13.9% in Spain, 17.8% in the United States, 20.4% in the United Kingdom, and 15.3% in France. Euromonitor projects that between 2017 and 2022, such growth rate will be 16.7% in Spain, 17.0% in the United States, 9.9% in the United Kingdom and 9.8% in France.

[GRAPHIC]

Source: Euromonitor as of September 2018

El Corte Inglés' E-Commerce Presence and Initiatives

We have a strong presence in the online retail market, which is a €8 billion market. According to Euromonitor, in 2017, we had 9.1% market share, which is second only to Amazon, with a 12.7% market share. Our next largest competitors are Inditex and Vente-privee, which had market shares of 8.2% and 4.8%, respectively. We are able to maintain our strong presence because of our well-invested e-commerce and logistics infrastructure.

[GRAPHIC]

Source: Euromonitor, September 2018.

We are continuously looking for initiatives in order to improve our e-commerce offering. We have made investments in our back office and distribution infrastructure, specifically by entering into a strategic agreement with petrol station operator Repsol, which will enlarge our distribution network by 3,230 points of sale. With regard to delivery time and service, we are the first company in Spain to market two-hour, nationwide delivery, and we will launch an El Corte Inglés immediate delivery app. We have also entered into a partnership with Alibaba, the Chinese e-commerce conglomerate, by which we can offer Alipay across all of our department stores. Moreover, we are in discussions with Alibaba in connection with new lines of collaboration. We are also actively driving e-commerce special offers, such as our "Week of Internet" and our "Black Friday" offerings. Both of these offerings have been very successful, as customers can access discounts across vertical products due to our one-stop-shop model.

We also have a broader social media presence than our Spanish retail peers. Compared to these peers, as of May 8, 2018, we have a number one position in terms of Facebook Likes (approximately 3.0 million) and Instagram followers (approximately 546,000) and number two in terms of Twitter followers (approximately 381,000).

BUSINESS

Overview

With over 80 years of experience in the Spanish retail sector, we are a leading retail group operating primarily in Spain and Portugal. Based on management's estimates, we contributed approximately 2.4% of Spain's total GDP for the year ended February 29, 2016 and our Retail division accounted for approximately 7.3% of total Spanish retail sales during the same time period. In addition, with over 92,000 employees as of February 2018, we are the largest private employer in Spain. In the year ended February 28, 2018, we had more than 700 million store visits to our department stores and our webpages registered approximately 392 million visits. For the twelve months ended May 31, 2018, we generated € 15,939 million of net turnover and €1,156 million of Adjusted EBITDA.

We run our business through two main divisions—Retail and Non-Retail. Our financial reporting segments include Retail and (constituting the Non-Retail divisions) Information Technology, Travel Agency, Insurance and Other businesses.

- The business areas that comprise our Retail business division are Fashion, Food, Household, Culture & Leisure and Other Retail, all of which are offered under one roof in most of our department stores and are testament to our unique retail concept. We are the leading department store chain in Spain, with an approximate 99% market share by sales in 2017, according to Euromonitor. We operate 94 department stores, 92 of which are located in Spain and two of which are located in Portugal, 176 convenience stores (of which 174 are located in Spain and two in Portugal) and 41 hypermarket stores. Our department stores offer third-party brand products and own brand products. We also operate independent stores such as Sfera (apparel), Bricor (DIY/home improvement) or Óptica2000 (hearing and vision products). For the twelve months ended May 31, 2018, our Retail business division generated net turnover and EBITDA of €13,201 million and €886 million, representing 78.2% and 83.9% of our total aggregate net turnover and consolidated EBITDA, respectively.

- We also operate a Non-Retail division. Our Non-Retail division targets both consumers and businesses. It leverages the retail footprint and scale of the Group. For the twelve months ended May 31, 2018, our Non-Retail division generated net turnover and EBITDA of €3,682 million and €163 million, representing 21.8% and 15.5% of our total aggregate net turnover and consolidated EBITDA, respectively.

We also offer consumer financing services, which are operated by Financiera El Corte Inglés, a joint venture with Santander Consumer Finance, in which we hold a 49% stake. Financiera El Corte Inglés is consolidated using the equity method.

We seek to offer our customers a comprehensive omni-channel shopping experience through both our physical and online stores, both of which have strong market positions in the respective retail space. For example, according to Euromonitor, we are one of the leading e-commerce retailers in Spain, currently ranking second only behind Amazon. Our existing infrastructure of physical retail network and strong logistics platform allow us to have nation-wide delivery capabilities. With more than 90 distribution centers (three of which are dedicated distribution centers and 94 of which are department stores with distribution center functions) and more than 640 stores, substantially all of which are located in Spain, we have started to offer delivery of more than 500,000 stock keeping units in a number of cities in less than two hours immediately following order, or in a time frame specified by the client. We offer a wide range of own and third-party brands, many of which are operated on a concession model. Concession agreements typically have low inventory risks. Our network and capillarity will allow us to extend this offering to the rest of Spanish cities where we are present, covering all autonomous regions in Spain. This offering supports purchases across all different channels, including in store, via catalogue, online, via mobile device or via *Click&Collect*.

We are a household brand in Spain and are a preferred destination for Spanish consumers and tourists to fulfill numerous shopping needs as a result of our best-in-class brand awareness and leading position in the distribution of top-of-mind retail brands in most of the categories in which we operate, according to internal market studies conducted during the last three years. We intend to remain a top retail destination for Spanish consumers and tourists by earning and retaining our customers' trust and constantly adapting our products and services to provide customers with a highly relevant and convenient offering while optimizing their retail experience. Across our two divisions (Retail and Non-Retail), we offer a relevant, comprehensive and high-quality product range with an extensive and diversified spectrum of third-party and own brands and services to address our customers' needs. Our product offering seeks to offer consumers a one-stop shop destination, providing all categories of products and, within each product category, a broad offering across the price spectrum. We believe that our extensive range of third-party and own brands and services combined with the customer satisfaction guarantee of the products and services that we offer has established a trust-based relationship between us and our customers. In addition, there were more than 11 million holders of the ECI card as of December 2017 (compared to a Spanish population of 46.6 million according to the World Bank as of 2017 and a household number of

18.5 million according to the Instituto Nacional de Estadística as of April 2018), which not only evidences the strength of our relationship with customers and the level of trust placed in us, but also provides us with insights into customer trends and preferences, allowing for a tailored customer service offering.

We believe that our real estate portfolio, developed since the company's inception in 1935, is valuable due to the prime location of its various properties and the portfolio's asset quality and scale, resulting in a level of penetration across all Spanish regions, major cities and population hubs that is very hard to replicate. ECI's real estate property, which is almost all wholly owned, represents one of the largest in Europe with over 10.0 million square meters of total built area, including department stores, hypermarkets, retail warehouses, offices and mixed industrial buildings. As of February 28, 2018, the properties that we own were valued, in aggregate, at €17,147 million by Tinsa, an independent third-party evaluator.

The following chart sets out our net turnover for the twelve months ended May 31, 2018 across our Retail and Non-Retail divisions.

	(€ in millions)	(Percent of net turnover)
Retail		
Fashion	€4,919	30.9%
Food	2,782	17.5%
Household	1,501	9.4%
Culture & Leisure	2,205	13.8%
Other Retail	703	4.4%
Interco sales and other	1,091	6.8%
Total Retail	**€13,201**	**82.8%**
Non-Retail		
Travel Agency	2,634	16.5%
Information Technology	722	4.5%
Insurance	195	1.2%
Other businesses	131	0.8%
Total Non-Retail	**€3,682**	**23.1%**
Consolidation adjustments	(944)	(5.9)%
Net turnover	**€15,939**	**100%**

Retail:

- *Fashion:* We offer a wide range of third-party and own brands' products through our network of department stores. Our collection of third-party brands offers a curated shopping experience for our customers and a compelling sales platform for apparel brands. At the same time, our comprehensive store and online network provide third-party brand owners with a "plug-and-play" capability to enter and access the Spanish market and to develop their brand value and proposition in Spain. Our own brands make our portfolio unique and provide a key factor of differentiation, especially in comparison to online retailers. We also offer a range of fashion and accessory products commercialized through our 157 stores of Sfera, ECI's own brand, as of February 28, 2018. For the twelve months ended May 31, 2018, our Fashion area generated €4,919 million of net turnover, representing 30.9% of our net turnover.

- *Food:* Our Food area is comprised of hypermarkets (41 stores under the Hipercor banner), supermarkets (56, all located within El Corte Inglés' department stores) and proximity and convenience stores (176 stores under the Supercor banner). Our Food business provides customers with a wide variety of high-quality fresh food products, groceries, household products and other items, ranging from staple items to more premium, gourmet options and includes third-party and our own brands. For the twelve months ended May 31, 2018, our Food area generated €2,782 million of net turnover, representing 17.5% of our net turnover. In 2017, we entered into a strategic agreement with Repsol, a major player in the Spanish oil and gas market, by which we agreed to act as a purchasing platform for Repsol, which will add over 3,200 points of sale to our food offering.

- *Culture & Leisure:* Our Culture & Leisure area offers a wide range of products including consumer electronics, stationery, books, music, movies, toys and sports-related products sold in our department stores and our omni-channel platforms. For the twelve months ended May 31, 2018, our Culture & Leisure area generated €2,205 million of net turnover, representing 13.8% of our net turnover.

- *Household:* Our household products are sold in our department stores and across all other platforms. Our Household area also includes 64 DIY/home improvement stores under the Bricor banner. For the twelve months ended May 31, 2018, our Household business area generated €1,501 million of net turnover, representing 9.4% of our net turnover.

- *Other Retail:* Our Other Retail area includes a range of vision and hearing products sold through our department stores, our omni-channel platforms, 108 Óptica2000 stores and a B2B subdivision that sells goods and executes refurbishment projects for corporations and public entities. For the twelve months ended May 31, 2018, our Other Retail area generated €703 million of net turnover, representing 4.4% of our net turnover.

Non-Retail:

- *Travel Agency:* Our Travel Agency segment, operated under the Viajes El Corte Inglés banner, provides travel packages and travel planning services to individual and corporate clients. Viajes El Corte Inglés operates the leading high street travel network in Spain with 497 stores and additionally operates 130 stores outside of Spain. For the twelve months ended May 31, 2018, our Travel Agency segment generated €2,634 million of net turnover, representing 16.5% of our net turnover.

- *Information Technology:* Our Information Technology segment, operating under the Informática El Corte Inglés brand, provides solutions and consulting services in the information and communication technology fields and also sells electronic and telecommunications products and services to both the public and the private sectors. For the twelve months ended May 31, 2018, our Information Technology segment generated €722 million of net turnover, representing 4.5% of our net turnover.

- *Insurance:* Our Insurance segment provides brokerage services (via Centro de Seguros y Servicios) and offers insurance products (via Seguros El Corte Inglés) through a network of 144 points of sale. The brokerage business sells medical, motor, life, home and accident insurance products at El Corte Inglés' points of sale from almost all leading insurance companies with presence in Spain. The Insurance business provides personal life and accidents insurance, savings insurance and pension plans, commercialized both at El Corte Inglés' points of sale and through other independent brokerages, through a network of more than 500 exclusive agents across Spain). For the twelve months ended May 31, 2018, our Insurance segment generated €195 million of net turnover, representing 1.3% of our net turnover.

- *Other businesses:* We also engage in other commercial activities, which mainly generate net turnover from the rental of offices and commercial premises to third parties in Spain, from purchasing centers and from other minor subsidiaries not included in any of the categories mentioned above. For the twelve months ended May 31, 2018, our Other businesses segment generated €131 million of net turnover, representing 0.8% of our net turnover.

Financing Services:

We began offering consumer finance services in 1965 with the launch of the ECI Card and our Financing Services affiliate, Financiera El Corte Inglés, began operations in 1995. In 2013 we entered into a joint-venture agreement with Santander Consumer Finance, pursuant to which we now hold a 49% equity interest and Santander Consumer Finance owns the remaining 51%. It offers financing solutions for the acquisition of goods, travel packages and services sold at El Corte Inglés' points of sale and Repsol gas stations in Spain and Portugal. The ECI Card, issued by Financiera El Corte Inglés, is used as a payment method by card holders to acquire and finance these acquisitions. As of December 2017, there are more than 11 million card holders of the ECI Card. Financiera El Corte Inglés is also the exclusive offeror of deferred payment plans to individuals within El Corte Inglés' stores. Overall, approximately 41% of our sales to retail customers for the twelve months ended December 31, 2017 were financed through Financiera El Corte Inglés' own payment methods (the ECI Card or deferred payment plans). For the year ended February 28, 2018, El Corte Inglés received a dividend of €37 million from Financiera El Corte Inglés. Financiera El Corte Inglés is consolidated under the equity method.

Our Competitive Strengths

We are the leading Spanish retailer—our brand is part of the fabric of Spanish culture and is synonymous with quality, service and innovation, giving rise to trust-based relationships with our customers

Since our founder Ramón Areces acquired a tailor-shop named El Corte Inglés in 1935 in Madrid, we have grown and evolved to become one of the largest retailers in the world by net turnover and the leading department store chain in Spain by sales with an approximate 99% market share by sales in 2017, according to Euromonitor. Today, we address a wide range of retail needs and non-retail needs.

El Corte Inglés is a household brand in Spain, associated with quality, service and innovation, and is a preferred choice for consumers to fulfill their everyday shopping needs as well as their special occasion-driven purchases. We enjoy the highest overall brand awareness in Spain among most of the categories in which we operate (including, among others, men and children's fashion and footwear), according to internal market studies conducted during the last three years. In addition, we enjoy a highly active online presence, in terms of Facebook likes (approximately 3 million), Twitter followers (approximately 381,000) and Instagram followers (approximately 546,000), each as of May 8, 2018, making us the most followed retail brand in Spain and the second most followed retail brand in the Twitter community. Key to our reputation among consumers is our customer service offering, which is summarized by our motto "if you are not satisfied, we will give you your money back." Moreover, we maintain and grow our relationships with customers through various brand engagement events by providing 365-day-a-year customer service and having a sales team in luxury that is fluent in, among other languages, Russian, Arabic and Chinese.

Driven by our broad product offerings, our highly recognized brand, and our dense and convenient store network, we attract significant footfall to our stores. In the year ended February 28, 2018, we had more than 700 million visitors to our department stores and our webpages registered approximately 392 million visits. We have a loyal customer base, and we ensure customer satisfaction by providing customers with surveys in order to solicit their feedback. During an internal representative survey undertaken in the course of May 2018, customer visits resulted in an approximate 70.1% Conversion Rate (ECI Card) and 60.4% Conversion Rate (Non-ECI Card Holders).

We are a large-scale Spanish institution with a significant role in the Spanish economy. According to management's estimates, our net turnover contributed approximately 2.4% of Spain's total GDP for the year ended February 29, 2016 and Retail accounted for approximately 7.3% of total Spanish retail sales during the same time period. In addition, with over 92,000 employees as of February 2018, we are the largest private employer in the country. We also dedicate time and resources to train our employees, having spent over 1.5 million training hours in the year ended February 28, 2018.

Our growth and development throughout our history has also been built on a framework of social responsibility. One of our main objectives has been to maintain a relationship of physical proximity and commitment to the communities in which we operate. For instance, in addition to ensuring our physical presence throughout Spain, we work with various organizations, ranging from business associations and employers' organizations to NGOs, the media and other private and public institutions, as part of our corporate social responsibility program. We believe that this focus has also contributed to establish us as a fully diversified go-to destination for Spanish families. Moreover, we adhere to strict homologation and selection processes of suppliers to ensure that we meet corporate social responsibility standards.

The chart below shows the locations of our department stores and Hipercor hypermarkets.

[GRAPHIC]

Source: Company information.

The chart below shows the locations of our more than 1,200 stores.

[GRAPHIC]

Source: Company information.

The chart below shows ECI's online market share by category in terms of net turnover for the year ended February 28, 2018.

ECI's online share by category

[GRAPHIC]

Note: Refers to e-Commerce turnover generated within Spain and foreign commercial turnover with Spain.

Source: CNMC

We offer our customers a one-stop shop destination supported by our consumer financing platform which allows us to understand and enable our customers

We believe that there are very few physical retail distribution groups in the world that meet as many consumer needs as we do. Our omni-channel platform meets the complete fashion needs of men, women and children. In addition, we offer a wide variety of fresh food items and products, groceries, a gourmet range of products, household, culture and leisure products. Over time, we have expanded our operations to include complementary non-retail activities, including a leading travel agency service and insurance brokerage services, supported by our Financing Services affiliate, a joint venture with Santander Consumer Finance (store card credit and personal payment plans). We also offer travel agency, IT services and other B2B services, including sales of goods and refurbishment projects, to our corporate clients.

Our customer proposition is comprised of a unique, diverse and relevant range of products that is highly differentiated from other retailers in Spain. Through a powerful combination and extensive range of our own brands and third-party brands, consumers are able to find in a single platform a unique range of products and services giving rise to a convenient one-stop shopping experience. This diversification allows us to serve the entire Spanish population across all social segments and retail categories and to reduce the volatility of net turnover in our offering. We cover the full price spectrum for all our products and services, allowing our customers to meet their day-to-day shopping needs at competitive prices while simultaneously purchasing gourmet or higher-end products and services.

Financiera El Corte Inglés, our joint venture with Santander Consumer Finance, allows us to ensure the provision of consumer financing services for our customers, thereby enhancing our sales and profitability. As of December 31, 2017, there were more than 11 million card holders of the ECI Card. In the twelve months ended December 31, 2017, approximately 41% of our sales to retail customers were financed through Financiera El Corte Inglés, either through the ECI Card or through deferred payment plans. Through these cards and payment plans, we benefit from the positive impact on sales that the card financing may generate, supporting the Retail and Travel Agency business segments by offering short-term interest-free deferred payments or financing to customers. The card comes with no signup cost, provides users with free two-hour parking and forecourt fuel discounts. In 2017, over €4.6 billion of goods and services were financed through use of the ECI card and €1.6 billion through deferred payment plans. As of May 2018, the Conversion Rate (ECI Card) was 70.1%, as opposed to the 60.4% average Conversion Rate (Non-ECI Card Holders).

We believe that Financiera El Corte Inglés' customer database, which was started following the launch of the ECI Card in 1965, is an exceptional tool to create instant financing solutions for our customers with limited credit risk. We believe that easy access to immediate and flexible financing solutions is a competitive advantage of El Corte Inglés versus other online and physical retailers, particularly for purchasing goods with high selling prices. It also gives us access to a large amount of customer data, which includes information on consumer preferences over a wide array of products and services. We believe that we have a 360-degree view on customers' shopping habits as a result of our one-stop shop concept and the information that we collect from purchases made using the ECI Card. Financiera El Corte Inglés' customer database allows us to better provide our customers with the services and products that they prefer. Analysis of this information helps us to identify new business opportunities, to design and rationalize our advertising strategy and promotions to our customers, to optimize resource management and to improve and tailor the offering and services proposition to our clients, and is expected to further contribute and reinforce our competitive position in the future. We believe that Financiera El Corte Inglés' customer database enhances the value proposition of El Corte Inglés as distribution channel from the perspective of third-party brands, since such customer data increases the capacity of third-party brands to target certain customer subsets that are more likely to be receptive to their promotion activity.

We are the major third-party brand retail platform in Spain, complemented by a successful own brand portfolio

As a consequence of our department stores' significant footfall and our un-replicable real estate portfolio, we represent a unique channel for third-party brands to increase visibility and improve their perception through brand association. We believe that we are one of the few third-party brand retail platforms in Spain and one of the best gateways to enter the Spanish retail market by offering a "plug-and-play" solution to immediately access the whole Spanish population. For example, for the year ended February 28, 2018, approximately 70% of our fashion sales are conducted under concession or third-party agreements, helping to reduce any inventory or fashion risk. As of August 31, 2018, as part of our third-party offering, approximately 18,500 staff in our stores are employed by these brands, rather than by El Corte Inglés.

In addition, we work with third-party brands to build their brand value in the Spanish market and to improve customers' value perception of their offerings.

Our leading industry positioning and added value proposition with third-party brands has strengthened our bargaining position with brand owners, as well as minimized our fashion risk, as brands can be rotated based on performance and stock can be phased out as seasons and trends continue to evolve at the risk of brand owners. In order to increase third-party brand penetration, we typically showcase third-party brand products alongside brands with a similar targeted demographic. We are currently implementing very successfully a new framework for our commercial agreements with third-party brands which requires a minimum guaranteed return per square meter utilized at our stores, regardless of realized sales, in addition to our variable fees generated from sales by third-party brands in our stores.

As of September 2018, we sell products from more than 1,500 third-party brands (excluding grocery products), more than 140 of which are sold in Spain exclusively through El Corte Inglés, including well-known international brands, across all categories in our stores. These brands include, among others, Prada, Chanel, Christian Dior, Ermenegildo Zegna, Bobbi Brown, Apple, Samsung, Bosch, Hansgrohe and Miele. Some of these brands have developed, in alliance with El Corte Inglés, concept stores within the department stores, converting these spaces into their actual flagship stores, such as the Samsung space in Callao and the Nike store in Puerta del Sol. As of September 2018, there are approximately 1.7 million third-party brand stock keeping units available. It is not uncommon that third-party brands try to secure sales spaces in our locations that allow them to be strategically showcased alongside certain competitors (e.g., premium brands that can improve brand positioning and perception).

In addition to selling third-party brands, we supplement our already extensive offering with our own brands across all sub-categories within food and non-food retail. We have 101 non-food private brands (63 fashion brands, 20 leisure brands and 18 home brands) and nine food private brands. Our decision to supplement our third-party offerings with our own brands has allowed us to provide a full range of options to customers by strategically identifying gaps in category price points, further enhancing product mix and increasing footfall as we are able to offer solutions and products across a wider range of the category spectrum, with some key brands, such as Emidio Tucci in men's fashion, also becoming household labels in their own right. Our own brands also improve our profitability due to their higher margin relative to third-party brands. They also represent a key factor of differentiation versus online retailers. Additional advantages of providing our own brands include having a full own brand infrastructure in place, and providing the first step for international expansion.

The chart below shows ECI's net turnover split between own brands and third-party brands for the year ended February 28, 2018.

% of total sales on each category (FY 2017).

[GRAPHIC]

We are an omni-channel player leveraging on our real estate locations and differentiated online positioning

The demand for omni-channel shopping is underpinned by customers seeking more choice of products and brands and more ways to shop. Over time, we have proven to be successful by adapting and evolving our proposition to meet changing customer demands. Our approach to customer service is centered on the seamless operation of an omni-channel strategy to provide customers high-quality service and flexibility with respect to purchase and delivery options. We leverage our internal abilities and know-how to provide best-in-class services to meet customers' needs.

El Corte Inglés has been a pioneer in the omni-channel development in Spain, leveraging our brand name, customer confidence and reach with the Spanish population. During 2017, we have had, on average, over 12.5 million unique online users per month. We have always focused on addressing our clients' needs in an omni-channel offering, of which e-commerce has been the latest natural evolution after more than 20 years of home shopping. Before the internet era, El Corte Inglés proactively promoted catalogue and telephone sales among customers. Additionally, El Corte Inglés played an important role in grocery distribution, not only in the form of in-store sales but also via telephone orders, as El Corte Inglés has been delivering groceries to Spanish households for more than 25 years.

In recent years we have enhanced our customer services offerings through the incorporation of e-commerce features to our omni-channel strategy. Since the introduction and development of e-commerce into our operations, we have successfully leveraged our existing infrastructure and brand awareness to offer services such as *Click&Collect* (collecting online purchases in stores), *Click&Express* (delivering online purchases with two-hour delivery to a number of Spanish cities) and *Click&Car* (collecting online grocery purchases in the parking lot), as well as home delivery throughout Spain and Portugal of merchandise purchased online. Our one-stop-shop business model positions us well for e-commerce marketing occasions, enabling customers to access discounted products during our Week of Internet and Black Friday sales occasions. As of today, our omni-channel proposition includes the ability to purchase in store, via catalogue, online, via mobile device, via *Click&Collect*, *Click&Express* or via *Click&Car*.

Currently, we offer approximately 1.49 million references online, out of which initially over 500,000 can be delivered in a number of Spanish cities within two hours, any day of the year, or in the time frame requested by the client. In the coming months, we expect to launch a new app/digital platform to further extend this service to most Spanish cities.

Our omni-channel platform is supported by a fully-invested infrastructure. We have more than 90 distribution hubs (3 large distribution centers in Madrid, Barcelona and the Canary Islands as well as 94 department stores) and more than 640 stores across Spain. Moreover, we have store locations in more than 50 cities in Iberia. We also benefit from a strong logistics platform that includes nationwide road transportation capabilities, highly efficient last-mile delivery, an exclusive and experienced operational network and a unified and extremely coordinated omni-channel platform. The e-commerce platform allows us to serve customers anytime, without being subject to regulatory store opening limitations. We also have a unique infrastructure that allows us to access the Canary Islands. Our ability to reach a vast majority of households in Spain requires no further investment. Our strategically located department stores are used as dark stores for delivery. This allows us to reach customers faster than our competitors, especially in secondary cities where our competitors have no logistics infrastructure and/or capabilities.

This flexibility has allowed us to grow our e-commerce business faster than the industry average in recent years. During the year ended February 28, 2018, we carried out an average of approximately 15,000 online deliveries a day with an average basket size of more than €100, delivering a total of approximately 150,000 items a day and processing approximately 5 million orders. The flexibility and service that our e-commerce offering provides has helped position us as the number one e-commerce retailer with omni-channel capabilities in the Spanish market, and we are the second largest e-commerce retailer in Spain as measured by market share, according to Euromonitor. In 2017, we had the second-largest market share for online retail sales in Spain (9.1%), behind only Amazon (12.7%). Our e-commerce offering and strategy is differentiated from that of Amazon in several critical ways. For example, our offering elevates third-party brands, enables delivery of a larger pool of references in less than two hours, provides full country coverage, carries low inventory risk, offers private label products, contains differentiated categories such as luxury brands, gourmet offerings, services and warranties and provides consumer financing if required. Moreover, we enjoy a leading market share position across all of our departments, including fashion, food, electronics, toys and sports, shoes and home goods. Additionally, we benefit from superior online margins on third-party brands, demonstrating the benefits of our brand-building capabilities.

We have a partnership with Alibaba, the Chinese e-commerce conglomerate, which has allowed us to continue increasing our omni-channel platform. Under this agreement, we accept Alipay across all of our department stores.

We operate a diversified business model that reduces our exposure to the volatility of single Retail segments and realizes significant synergies

We operate a diversified business model which includes selling products and providing services across a wide range of sectors. The different segments of our business have been developed mostly organically throughout the course of our history and are complementary to each other.

Visitor traffic generated through our stores (we had more than 700 million store visitors to our department stores in the year ended February 28, 2018) and websites is a differential element which creates significant cross-selling opportunities. Such cross-selling opportunities, which are increased by the large number of store locations, existing both within the areas which include Fashion, Food, Household, Culture & Leisure, among others, and across other Non-Retail segments such as Travel Agency or Insurance. All segments contribute to increase footfall within El Corte Inglés' department stores, potentially bringing visitors' attention to other products and services.

In addition to footfall influence on cross-selling, the Insurance business benefits from sales in the Retail and Travel Agency segments, offering complementary insurance products related to goods and services sold (i.e., electronics, travel packages).

Furthermore, our diversified category offerings range from every necessity like groceries and basic apparel to high ticket value luxury items, thereby exposing us to different market dynamics and enabling us to reduce volatility throughout economic cycles.

In addition to offering diversified products and services, we serve a diverse customer base. Our brand awareness is generally consistent across age groups, genders and income levels. We have successfully developed and commercialized adjacent industry offerings that are provided to private and corporate clients alike.

As a result, we believe that our diversified product and services offering reduces our exposure to risks in any single segment, and at the same time allows us to benefit from significant day-to-day operational synergies. Our diversification allows for a full and complementary offer to a wide range of private and corporate clients, further cementing our brand prominence in Spain.

Our €17.1 billion portfolio of real estate assets, with prime locations throughout Spain, is one of the largest among European retailers

We own one of the largest real estate portfolios among European retailers. We believe that the extensive freehold portfolio we have developed over the years provides us with a competitive advantage against other consumer alternatives due primarily to the prime location of our stores, the difficulty in replicating this portfolio and the resulting operational and financial flexibility. Moreover, we have historically disposed of real estate holdings at an amount above the respective Tinsa valuations.

Since 1935, we have sought to locate and operate our stores in prime locations in Spain and Portugal. We believe prime location is necessary to target a large volume of consumers as well as to facilitate their ability to buy from our stores on a recurring basis. Our extensive network of stores also allows us to manage our stock and provides us with a competitive delivery time from our online platform, not only in Madrid and Barcelona, but throughout Spain. Moreover, our relatively limited lease payment obligations resulting from our freehold real estate portfolio enhances our financial flexibility.

In addition, our prime real estate portfolio is very visible and well-positioned across all Spanish metropolitan areas, enabling our unrivalled reach to the Spanish population and promoting our brand awareness. Our department stores are located in affluent areas of Spain with strong traffic and tourist flows.

As of February 28, 2018, our real estate portfolio comprised 94 department stores (two of which are located in Portugal), containing 41 hypermarkets (trading as Hipercor) and 56 supermarkets located within the department stores. Our department stores account for over 87% of our portfolio's gross asset value ("**GAV**") as of February 28, 2018. We also operate a total of 176 convenience stores (trading as Supercor, of which four are located in Portugal), out of which 103 are part of El Corte Inglés real estate portfolio. El Corte Inglés also owns a number of warehouses and logistics platforms, as well as offices, some of which are in use by El Corte Inglés whilst the rest are leased to third parties.

As of February 28, 2018, our real estate portfolio had a total built area of over 10.0 million square meters, and has been valued at €17,147 million as at February 28, 2018 by Tinsa, an independent appraisal firm. See "*Risk Factors—Risks Related to Our Business and our Operations—The valuation report provided by Tinsa may incorrectly assess the value of our property, and we may be required to adjust the current fair value of our properties, which could result in the recognition of losses." and "Business—Real Estate Portfolio and Valuation."* The total built area of our retail real estate portfolio is comprised of a 3,994 million square meter commercial footprint, which is larger than that of any other full-service retailer in Spain, and a 6,238 million square meter operation support infrastructure including parking, warehouses, offices, services and installation areas, which is optimized to support efficient and effective diversified retail operations.

The following table shows our department store breakdown by asset value.

# of Department Stores

[GRAPHIC]

Source: Tinsa valuation report (Feb-2018).

We divide our real estate portfolio into three asset types: (i) stores and hypermarkets, (ii) high street retail and convenience stores and (iii) warehouses, offices and mixed use. As at February 28, 2018, the first had a gross asset value of €14,964 million, the second had a gross asset value of €1,051 million and the third had a gross asset value of €1,132 million, which sums to a total gross asset value of €17,147 million. See "*Risk Factors—Risks Related to Our Business and our Operations—The valuation report provided by Tinsa may incorrectly assess the value of our property, and we may be required to adjust the current fair value of our properties, which could result in the recognition of losses*." and "*Business—Real Estate Portfolio and Valuation.*"

The portfolio value is marked by geographic diversity with 32% of our real estate held in Madrid, 10% in Barcelona, 6% in each of Valencia and Malaga, 4% in Seville and 42% held in other Spanish regions. The premium locations of the real estate assets together with this geographic diversity allow El Corte Inglés a high degree of penetration throughout all Spanish regions, cities and key population hubs, as well as in the two main population hubs in Portugal.

We have a strong financial profile and a well-invested asset base

Over the past two years, our net turnover has grown at a CAGR of 2.3%, from €15,220 million for the year ended February 29, 2016 to €15,935 million for the year ended February 28, 2018, due to macroeconomic improvement in Spain and our commercial initiatives. This was driven mostly by our Retail division, which grew at a CAGR over the same period of 2.8%. Net turnover in our Retail division grew from €12,546 million to €13,237 million and in our Non-Retail division from €3,574 million to €3,659 million over the same period. Over the same two-year period, Adjusted EBITDA has grown at a CAGR of 6.4%, from €1,022 million to €1,152 million, due to our commercial initiatives and cost containing efforts. Adjusted EBITDA margin has grown over the same period from 6.7% to 7.2%.

After capital expenditure investments of approximately €6,400 million from 2007 to 2012, we have deployed very limited expansion investments over the past three years. Notably, for the years ended February 29, 2016, February 28, 2017 and February 28, 2018 our maintenance and refurbishment capital expenditure was €321 million, €322 million and €321 million, respectively, which represented 2.1%, 2.1% and 2.0%, respectively of our net turnover for each year. Due to the improvement of EBITDA and certain asset disposals, for the years ended February 29, 2016, February 28, 2017 and February 28, 2018 we had a cash conversion of 69.6%, 80.7% and 64.4%, respectively.

We have also experienced sustained deleveraging, which has been achieved on the back of Adjusted EBITDA growth, strong cash conversion and selected non-core asset disposals. From the year ended February 29, 2016 to the year ended February 28, 2018, our net leverage decreased from 3.7x to 3.3x. Our management team also plans to continue our conservative dividend policy in line with that of previous years.

We have an experienced management team with clear focus on the Group's financial policy

We have a highly experienced and committed management team with extensive knowledge of the industry and an average of over 25 years' experience at El Corte Inglés. Our management team is led by Jesús Nuño de la Rosa y Coloma, Chairman and Co-CEO responsible for corporate matters and subsidiaries, and Victor del Pozo Gil, Co-CEO responsible for the Retail division and department stores.

Prior to being appointed Co-CEO and subsequently Chairman, Mr. Nuño de la Rosa y Coloma spent most of his professional career at El Corte Inglés' Travel Agency segment, of which he has been the manager since 1998. In addition, he has held various leadership positions at the Group, with a particular focus on cross divisional initiatives.

Víctor del Pozo joined El Corte Inglés more than 30 years ago and has since led a number of segments. From 2012 to 2016, Mr. del Pozo led the repositioning of El Corte Inglés' Food area, turning it into one of the leading food distribution businesses in Spain by profitability.

Overall, our management team has demonstrated a strong track record of cash generation, resulting from strong financial discipline across segments. This success has resulted largely from close management of margins, costs, cash and capital.

In addition to our current management team, we have a large number of corporate employees with extensive experience in El Corte Inglés and in the retail industry more generally. Additionally, we provide our sales workforce with extensive personnel trainings, which allow us to offer outstanding levels of service and attention. As part of our business plan, we intend to increase our training program offering for sellers and managers.

Our Strategy

We intend to maintain our leading market positions, improve our operational efficiency and further increase our operating margins. By leveraging our strengths, we will continue focusing on three "strategic pillars" to achieve these goals, namely (i) traffic generation through omni-channel sales, (ii) outstanding customer service and (iii) adding value to brands. These three strategic pillars reinforce our value proposition and are key for our business model by providing us with bargaining power versus third-party brands and by differentiating ourselves from all our competitors, especially online retailers and category specialists:

- First, strong customer traffic both derives from and generates a loyal customer base and compelling propositions for third-party brands. Our one-stop-shop concept and our unique brand range represent a unique value proposition for our customers, generating the traffic that attracts third-party brands to our stores, in both major and secondary cities. This focus on generating customer traffic and addressing clients' needs has resulted in an omni-channel shopping platform which diversifies our product and brand offerings.

- Second, our goal of offering outstanding customer service is to be the customers' top choice in all product categories, locations where we operate and channels through which we reach our customers. In fact, our brand awareness and trust from our clients make us believe that, when our prices are in line with those of other retailers, our customers choose El Corte Inglés over other retailers. Critical to our customer service are our omni-channel platform and more than 92,000 employees as of February 2018 who offer in-store service and help customers make purchase decisions and assist with post-sale needs, supported by our extensive personnel trainings that allow us to offer outstanding and targeted service. Our service offering also includes customer finance solutions (including immediate financing for the ECI Card holders), fashion ateliers, furniture renting, florist services, license administration and personal shoppers.

- Third, within our third-party brand partner platform, we help third-party brands build and communicate their brand value to consumers. We provide third-party brands with the physical space to display their merchandise, and also make them part of El Corte Inglés' shopping experience, thus giving them access to our curated shopping spaces and vertical promotion activity. In addition, thanks to our premium locations, third-party brands that distribute their products via El Corte Inglés enjoy high visibility among both local and tourist consumers. We target to add significant value to third-party brands that wish to enter the Iberian market, as El Corte Inglés can offer fast access and meaningful penetration to the market at a competitive cost.

In order to achieve these objectives and as part of our business plan, we launched a transformation plan in 2017 to be implemented in a period of five years, which is designed to adapt to market trends, optimize the procurement process, increase sales and improve margins. The first year of the transformation plan has been implemented and stands in line with the projected results. The transformation plan is supported by both the human resources initiative, including increased training programs for sellers and managers, and the introduction of a new compensation model that provides incentives across levels. Moreover, the transformation plan is also supported by an external communication plan that generates high levels of engagement. The transformation plan includes key strategies as set forth below:

Improve operational flexibility through strategic business positioning by product category

The diversified product category is key to strengthening our position in the Iberian retail market. We have a number of initiatives to appropriately and timely adjust both the price and the variety of offerings in each product category when market conditions change. These initiatives are implemented in each of our product categories to offer customers a more fulsome proposition. For example, we continuously monitor the use of retail spaces for different product categories, redistribute and allocate new retail spaces for high demand products, as we have recently converted textiles retail spaces at a number of Hipercor stores into El Corte Inglés spaces, offering different product categories in those retail spaces. The product categories which are sold in the converted retail spaces have been proactively selected based on the demand and characteristics of each specific department store, its location and its clients' specific consumption patterns. By implementing certain initiatives we also aim to improve the customers' experience of our expanded product portfolio in stores. For example, sales assistants are equipped with tablets, providing them with instant access to the extended product catalogue and supplemental references. Additional examples include the creation of experience stores, such as the Samsung flagship store within the Callao department store in Madrid, where our clients can try and experience Samsung's full product portfolio, or the new Nike store in Puerta del Sol in Madrid, one of their largest flagship stores in Europe. We also target the expansion of our own brands' portfolio internationally, by engaging with third-party retailers and opening Sfera stores overseas through a capital light approach. To date, we have employed a number of different routes for international operations such as selling private label grocery and clothes in other international retailers such as Karstadt in Germany and Palacio de Hierro in Mexico. We believe this represents a capital-light channel to grow the sales of our own brand and to further diversify our net turnover by geographical area. We also undertake initiatives to reinforce the product portfolio of our own brand by focusing on quality positioning instead of price positioning, optimizing assortment focusing on margin to compensate lower prices, boost fresh products to increase purchase frequency and develop growth through innovative products and formats.

Optimize own-brand purchase efficiencies and third-party brand negotiation model

Our ability to continue purchasing at better terms depends on our ability to manage the cost of sales which is also key to our business objective of increasing operating margins. On one hand, we manage our cost by continuously improving our purchase channel and optimizing the purchase process of our own brand. We will continue to invest in operational and organizational effectiveness and we have a number of initiatives for the continuous optimization of our purchase planning methodology, our supplier base, our time to market and our fashion production process. These initiatives aim to ensure the relevance, development and, ultimately, profitability of our own brands.

On the other hand, we manage our cost through the new contract negotiation model with third-party brands. We have a new framework for the commercial agreement that we are executing with third-party brands, which includes a minimum guaranteed return per square meter utilized at our store locations regardless of realized sales. This minimum profitability requirement highlights our distinctive value in terms of premium store locations. We also charge fees to third-party brands based on a percentage of the net turnover generated by the third-party brands at El Corte Inglés' stores. We believe that the guaranteed return and the fees we earn is an effective method to monetize both our premium store locations and the unique value-add that we provide to third-party brands. We are also carrying out control plans to ensure the quality and attractiveness of the third-party brand products in our stores.

Improve selling ability by prioritizing customers' needs and improving store management

We prioritize customers' needs by developing increasing knowledge on our clients, including their purchase preferences, behavior, opinions and feedback on shopping experience. We better understand customers' needs by analyzing all the customer shopping data collected and by monetizing the value of the relevant information in our database. This analysis demonstrates customers' shopping preferences and high-demand products. For example, the purchases made through the ECI Card and through El Corte Inglés website provide us with useful information of the services and products that our customers need. We have abundant and valuable customer data due to our one-stop shop value proposition to customers and omni-channel approach to product distribution. The data we collect is treated and analyzed through sophisticated mathematical tools whose outputs help us identify the optimal approach to our products and services offering. We will continue to leverage our customer data so as to provide better sales categories and opportunities to our customers. In addition, we carry out personalized marketing efforts both to increase sales and reduce promotional costs. Our focus on customers' needs also includes further enhancing our omni-channel shopping platform which provides more ways for customers to browse, discover and purchase products, so as to expand customers' shopping experiences.

In addition, we aim to increase sale margins by active store management which contributes to both individual margin and coordinated commercial actions. We improve our store organization by boosting integration and specialization of various channels as well as integrating and rationalizing formats and companies.

Optimize operating efficiency and enhance digital offering

We continue to improve the operational efficiency of our omni-channel distribution model, which maximizes our net turnover and consequently reduces our financing needs. We also optimize sales opportunities by minimizing our stocks and creating new strategies for stock management. In addition, the omni-channel sales models enabled us to improve efficiency in our supply chain. Other initiatives aiming at maximizing efficiency include plans to further develop our control systems that track operating performance, to redefine processes of investment allocation, to maximize space profitability and to establish minimum return hurdles for new investment opportunities.

We are also in the process of implementing several digital initiatives, which are integral to developing our enhanced digital platform and activities, further reinforce our omni-channel capabilities and facilitate the overall digital transformation of El Corte Inglés. Firstly, we are implementing a real-time inventory tracking system in all our stores, with the ultimate goal to have each store operating as both a shop for customers and as a logistics center for the Group. The SAP Retail launch in stores together with the new inventory processes will allow us to be more efficient, fast and accurate in connection with in-store services. Secondly, we continue to enhance our omni-channel strategy in order to make all our products available for purchase both online or by phone, and providing customers, either in store or online, with real-time information on the complete product categories sold in each of the stores as well as the extended catalogue of third-party brands. Specifically, we are equipping all our store assistants with the technical skills and physical means (such as personal digital assistants) to allow them to view the online product portfolio when completing sales, so as to adapt the online platform to face-to-face sales. We leverage on analytic capabilities to reach additional sales in brick and mortar stores. We also have an ongoing initiative to migrate all the third-party brands with presence in our physical stores to our digital channels. Lastly, we are working to integrate and improve our logistics systems with those of our suppliers, so as to further enhance their ability to distribute directly to our customers. Lastly, we are developing a mobile application for our clients in order to generate and customize a digital relationship with our clients where delivery costs are not an issue. The application provides for immediate delivery of approximately 500,000 stock keeping units in Spain at a flat delivery fee. The immediate delivery is targeted to provide delivery of goods to customers within two hours of the purchase completion or, alternatively, within a time frame selected by the customer at the time of purchase. This efficient delivery system is the result of the capillarity of our extensive retail network spread across Spain and Portugal. We believe these technological initiatives will all contribute to increase our sales demand. In parallel with the potential e-commerce development in Spain, we are also implementing certain e-commerce initiatives, including investments in back office and distribution, partnerships with other e-commerce providers and the organization of online sales events. As a result of these initiatives, we believe we are benefiting from a broader social media presence compared to other retailers in Spain.

Focus on generating cash flow to continue the deleveraging path

Our goal is to continue to increase cash flow generation through our initiatives to increase sales and improve profitability, which will permit El Corte Inglés to increase its available cash flow for deleveraging. Our continued focus on cost control and efficiency aims to further improve our EBITDA margins. We expect that the increased EBITDA, together with a limited capital expenditure program and our continued efforts to optimize working capital, will drive strong cash flow generation. We may further consider opportunistic asset sales to support deleveraging. Since 2013, we have also adopted a more prudent approach to capital expenditure management. We plan to continue to focus on cash flow generation, which, together with our strong liquidity position, conservative dividend policy, limited expansion plan, well-invested asset base and limited foreign exchange and interest rate exposure, will help us to continue on our deleveraging path.

History and Development

El Corte Inglés was founded in 1935 by Mr. Ramón Areces who acquired a tailor shop in Madrid named "El Corte Inglés." In 1939, the first building was purchased on Preciados Street, in Madrid, transforming the business from a tailor shop into a clothing store for the entire family.

Since then, we have gradually expanded our business and diversified our activities, both geographically within the Iberian peninsula and in relation to the breadth and depth of our products and services, thus becoming a market leader in the Spanish consumer retail industry, in parallel, we have also developed a real estate portfolio that is difficult to replicate as a result of its asset locations, asset quality and scale:

- 1965—We began our expansion outside of Madrid, opening stores in Barcelona, Seville and Bilbao and launched our first ECI Card.

- 1969—We ventured into the travel agency business though Viajes El Corte Inglés, S.A., offering a wide range of domestic and international travel services and specialized planning activities.

- 1976—We opened Óptica2000 to market services and products related to hearing and vision.

- 1979—We entered the hypermarket business through Hipercor, S.A., a chain of stores offering food items, textiles, household articles, drugstore and perfumery products, catering services and other products.

- 1982—We started offering insurance services with the acquisition of an insurance company called Centro de Seguros y Servicios, Correduría de Seguros, S.A.

- 1985—We began our distance selling offering with the use of Videotex.

- 1988—Through the establishment of Informática El Corte Inglés, S.A., we began offering technological consulting services, internet and communication technology solutions and infrastructure.

- 1990—We initiated marketing and sales on television.

- 1995—We acquired Galerías Preciados, S.A.'s assets, our main competitor in the Spanish department store market, adding 30 large department stores to our asset portfolio. We also entered the consumer finance business with the launch of Financiera El Corte Inglés E.F.C., S.A.

- 1998—We entered into agreement with Repsol S.A. to manage petrol station shops (Gespevesa).

- 2000—We began further diversifying our Retail division thought the opening of convenience stores. We also launched our official website.

- 2001—We opened our first store outside of Spain, in Lisbon, Portugal. We also acquired nine Marks & Spencer department stores and five Carrefour hypermarkets.

- 2002—We launched Sfera, a brand specializing in fashion and accessories for women, men and children at competitive prices.

- 2004—We acquired seven Champion supermarkets from Carrefour and began operating them under the brand Supercor, S.A.

- 2006—We ventured into the home improvement business with Bricor, S.A. We also opened a department store in Porto, Portugal.

- 2013—We entered into a strategic investment agreement with Santander Consumer Finance to jointly manage Financiera El Corte Inglés.

- 2015—We negotiated a convertible loan with PrimeFin, S.A., through which PrimeFin now owns 10% of our share capital.

- 2017—The merger between El Corte Inglés, S.A. and Hipercor took place. We also announced a strategic agreement with Repsol to bring El Corte Inglés' Supercor Stop&Go forecourt concept to its gas stations.

Overview of Our Divisions

El Corte Inglés department stores, known in the market for their exclusive and extensive range of products, represent the world's fourth largest department store and Europe's largest department store by net turnover, with stores in both Spain and Portugal. As of February 28, 2018, El Corte Inglés operated approximately 94 department stores, 92 of which are located in Spain and two of which are located in Portugal.

The department stores are designed to attract customers with different needs, tastes, interests and financial means by providing a broad and varied commercial offering through an ample product assortment with a full price range offering. The selection of available products includes menswear, women and children's fashion, footwear, sportswear, household accessories, electronics, appliances (including computer products), décor, beauty products, jewelry and gifts. In addition, the department stores also have areas dedicated to the Issuer's other service departments, such as store card offices, travel agencies, insurance brokerage and general customer service centers.

Retail

Fashion

Our Fashion area offers more than 1,500 own and third-party brands, including well-known Spanish and international brands like Prada, Chanel, Dolce & Gabbana, Louis Vuitton, Loewe, Yves Saint Laurent, Carolina Herrera, Pal Zileri, Calvin Klein, Hugo Boss, Moncler, Burberry, Valentino, Sandro, Michael Kors, Belstaff, Giorgio Armani, Ralph Lauren, Zegna and Christian Dior, some of which are also sold exclusively in Spain in the El Corte Inglés department stores, and others are sold through their own concessions as is the case for a number of fashion designers. Having well-known third-party brands in our department stores allows us to observe consumer trends, allows adaptability to change in fashion industry and reduces fashion risk. We also market a number of private label brands such as Emidio Tucci, Easy Wear, Brotes, Studio Classics, Green Coast, Dustin, Tizzas, Tintoretto, Gloria Ortiz and Fórmul@Joven, each of which is designed to address specific customer needs. Our own brands improve El Corte Inglés overall profitability thanks to their higher margin compared to third-party brands and the increased bargaining power that they provide us with during negotiations with third-party brands, and represent a key factor of differentiation versus online retailers. For the twelve months ended February 28, 2018, sales of our own brands and third-party brands constituted 31% and 69% of our Fashion area net turnover, respectively.

Our Fashion area also includes Sfera Joven, S.A. ("**Sfera**"). With its own team of designers, Sfera is a chain store designed to attract a wide-ranging target audience by employing a business model with greater stock control and by controlling the design and development of proprietary collections. Sfera stores seek to offer customers modern styles at reasonable prices in addition to offering variety in collections and garments. Sfera provides a large selection of men, women and children's apparel, including clothing, footwear and accessories and it operates through its own stores, establishments at El Corte Inglés department stores and also through brand-specific concessions. Sfera is present in Spain, Portugal, Greece, Mexico, Peru, Chile, Switzerland, Saudi Arabia, the United Arab Emirates and Philippines. As of February 28, 2018, we operated 157 Sfera stores.

For the twelve months ended May 31, 2018, our Fashion area generated aggregated net turnover of €4,919 million, contributing 30.9% to El Corte Inglés' net turnover.

Food

We have a leading Food area which is focused on offering the most competitive prices on high-quality and low-cost products as well as different policies based on quality of service, freshness of products, range of products (gourmet products and products under exclusivity) and active promotional campaigns to communicate price positioning and improve client perception. Under this area, we operate hypermarkets and supermarkets that sell both third-party brands, including Joselito, Macallan, Valrhona, G'Vine, Caspian Pearl, Veuve Clicquot, Caspian Pearl, Lindt, 5J, Nespresso, Moët & Chandon, Perrier, Dom Pérignon, Riofrío, Godiva, De Cecco, Fiji Water, VOSS, De Cecco, Neuhaus, Rana and Cartwright & Butler, and our own brands, including El Corte Inglés, El Corte Inglés Bio, Special Line, All Intense, Digrato, Aliada, Veckia and Club del Gourmet El Corte Inglés.

As of February 28, 2018, we operated 273 food stores, including 56 supermarkets, 41 Hipercor hypermarkets and 176 convenience stores. Additionally, we have a strong gourmet offering with 55 points of sale and we employ several chefs which have been awarded an aggregate of 13 Michelin stars.

For the twelve months ended May 31, 2018, Supermercados El Corte Inglés, Hipercor hypermarkets and Supercor convenience stores generated aggregated net turnover of €2,782 million, contributing 17.5% to El Corte Inglés' net turnover.

Our Food area consists of the following subdivisions:

Supermarkets

Our supermarkets sub-segment comprises 56 supermarkets, all of which are located within the department stores and mainly located in key urban areas. Our supermarkets offer a wide variety of fresh food items and brands, groceries, household products and other items. For the year ended February 28, 2018, Supermercados El Corte Inglés generated total aggregated net turnover of €1,032 million, contributing 7.8% to El Corte Inglés' Retail segment net turnover.

Hypermarkets

The hypermarket subdivision is comprised of our 41 Hipercor hypermarkets, and as of February 28, 2018, all of these hypermarkets were located in Spain and within our department stores.

Hipercor, one of Spain's leading hypermarkets, offers its customers approximately 57,000 products corresponding to national, international, regional and local products, including traditional food items, groceries, textiles, household articles, drugstore and perfumery products, catering services and other products. Hipercor seeks to offer its customers competitive prices and high quality. Hipercor is the proprietor of the low-cost brand, Aliada, and its own private label, Hipercor.

For the twelve months ended February 28, 2018, Hipercor hypermarkets generated total aggregated net turnover of €792 million, contributing 6.0% to El Corte Inglés' Retail segment net turnover.

Convenience Stores and Forecourts

Our convenience store subdivision comprises two chain supermarket stores, Supercor and Supercor Exprés, each with opening hours aimed at addressing the different clients' needs. In addition to selling leading brands, Supercor and Supercor Exprés sell El Corte Inglés brands.

Supercor is a supermarket chain, situated in locations permitting easy access to customers. Supercor stocks a wide range of approximately 20,000 items, including food items, perishable products and other general merchandise. The range of fresh products such as meat, fish, fruit and vegetables are one of Supercor's identifying features.

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

As of February 28, 2018, we operated 176 convenience stores (of which two are located in Portugal). For the year ended February 28, 2018, our convenience stores generated total aggregated net turnover of €681 million, contributing 5.1% to El Corte Inglés' Retail segment net turnover.

In 2017, we entered into an agreement with Repsol S.A., the leading forecourt and service stations player in Spain, to become their purchasing agent. This brings our Supercor Stop&Go markets format to Repsol's approximately 3,200 refueling stations.

Household

Our Bricor chain stores are specialized in responding to do-it-yourself home improvement needs, interior decoration and home and garden services. Bricor stores offer a range of approximately 21,000 products and the stores attract both do-it-yourself enthusiasts and professionals such as plumbers, painters and electricians. The chain offers services to assist customers with home renovation projects providing transportation and installation services in addition to advice.

Bricor operates in independent stores as well as in El Corte Inglés and Hipercor establishments. In addition to an online store, as of February 28, 2018, we operate 64 Bricor stores, 61 of which are located in Spain while the other three are located in Portugal. Household products are also sold in our department stores. In particular, we sell 18 own household brands, including Saivod, Mini Home, Nuestro Mejor Precio and El Corte Inglés' own brand.

For the twelve months ended May 31, 2018, Bricor generated aggregated net turnover of €105 million, contributing 0.7% to El Corte Inglés' net turnover.

Culture & Leisure

Our Culture & Leisure area offers products in various categories including consumer electronics, stationery, books, music, movies, toys and sports related products.

For the twelve months ended May 31, 2018, the Culture & Leisure area generated aggregated net turnover of €2,205 million, contributing 13.8% to El Corte Inglés' net turnover.

We sell a large number of well-known third-party brands, including Cartier, Zanussi, Clinique, Siemens, Samsung, Callaway, Swatch, Bosch, Omega, Rolex, HP, MAC, LG, BoConcept, Deshoulières Braun, Miele, Georg Jensen and Bobbi Brown and our own brands, including Mountain Pro, Boomerang, Inves, Frost, Verhunt, Tijuana and B-Pro.

Other Retail

The Other Retail area of the Issuer's Retail segment comprises vision and hearing products sold through 108 Óptica2000 stores and a B2B sub-area that sells goods and executes refurbishment projects for corporations and public entities.

Our Óptica2000 chain stores are specialized in certain consumer vision and hearing products, offering a wide variety of products such as basic to high-end frames and sunglasses and related services including hearing and eye exams. The chain operates both through independent establishments and through its shops located in El Corte Inglés and Hipercor establishments.

As of February 28, 2018, the Issuer operates 108 Óptica2000 stores. Of these, 106 are located in Spain while two are located in Portugal under the Óptica Gallery brand.

For the twelve months ended May 31, 2018, our Other Retail area generated aggregated net turnover of €1,091 million, contributing 6.8% to El Corte Inglés' net turnover.

Non-Retail

Travel Agency

Our Travel Agency segment provides travel packages and planning services for individual and corporate clients. We are the leading retail travel agency in Spain by net turnover and the leader in corporate travel planning in Spain.

Viajes El Corte Inglés ("**VECI**") is the parent company of our Travel Agency segment. Operations in this segment are carried out by a number of companies located in several countries. The VECI business model is based on personalized attention for both business and leisure travel. Tourmundial, VECI's tour operator which has developed certain tourism products adapted to the needs of the market (including tailored products such as senior citizen packages and Eurodisney packages), has historically been selling its products to VECI in exclusivity. However, one of the strategic pillars of VECI is opening Tourmundial to the rest of the market, which, as of the date of this offering memorandum, is now being implemented. The increased Tourmundial sales resulting therefrom are expected to offset any losses arising from this strategic step. Additionally, VECI operates a subdivision dedicated to providing assistance to corporate customers, consisting of large corporations, public agencies and small and medium enterprises. This corporate clients' subdivision also provides consultancy services on travel policy and cost reduction, and is specialized in the planning, organization and implementation of conferences, congresses and corporate trips, managing all services required for these types of events.

For the twelve months ended May 31, 2018, sales to individual customers and corporate customers constituted 54% and 46% of our Travel Agency net turnover, respectively. In addition to physical stores, VECI also utilizes alternative sales channels, including telephone sales and online sales.

According to the Hosteltur ranking in 2016, VECI was the leading physical network travel agency in Spain. As of February 28, 2018, we operated 627 VECI stores, with 497 stores located in Spain and 130 stores located in Portugal, France, Italy, the United States, Argentina, Ecuador, Chile, Mexico, Colombia, the Dominican Republic, Uruguay, Peru and Panama. We believe that VECI has greater net turnover than other key players in Spain.

For the twelve months ended May 31, 2018, VECI generated aggregated net turnover of €2,634 million, contributing 16.5% to El Corte Inglés' net turnover.

Information Technology

Our Information Technology segment is operated by Informática El Corte Inglés ("**IECI**"). IECI provides digital solutions and consulting services in the information and communication technology fields and also offers electronic and telecommunications products and outsourcing services to companies, public entities and private consumers. IECI has evolved from being a technological infrastructure provider to a system integrator and provider of consulting services. It also supplies hardware and software products to El Corte Inglés' internal IT department, as well as support to the Travel Agency and Insurance segments. IECI is familiar with a broad spectrum of sectors, including industry, government and public services, international, banking and insurance, shopping centers and telephone companies. It aims to offer its clients the experience necessary to adapt to new business models requiring new technologies such as cloud computing, mobility, big data or social media. IECI also has alliances with well-known suppliers including IBM. With 25 years of experience and innovation, in 2013 IECI was recognized as the Best Information Technology Services Company by Byte TI magazine. In 2016, IECI was the leading technological consulting firm by number of public administrative tenders awarded in Spain.

IECI operates in Spain and in countries such as the United States, Belgium, Italy, Czech Republic, Mexico, Brazil, Colombia, Argentina, Chile, Costa Rica, Peru, Dominican Republic and Panama.

For the twelve months ended May 31, 2018, the Information Technology segment generated aggregated net turnover of €722 million, contributing 4.5% to El Corte Inglés' net turnover.

Insurance

Our Insurance segment is comprised of the insurance company, Seguros El Corte Inglés and the insurance brokerage, Centro de Seguros y Servicios. For the twelve months ended May 31, 2018, the Insurance segment generated aggregated net turnover of €195 million, contributing 1.2% to El Corte Inglés' net turnover.

<u>Seguros El Corte Inglés</u>

Seguros El Corte Inglés is duly authorized as an insurance company by the Spanish financial regulatory agency (Dirección General de Seguros), and provides personal life and accident insurance, savings insurance, temporary and lifetime annuity plans and manages pension schemes. Insurance is sold in independent brokerages and across the El Corte Inglés store network. Seguros El Corte Inglés has a network of more than 500 exclusive agents across Spain and enjoys a strong solvency position as the second most solvent insurance company in Spain as of 2017. Our Insurance segment is ring-fenced and therefore a shortfall of funds to cover claims would not result in an obligation for us to cover such shortfall.

As of May 31, 2018, accrued insurance premiums amounted to €77 million (total insurance premiums), with €59 million related to life insurance (life insurance premiums) and €18 million related to accident insurance (non-life insurance premiums).

<u>Centro de Seguros y Servicios</u>

Centro de Seguros y Servicios is a personal insurance brokerage for medical, motor and accident insurance and for insurance-related products sold in El Corte Inglés company stores, such as electronic devices. It is the largest private business insurance broker in Spain and distributes insurance products to customers through a network of branches located in El Corte Inglés establishments. In particular, they offer insurance products from the main market providers, including Adeslas, Allianz, Asisa, Axa, Direct Seguros, ECI Seguros, Fenix Directo, Generali, Mapfre, Ocaso, Pelayo, Plus Ultra, Sanitas and Santa Lucia. Centro de Seguros y Servicios commercializes insurance products of Seguros El Corte Inglés and third-party insurance companies. Its core business is the commercialization in Spain and Portugal of medical, motor, life, home and accident insurances. Centro de Seguros y Servicios has cooperating agreements with third parties including Allianz, AXA and Ocaso.

As of February 28, 2018, we operate 119 Centro de Seguros y Servicios points of sale located in El Corte Inglés department stores (117 are located in Spain while two are located in Portugal).

Financing Services

In October 2013, we entered into a strategic investment agreement with Santander Consumer Finance to jointly manage the consumer finance services area via our Financing Services affiliate Financiera El Corte Inglés ("**FECI**"). This allows us to gain access to broader funding options, leverage on Santander Consumer Finance's expertise in the financial sector to develop new products and profit from cross-selling opportunities with Banco Santander's existing customer base. Under this agreement, Santander Consumer Finance acquired a 51% stake in FECI on February 27, 2014 for € 140 million and we hold the remaining 49%. FECI is a licensed financial entity under the supervision of the Bank of Spain. After this acquisition, FECI was integrated on a regulatory and accounting basis within the Santander Group. El Corte Inglés accounts for the joint venture through the equity method.

FECI's business focuses on providing financing solutions to customers for the acquisition of goods, travel packages and services sold at the Issuer's points of sale and Repsol gas stations in Spain and Portugal. There are two main operations in FECI, offering customized financing plans and deferred payment via the ECI Card. The financing plans apply to purchases of goods with 3 to 36 months duration. Depending on how the financing is negotiated, the interest payment may be assumed by the supplier, El Corte Inglés or the customer. FECI issues the El Corte Inglés store card which allows card holders to make and finance the acquisitions. The ECI Card has no cost for the client and on average, it grants the client a 45-day financing, longer than most credit cards such as Visa. FECI also offers deferred payment plans which may be used exclusively within El Corte Inglés' stores. As of December 31, 2017, we had over 11 million El Corte Inglés store card holders and during 2017, approximately €4.6 billion in goods and services purchased by customers was financed through the El Corte Inglés store card. In the twelve months ended December 31, 2017, approximately 41% of our sales to retail customers were financed by FECI's own payment methods (the ECI card or deferred payment plans).

As of December 31, 2017, FECI had a nonperforming loan ratio of 3.4%, lower than the average market ratio in the consumer financial institution and banking sectors, and nonperforming loan coverage ratio of 169.3%, greater than that of the sector average. FECI's solvency ratio was 14.2% as of December 31, 2017. For the twelve months ended May 31, 2018, the Issuer received dividends of €37 million from FECI.

e-Commerce Business

Online sales are increasingly important to our multi-channel strategy and support our goal of offering a wider choice of products and brands by making available an increased number of channels through which customers can acquire the goods we sell.

We have been a pioneer in Spain's non-store selling market since 1960, when we launched our telephone sales program. Since then, we have developed a unique structure specifically designed for home-delivery selling. We started distance selling with Videotex in 1985 and launched our online platform in 2000, positioning us into one of the first e-commerce businesses in the market. In 2015, we launched the international website www.elcorteingles.eu, targeting different markets and providing greater brand visibility. We continuously update the website. During 2016, we enhanced our omni-channel offering with an increased degree of integration between our physical stores and our online platform. The *Click&Express* service allows for delivery of online purchases to a number of Spanish cities in less than two hours or in the time period requested by the client. This service is complemented by the *Click&Collect* option for online purchases that are collected in store and the *Click&Car* alternative for online grocery purchases that are collected in the parking lot.

Currently, we are one of the top three e-commerce retailers in Spain and the leader in many key categories, including food. Additionally, due to our unparalleled delivery network, we are able to offer unique services that cannot be matched by our other competitors, including Amazon, such as home-delivery within two hours in a large number of Spanish cities or during a timeframe selected by the customers.

In 2017, we had approximately 392 million visits to our e-commerce websites and over 12.5 million unique online users.

Pricing, Marketing and Quality Control

We have extended architecture to cover all pricing segments, from entry level to top range, using private label to complete the range. We improve price perception and price optimization through pricing tracking, price execution software and additional in-house tools. We also engage third-party brands in price reductions and promotions, such as our 8 Días de Oro and Black Friday sales. For example, the bargaining power with our suppliers allows us to reduce grocery prices without losing but increasing margins.

We have a leading marketing platform. We are the only retailer at the top of the ranking, having at the same time a leadership position in brand awareness in most of the categories in which we operate. Our marketing strategies increase return on equity and efficiency by shifting marketing mix towards social media, initiating cross promotions through our one-stop-shop concept, implementing professional promotions through big data decision making and customizing communications through our customer relationship management system. In July 2018, we extended our sponsorship agreement with LaLiga, the premier men's professional soccer league in Spain, through 2021. Pursuant to this agreement, we have the exclusive right to sell certain merchandise and we are the official travel agency of LaLiga.

Our quality department has over 50 employees as of May 31, 2018 and focuses on quality analysis in terms of compliance, technical specifications, clients and transport of goods. Our quality department helps us maintain high standards of quality, safety and traceability to ensure that we continue to offer our customers the best products and services. For these purposes, we have invested in qualified personnel as well as technical means, in particular our cutting-edge laboratory which provides coverage to all of the products we produce in our central kitchen and workshops. We have strict quality test standards and the specialization of our teams in the quality department in their respective spheres of activity ensure that the control and monitoring tests are properly defined, which increases the efficacy of our work and the quality of our products. Over the course of financial year 2017, over 1,600 product tests of own brand products have been conducted to ensure product quality. Historically, the percentage of defective products has not been material. In the event that we identify faulty merchandise prior to the delivery of products to our distribution centers, we seek reimbursement from our suppliers.

Logistics and Supply Chain

Our logistics channel is comprised of three regional distribution centers in Valdemoro (Madrid), Montornes (Barcelona) and El Goro (Las Palmas), of 585,851 square meters, 164,910 square meters and 42,243 square meters, respectively, one fulfillment platform for online sales and two regional distribution centers in Madrid to manage fresh and perishable products. This is supported by 22 local service centers, of approximately 250,000 square meters in total, for home items, convenience store deliveries and local products such as vegetables. For logistics of our private label products, we keep the stock in distribution centers and deliver them to stores. For third-party brands, there is a cross-docking procedure without stock in El Corte Inglés' warehouses, where products from suppliers are distributed directly to our stores with margin to no handling or storage time.

In order to minimize our cost of sales, we seek to have an efficient sourcing policy to manage sourcing and distribution costs. Our sourcing is run by 10 sourcing offices and approximately 500 employees. We source from 30 countries with approximately €737 million of items sourced internationally in the calendar year 2017. We manage our time to market by launching a project to produce in less than 200 days in the long circuit for the products sourced from Asia and in 35 days in the short circuit for the product sourced from Spain or other countries in Europe, in order to ensure we are able to respond to fast fashion trends. We also have strict homologation and selection process of suppliers to ensure quality, in terms of legal compliance, technical requirements, client needs and store arrival, as well as corporate social responsibility standards.

As of February 28, 2018, we had over 58,000 suppliers of which the most relevant ones are global category leaders. As of February 28, 2018, approximately 69% of our suppliers are in Spain which in turn limits our currency exposure. We do not believe we are reliant on any one manufacturer to deliver our procurement and supply chain needs. In the year ended February 28, 2018, we sourced 12.1% of our total merchandise from our top 10 suppliers. However, we concentrate the negotiation with suppliers across several divisions so as to enhance our bargaining power. In addition, we have implemented penalties on infringement of service standards, such as delays, labeling and stocks, which has reduced out-of-stocks and increased income. We also have different arrangements with our suppliers to reduce inventory risk.

ECI Card Programs

The ECI Card is a proprietary card provided to El Corte Inglés' customers for use within El Corte Inglés stores and for purchases through El Corte Inglés' internet site. The ECI Card allows customers to make purchases of goods and services at any of our stores, on our website and on Repsol gas stations in Spain and Portugal. Holders of ECI Cards are entitled to privileges, such as in-store discounts and free gifts. We believe that these benefits help to develop increased customer loyalty and allow us to learn more about our customers' preferences so that we can better tailor our product offerings to meet their preferences. We use data collected from our cardholders for direct marketing and to offer special cardholder events.

We offer a number of Financial Services products including, among others, travel, wedding, pet, home and motor insurance. We believe that these products strengthen our relationship with our customers by expanding the products provided to them.

Intellectual Property

We have registered several trademarks in Spain and in the countries internationally in which we operate. Our most important trademarks are El Corte Inglés, Hipercor, Supercor and Viajes El Corte Inglés.

We regard our trademarks and other intellectual property as valuable assets in the marketing of our products and take appropriate action when necessary to protect them and, when necessary, to enforce them.

Real Estate Portfolio and Valuation

We have one of the largest retail real estate portfolios in Europe and we are the owner and tenant of the real estate in our real estate portfolio, which exceeds 10.0 million square meters of total built area with most of the assets free of significant encumbrances. Our real estate portfolio is comprised of stores and hypermarkets, high street retail/convenience stores and warehouses, offices and mixed uses, contributing 87.3%, 6.1% and 6.6%, respectively, to the Gross Asset Value of the portfolio.

Our real estate portfolio contains a combination of urban properties, including El Corte Inglés department store properties located in city centers and peripheral locations, and Hipercor hypermarkets located in suburban areas. Additionally, our portfolio also contains a significant number of high profile assets such as Castellana and Goya in Madrid, Plaza Cataluña and Diagonal in Barcelona and department stores in Valencia, Seville and Marbella, as well as in other key Spanish cities and in Lisbon and Porto.

As of February 28, 2018, Tinsa valued a significant part—338—of our real estate assets at an aggregate value of €17,147 million, 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 marzo, sobre normas de valoración de bienes inmuebles y de determinados derechos para ciertas finalidades financieras*). The portfolio was valued using (i) the updating method in accordance with articles 24 to 28 and 31 to 33 of the Order ECO/805/2003 pursuant to which the value is determined taking into consideration certain cash flows, the reversion value and the determination of the applicable actualization rate and (ii) the market approach method, pursuant to which the value is determined by comparing the relevant asset with identical or similar assets for which price information is available. In the context of the evaluation, given that we are the owner and tenant of our real estate properties, market rents have been applied. See "*Risk Factors—Risks Related to Our Business and our Operations*—The valuation report provided by Tinsa may incorrectly assess the value of our property, and we may be required to adjust the current fair value of our properties, which could result in the recognition of losses."

Key valuations by asset type are set out below:

Asset Type	**Built area (million m^2)**	**GAV (€m)**
Stores and hypermarkets	7.935	14,964
High street retail / convenience stores	633	1,051

Warehouses, offices and mixed uses	1.709	1,132
Total	**10.277**	**17,147**

The following table sets forth information on department stores breakdown by asset value:

Asset Value	Number of Department Stores
Above €500 million	2
Between €400 and €500 million	2
Between €300 and €400 million	6
Between €200 and €300 million	9
Between €100 and €200 million	45
Below €100 million	30

The following table sets forth information on geographic breakdown of our real estate portfolio:

Regions	Percentage of GAV
Madrid	32%
Barcelona	10%
Valencia	6%
Malaga	6%
Seville	4%
Other	42%

Employees

The following table sets forth information with respect to the average number of our employees for the financial years indicated:

Category	Year ended February 29, 2016	Year ended February 28, 2017	Year ended February 28, 2018
Directors and managers	182	149	145
Supervisors and coordinators	12,308	11,799	12,061
Sales staff	54,037	57,034	56,475
Services personnel	7,882	6,514	7,269
Staff in other activities	6,521	5,144	5,330
Total Employees	**80,930**	**80,640**	**81,280**

Approximately 90% of our employees are employed under an open ended contract.

Certain of our employees are employed pursuant to standard collective bargaining agreements. We believe that our relations with employees are satisfactory.

We have issued promissory notes to our employees under the Existing Employees' Promissory Notes.

We use third-party contractors for certain functions and services, such as store maintenance and cleaning.

Information Technology

We believe that our Information Technology segment is well-positioned and equipped to support our current and future operations.

We have made investments in recent years in our information technology capabilities to support our multi-channel sales, like-for-like sales recovery and international growth. We also have a number of investments and initiatives to develop our e-commerce platforms, including investments in back office and distribution as well as partnerships with other e-commerce providers.

Legal Proceedings

Large Commercial Store Tax

Historically, the Issuer 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 June 5, 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 February 2012, the Issuer provisioned approximately €101 million for a potential claim in Cataluña, Aragón and Asturias arising out of the Large Commercial Store tax. The provision was increased to €131 million as of May 31, 2018, date on which we have already paid €36 million.

Other

We have been, and may from time to time be, a party to legal disputes and administrative proceedings within the scope of our business activities. In particular, we at times are a plaintiff or a defendant in copyright infringement and unfair competition claims. From time to time, we are also subject to certain audits by tax or social security authorities. Although the outcome of these legal disputes, administrative proceedings or audits cannot be predicted with certainty, we do not believe that the ultimate resolution of these matters and any current or potential future matters that we are currently aware of will have a material adverse effect on our financial condition or results of operations.

Regulation

We are subject to the applicable laws and regulations of the respective countries in which we operate. The regulatory environment in the area of textile manufacturing and sale of textiles is characterized by numerous national, supranational and international laws and regulations. These include requirements with respect to the import and export of goods, product liability and consumer protection.

EU regulations on textile labeling and, more specifically, the European Regulation 1007/2011 of September 27, 2011 on textile fiber names and related labelling and marking of the fiber composition of textile products, which repealed Council Directive 73/44/EEC and Directives 96/73/EC and 2008/121/EC of the European Parliament and of the Council, that was implemented on May 8, 2012, provides that textiles may only be made available on the European market if they are labeled, marked or accompanied with certain documented information, including with respect to the nature and weight proportion of the used raw materials.

Moreover, our store opening hours are subject to requirements under the European Union Directive 2003/88/EC, which regulates certain aspects of employee working hours.

We are also subject to regulations on foreign trade and customs law, including, without limitation, the European Regulation 952/2013 of October 9, 2013, which implements the Union Customs Code, and the European Regulation 2016/679 of April 27, 2017 which governs the processing of personal data of natural persons and the free movement of such data, and repeals Directive 95/46/EC ("**GDPR**"), which was implemented in May 2018. The GDPR implements more stringent operational requirements for processors and controllers of personal data, including, for example, expanded disclosures about how personal information is to be used, limitations on retention of information, mandatory data breach notification requirements and higher standards for data controllers to demonstrate that they have obtained valid consent for certain data processing activities. See "*Risk Factors—Risks Related to Our Business and our Operations—We face the risk of theft, misappropriation or inappropriate utilization of our customer data, which may adversely affect our business and reputation*."

Insurance

We have product, environmental, public liability and property insurance coverage for risks like fire, lightning, storms, vandalism and strikes. In addition to other risk insurance, we have also acquired group accident insurance for certain employees and insurance relating to the transportation of our products. We also have insurance policies to cover the risks to which our inventories are exposed. In addition, we have an insurance policy to make payments for our employee benefit contributions.

We believe that we have adequate insurance coverage against all material risks that are typically insured by similar companies with comparable risk exposure. Insurance coverage is regularly verified and adjusted when necessary.

MANAGEMENT

Board of Directors

The Issuer, El Corte Inglés, S.A., is a *sociedad anónima* organized under the laws of the Kingdom of Spain and was incorporated on June 28, 1940 before the notary public Mr. Eduardo Lopez Palop under number 723 of these records. The following table sets out the name, ages and positions of the current Board of Directors of the Issuer:

Name	Age	Position
Víctor del Pozo Gil	51	Co-CEO: Retail and Department Stores
Jesús Jorge Nuño de la Rosa y Coloma	54	Chairman and Co-CEO: Corporate and Subsidiaries
Florencio Lasaga Munárriz	83	Director
Anselmo Carlos Martínez Echevarría	81	Director
Marta Álvarez Guil	53	Director
Cristina Álvarez Guil	52	Director
Manuel Pizarro Moreno	66	Director
Shahzad Shahbaz	58	Director
Cartera Manacor, S.L. (represented by Paloma García Peña)	52	Director
Corporación Ceslar, S.L. (represented by Carlota Areces)	50	Director
Fernando Becker Zuazúa	63	Director
Antonio Hernández-Gil Cienfuegos	65	Secretary (non-Director)
Juan Moral de la Rosa	53	Vice-Secretary (non-Director)

The following is a brief description of the experience of the current members of the Board of Directors of the Issuer:

Mr. Víctor del Pozo Gil joined El Corte Inglés Group more than 30 years ago and has since led a number of segments of the Company. In particular, he led the repositioning of El Corte Inglés' Food area, turning it into one of the leading food distribution businesses in Spain by profitability.

Mr. Jesús Jorge Nuño de la Rosa y Coloma, currently chairman and co-CEO of the Group responsible for corporate matters and subsidiaries, spent most of his career at Viajes El Corte Inglés, of which he became head in 1998 and expanded internationally.

Mr. Florencio Lasaga Munárriz joined El Corte Inglés in 1959 and was appointed in 1969. During his professional career, he has held various leadership positions in the finance department and in several subsidiaries such as Hipercor, Viajes El Corte Inglés and Sfera. In addition, Mr. Lasaga Munárriz was appointed Chairman of Fundación Ramón Areces, the major shareholder of the Group and has acted as a trustee thereof since 1976.

Mr. Anselmo Carlos Martínez Echevarría has had a long career within the Group, having been appointed to the Board of Directors in 1990. He has also served as a board member of certain of the Group's subsidiaries such as Sfera, Hipercor and Informática El Corte Inglés. Mr. Martínez is also board member of Fundación Ramón Areces.

Mrs. Marta Álvarez Guil and Mrs. Cristina Álvarez Guil are the daughters of Isidoro Álvarez, the former Chairman of El Corte Inglés. They became board members in 2015, representing Cartera de Valores IASA, S.L.

Mr. Manuel Pizarro Moreno, a law graduate and Spanish state attorney, acts as independent director of El Corte Inglés' board of directors. During his career, Mr. Pizarro has held various leadership positions both in the public and private sector. Among others, Mr. Pizarro has been Chairman of Endesa, Ibercaja and CECA (Confederación Española de Cajas de Ahorro) and has been a member of the Spanish Congress of Deputies.

Mr. Shahzad Shahbaz is the representative of PrimeFin, S.A. on El Corte Inglés' board of directors. PrimeFin is the investment vehicle of Mr. Sheikh Hamad Bin Jassim Bin Jaber Al Thani, the former Prime Minister of Qatar.

Mrs. Paloma García Peña joined El Corte Inglés' board of directors in 2008, representing Cartera Manacor, S.L.

Mrs. Carlota Areces rejoined El Corte Inglés' board of directors in 2018, representing Corporación Ceslar, S.L.

Mr. Fernando Becker Zuaza has been appointed in 2018 as an independent director of El Corte Inglés. He has been a regional minister for economy and finance of Castilla y León between 1991 and 1995 and executive chairman of the

Instituto de Crédito Official (ICO) between 1996 and 1999. He has also been director of Iberdrola España and vice-president of the Iberdrola Foundation between 1999 and 2018.

Mr. Antonio Hernández-Gil Álvarez-Cienfuegos is the Secretary (non-Director) of the board of directors of El Corte Inglés, S.A. From 1981 to 2005, Mr. Antonio Hernández-Gil Álvarez-Cienfuegos was part of the Board of Directors of the Ilustre Colegio de Abogados de Madrid. In 2002, he was appointed as a chairperson of the Special Commission for the Promotion of Transparency and Security in Financial Markets and Listed Companies by the Spanish Government. He has also been secretary (non-director) of the board of directors of other companies within El Corte Inglés Group as well as of other major companies.

Mr. Juan Moral de la Rosa has been the Head of the Legal Department of El Corte Inglés since 2015. He was a former lawyer and Special Prosecutor on Drugs in the Canary Islands as well as Prosecutor at the Spanish National High Court. He is an expert in procedural law, money laundering and terrorism. He was appointed deputy secretary of El Corte Inglés' auditing committee in 2016 and Vice-Secretary of the Board of Directors in 2018.

Management Team

Our management team is responsible for making most of the day-to-day operational decisions for the Issuer. The following table sets out the names, ages and positions of the management team.

Name	Age	Position
Víctor del Pozo Gil	51	Co-CEO: Retail and Department Stores
Jesús Jorge Nuño de la Rosa y Coloma	54	Chairman and Co-CEO: Corporate and Subsidiaries
Óscar Fernández de Llano	43	Co-CFO
Rafael Barrio Calle	59	Co-CFO
Eduardo Sotillos Díaz	49	Head of Retail Planning and Strategy and Purchases Deputy Director
Manuel Pinardo Puerta	59	Head of Human Resources
Juan Moral de la Rosa	53	Head of Legal Department and Vice-Secretary to the Board of Directors

The following is a brief description of the experience of the members of our management team:

Víctor del Pozo Gil—Co-CEO: Retail and Department Stores

Mr. Víctor del Pozo Gil joined El Corte Inglés Group more than 30 years ago and has since led a number of segments of the Company. In particular, he led the repositioning of El Corte Inglés' Food area, turning it into one of the leading food distribution businesses in Spain by profitability.

Jesús Nuño de la Rosa y Coloma—Chairman and Co-CEO: Corporate and Subsidiaries

Mr. Jesús Jorge Nuño de la Rosa y Coloma, currently chairman and co-CEO of the Group responsible for corporate matters and subsidiaries, spent most of his career at Viajes El Corte Inglés, of which he became head in 1998 and expanded internationally.

Óscar Fernández de Llano—Co-CFO

Mr. Fernández de Llano joined the Group ten years ago. He is head of the treasury, accounting, consolidation and management control departments at El Corte Inglés. Prior to this, he was head of accounting for over six years, joining El Corte Inglés from Arthur Andersen where he was a manager in the audit practice focusing on companies in the FMCG, retail, logistics and transport industries.

Rafael Barrio Calle—Co-CFO

Mr. Barrio Calle joined the Group in 1983 and has since held a number of significant positions within the internal auditing, human resources and organization and methods department. In 2012, Mr. Barrio Calle became head of Financiera El Corte Inglés and was appointed to the board of directors of Financiera El Corte Inglés two years later. Since 2017, he has also been a board member of Iberia LAE.

Eduardo Sotillos Díaz—Head of Retail Planning and Strategy and Purchases Deputy Director

Eduardo Sotillos Díaz joined the firm 20 years ago and worked in numerous departments, including the organization and methods department. Furthermore, he was the administration and financial director of Gespevesa (a joint venture with Repsol) and Opencor. In 2015, he was appointed to his current role as head of retail planning and strategy and is currently also the purchases deputy director.

Manuel Pinardo Puerta—Head of Human Resources

Mr. Pinardo Puerta is the Head of Human Resources of the Group since 2018. Before he was appointed to this role, he was the Manager of Headquarter Human Resources of the Group from 2009 until 2017.

Juan Moral de la Rosa—Head of Legal Department and Vice-Secretary to the Board of Directors

Mr. Juan Moral de la Rosa has been the Head of the Legal Department of El Corte Inglés since 2015. He was a former lawyer and Special Prosecutor on Drugs in the Canary Islands as well as Prosecutor at the Spanish National High Court. He is an expert in procedural law, money laundering and terrorism. He was appointed deputy secretary of El Corte Inglés' auditing committee in 2016 and Vice-Secretary of the Board of Directors in 2018.

Compensation of Members of our Board of Directors of the Issuer and our Management Team

Remuneration and other benefits of the Board of Directors of the Issuer

No material advances or loans have been granted to the members of the Board of Directors of the Issuer.

Also, in the three years ended February 28, 2018 the companies in our Group did not enter into transactions with the directors or members of our Management Team not relating to their ordinary business operations or any transactions not carried out on an arm's length basis.

Remuneration of our Management Team

The members of our management team that hold the positions described under "*Management—Management Team*" are considered to be our key management personnel.

In the year ended February 28, 2018, the key management personnel that held positions during such period earned total remuneration of €3,143 million.

As of the date of this offering memorandum, no advances had been granted to members of our management team.

Audit and Control Committee

El Corte Inglés, S.A.'s Audit and Control Committee serves as the Audit and Control Committee for our Group. The Audit and Control Committee is responsible for reviewing the Issuer's accounting procedures and internal financial controls, reviewing the effectiveness of the external audit process, considering the independence and objectivity of the external auditors and reviewing and monitoring the content and integrity of the annual financial statements.

The Audit and Control Committee consists of Manuel Pizarro Moreno, Cristina Álvarez Guil, Paloma García Peña, Antonio Hernández—Gil (secretary) and Juan Moral de la Rosa (deputy secretary).

PRINCIPAL SHAREHOLDERS

As of the date of this offering memorandum, Fundación Ramón Areces, Cartera de Valores IASA, S.L. and PrimeFin, S.A. each own 37.4%, 22.2% and 10.0%, respectively, of the shareholding of the El Corte Inglés, S.A.

Fundación Ramón Areces was founded in 1976 and is a foundation devoted to scientific patronage through the promotion and development of procedures to award financial aid for research, contributions to training efforts through the establishment of scholarship programs for studies and the dissemination of knowledge through the establishment of various scientific programs. The foundation's activities are focused on life and matter sciences, social sciences and humanities. Its chief aims are to contribute to the creation of a solid scientific and technological structure in Spain in order to improve people's lives, and to seek solutions to future challenges which modern society faces, most notably with respect to economics and education. The foundation also works to generate new training opportunities for young researchers and to promote the exchange of ideas for the development of science, education and culture. The foundation works with public and private institutions, both national and international, to achieve its goals.

Cartera de Valores IASA S.L. was founded in July 2000 in Madrid. It is a holding company and its exclusive company purpose is the acquisition, holding and disposal of the shares in El Corte Inglés, S.A.

PrimeFin S.A. was founded in December 2014 and is a public company incorporated under the laws of the Grand Duchy of Luxembourg. Its corporate objective is the acquisition, administration, management, control and development of assets, including shares and other securities and patents owned by it.

Shareholders' Agreement

On July 13, 2015, the Issuer entered into a mandatory convertible loan agreement with PrimeFin, S.A., with the Issuer as borrower and PrimeFin, S.A. as lender. On July 13, 2018, pursuant to the loan agreement, the Issuer transferred 10% of its share capital to PrimeFin, S.A., which may further increase its share capital in the Issuer from 10% to 12% upon satisfaction of certain conditions set forth in the loan agreement. The Issuer, Fundación Ramón Areces, Cartera de Valores IASA, S.L. and PrimeFin, S.A. simultaneously entered into a shareholders' agreement (the "**Shareholders' Agreement**"), which governs certain aspects of the relationship between the parties. In particular, the Shareholders' Agreement sets out certain rights, undertakings and mechanisms in the event of a public offer of the Issuer's shares and their admission to trading on a regulated market.

RELATED PARTY TRANSACTIONS

We enter into transactions with certain related parties or our affiliates from time to time and in the ordinary course of our business. We believe that these agreements were all made at arm's length and are on terms no more favorable to the related parties or our affiliates than they would expect to negotiate with disinterested third-parties.

In addition to these ordinary course transactions, we have also entered into the following transactions with related parties. The following information is taken from Note 24 of the Audited Consolidated Financial Statements for the year ended February 28, 2018.

Transactions between the Company and its subsidiaries, which are related parties and form part of the regular business traffic insofar as their object and conditions, have been eliminated in the consolidation process, as indicated in the notes to the Audited Consolidated Financial Statements, and they are not broken down in this offering memorandum. Transactions between the Group and its associates and other related parties are broken down below.

Balances and transactions with associates and related parties

The details of transactions carried out with related parties for the years ended February 28, 2018 and 2017 are as follows:

For the year ended February 28, 2018

	Associated companies	Other related parties	Total
		(€ in millions)	
Sales	€25	€1	€26
Purchases	32	58	90
Disposal of fixed assets	—	—	—
Acquisition of fixed assets	—	—	—
Services rendered	9	1	10
Services received	46	1	47
Interest paid	—	—	—
Interest charged	—	1	1
Other financial services	16	—	16

For the year ended February 28, 2017

	Associated companies	Other related parties	Total
		(€ in millions)	
Sales	€16	€2	€18
Purchases	28	50	78
Disposal of fixed assets	—	—	—
Acquisition of fixed assets	—	4	4
Services rendered	16	1	17
Services received	45	2	47
Interest paid	—	—	—
Interest charged	—	1	1
Other financial services	15	—	15

Furthermore, the amount of the balances in the balance sheet with related parties is as follows:

As of February 28, 2018

	Associated companies	Other related parts	Total
		(€ in millions)	
Trade and other receivables	€20	€3	€23
Short-term financial investments	2	—	2
Long-terms debts	—	(49)	(49)
Short-term debts	(69)	(22)	(91)
Payables to suppliers and trade payables	(13)	(3)	(16)
Current accounts with Administrations	—	(71)	(71)

As of February 28, 2017

	Associated companies	Other related parts	Total
	(€ in millions)		
Trade and other receivables	€24	€1	€25
Short-term financial investments	—	—	—
Long-terms debts	—	(49)	(49)
Short-term debts	(51)	(14)	(65)
Payables to suppliers and trade payables	(11)	(12)	(23)
Current accounts with Administrations	—	(69)	(69)

Remunerations to the Board of Directors

The remunerations received by the members of the Company's board of directors (which include the senior executives) for the years ended February 28, 2018 and 2017, classified by items, were as follows:

	Year ended February 28, 2017	Year ended February 28, 2018
	(€ in millions)	
Board of Directors:		
Salaries	€4	€6
Other items[(a)]	9	9

(a) Other items: retribution linked to the assistance to board of directors meetings.

As of February 28, 2018 and 2017, the Group did not have any advance payments or loans, considered globally and additional to those already outlined, granted to the members of its board of directors, nor commitments acquired with them in relation to pensions or retirement bonuses, life insurance or special compensations.

For the year ended February 28, 2018, compensation was paid for the sum of €1.6 million (included in the salaries section of the previous breakdown), having likewise agreed remunerations for other concepts related to the termination of office of certain directors for the sum of €3.2 million, payable in several fiscal years.

With the exception indicated in the previous paragraph, the members of the board of directors did not receive any remuneration whatsoever in the years ended February 28, 2018 and 2017 for per diem allowances, pension plans, severance payments or payments based on equity instruments.

The civil liability of the directors and executives of the Company is insured by means of two insurance policies contracted with certain entities and which provide coverage to all of the companies of the Group. The sum of the premiums paid for this concept is €185,762 for the years ended February 28, 2018 and 2017.

At February 28, 2018 and February 28, 2017, the board of directors was composed of ten people, three women and seven men.

On November 11, 2016, the member of the board Mr. Juan Hermoso Armada presented his resignation, which was approved by the board of directors on November 30, 2016.

In view of the resulting vacancy, and in accordance with the power which article 244 of the current Revised Text of the Capital Companies Law and article 39 of the Company's articles of incorporation grant to the board of directors, by co-option, the board proposed and approved the appointment as the new member of the board of Mr. Jesús Nuño de la Rosa Coloma.

On July 24, 2017, the member of the board Mr. José Leopoldo del Nogal Ropero presented his resignation, which was approved by the board of directors on July 25, 2017.

During the general meeting of shareholders held on August 27, 2017, among other points, the following were agreed: the ratification of Mr. Jesús Jorge Nuño de la Rosa Coloma as a member of the board and executive officer; and the appointment of Mr. Víctor del Pozo Gil as a member of the board and executive officer.

DESCRIPTION OF CERTAIN INDEBTEDNESS

The following is a summary of the material terms of our principal financing arrangements in addition to the Indenture after giving effect to the Transactions. The following summaries do not purport to describe all of the applicable terms and conditions of such arrangements and are qualified in their entirety by reference to the actual agreements.

Syndicated Loan Facilities Agreement

On January 24, 2018, we entered into the term and revolving facilities agreement as amended from time to time, including on February 14, 2018, February 15, 2018, March 8, 2018 and March 20, 2018 (the "**Syndicated Loan Facilities Agreement**"), with certain lenders and financial institutions. The Syndicated Loan Facilities Agreement is comprised as of the date of this offering memorandum of (1) a €765,000,000 term loan facility (the "**Term Loan A1**"); (2) a € 1,450,000,000 term loan facility (the "**Term Loan B1**"); and (3) a €1,150,000,000 revolving credit loan facility (the "**Revolving Credit Facility**," and together with the Term Loan B1 and the Term Loan A1, the "**Syndicated Loan Facilities**").

Interest Rate and Fees

Interest on the borrowings under the Syndicated Loan Facilities will begin to accrue on the date of utilization of the relevant facility. The interest rates for borrowings under the Term Loan B1 and the Revolving Credit Facility are initially based on the Euro Interbank Offered Rate ("**EURIBOR**") plus an applicable margin. The applicable margin for borrowings under both the Term Loan B1 and the Revolving Credit Facility is subject to a margin ratchet depending on the net leverage ratio of the Group.

The interest rates for borrowings under the Term Loan A1 are initially based on EURIBOR plus an applicable margin. The applicable margin for borrowings under the Term Loan A1 did step up beginning on June 30, 2018 and at the end of each period of three months thereafter.

In addition to paying interest on outstanding principal under the Syndicated Loan Facilities, the borrowers will pay customary agency fees and a commitment fee in respect of the unutilized commitments under the Syndicated Loan Facilities. The commitment fee steps up or down subject to the same margin ratchet.

Amortization and Final Maturity

The Term Loan B1 requires three scheduled annual payments commencing on February 29, 2020, of €236,000,000 each, with the balance due and payable on the termination date for this facility in accordance with the Syndicated Loan Facilities Agreement.

There is no scheduled amortization of the principal amounts of the loans outstanding under the Term Loan A1 or the Revolving Credit Facility. Any principal amount outstanding under the Term Loan A1 facility and the Revolving Credit Facility is due and payable on the termination date, in the case of the Term Loan A1 and the last day of the interest period, in the case of the Revolving Credit Facility.

Guarantees and Security

The Issuer's obligations under the Syndicated Loan Facilities are unconditionally guaranteed by each member of the Group representing 5% or more, on an unconsolidated basis, of the total gross assets, turnover and consolidated EBITDA of the Group, and each member of the Group as is required to ensure that the guarantors together, on an unconsolidated basis and excluding all intra-group items and investments in any members of the Group, exceeds 80% of the total gross assets, turnover and consolidated EBITDA of the Group. All obligations under the Syndicated Loan Facilities, and the guarantees of those obligations, are unsecured.

Certain Covenants and Events of Default

The Syndicated Loan Facilities contains a number of customary negative covenants that, among other things and subject to certain exceptions, may restrict the ability of the obligors thereunder to: (i) incur additional indebtedness; (ii) pay dividends or distributions on its capital stock or redeem, repurchase or retire its capital stock or its other indebtedness; (iii) make investments, loans and acquisitions; (iv) engage in transactions; (v) sell assets, including capital stock of its subsidiaries; (vi) consolidate or merge or (vii) materially alter the business it conducts.

Existing Employees' Promissory Notes

From time to time, we issue promissory notes (the "**Existing Employees' Promissory Notes**") in the form of registered bonds at the request of the employees of the Group.

The Existing Employees' Promissory Notes are unsecured and are issued in minimum nominal amounts of €600.

The Existing Employees' Promissory Notes have a maturity of one year from its issuance. Notwithstanding the aforementioned maturity period, the subscribers of the Existing Employees' Promissory Notes have the right to require the Issuer to repurchase the Existing Employees' Promissory Notes and repay the outstanding principal amount and accrued and unpaid interests, if any.

New Employees' Promissory Notes

From time to time, we issue promissory notes (the "**New Employees' Promissory Notes**") in the form of registered bonds at the request of the employees of the Group.

The Existing Employees' Promissory Notes are unsecured and are issued in minimum nominal amounts of €100,000.

The Existing Employees' Promissory Notes have a maturity of two years from its issuance.

Hipercor Unsecured Notes

On January 12 and January 19, 2015, Hipercor (which merged into the Issuer in 2017) issued €600,000,000 in aggregate principal amount of 3.875% notes due 2022 (the "**Hipercor Unsecured Notes**") pursuant to a Prospectus Directive compliant prospectus. The Hipercor Unsecured Notes have a scheduled maturity date of January 19, 2022 and are admitted to listing on the official list and to trading on the regulated market of the Euronext Dublin. A fixed interest rate is payable in respect of the Hipercor Unsecured Notes annually in arrears each January 19 until and including January 19, 2022.

Hipercor Unsecured Notes may at any time be redeemed in full or in part, by paying the greater of (i) 100% of the principal amount of the Hipercor Unsecured Notes and (ii) the sum of (a) the present values of the remaining scheduled payments of principal and interest discounted to the date determined for redemption on an annual basis at a rate equal to the interpolated mid-swap rate in respect of the number of years to the maturity date plus (b) 0.50%. Moreover, the Hipercor Unsecured Notes may be redeemed if certain tax events occur. Upon certain change of control events, holders of the Hipercor Unsecured Notes have the option, subject to certain exceptions, to require the issuer to redeem or, at the issuer's option, purchase, in whole or in part, the Hipercor Unsecured Notes at their principal amount plus accrued and unpaid interest up to the date on which the option is exercised.

The terms of the Hipercor Unsecured Notes include, among others, maintenance covenants related to financial indebtedness and secured financial indebtedness. The terms of the Hipercor Unsecured Notes also include a negative pledge.

Existing MARF Commercial Paper Program

On December 11, 2017, we renewed our Existing MARF Commercial Paper Program and increased it up to a maximum outstanding balance of € 500,000,000. The Existing MARF Commercial Paper Program are unsecured and unguaranteed, and are issued at a discount with an implicit yield. The yield is set in each issue, and is a function of the nominal interest rate agreed to between us and the managers of the program or investors, as applicable. The face value of the notes is reimbursed at the maturity date. The Existing MARF Commercial Paper Program is admitted to trading on the Spanish Alternative Fixed-Income Market and may have a redemption period of between three business days and two years. The terms of the Existing MARF Commercial Paper Program do not provide for early redemption.

Existing EIB Loan

On December 9, 2016, we entered into the finance contract (the "**Existing EIB Loan**") with the European Investment Bank (the "**EIB**") as amended and restated on February 28, 2018. The Existing EIB Loan provides for a project loan of up to €116,000,000 to fund the further expansion of our e-commerce capabilities. The EIB estimated that the project, which is made up of over 150 subprojects, would cost €232,000,000, the balance of which is financed via our own funds. Amounts under the Existing EIB Loan are disbursed in up to three tranches, each of which is in a minimum amount of €35,000,000. At no point can the amount of the Existing EIB Loan exceed 50% of the total cost of the project.

Interest Rate and Fees

Tranches disbursed under the Existing EIB Loan can be either fixed rate or floating rate. For fixed rate tranches, the annual interest rate is determined by the EIB in accordance with the policies of the EIB's governing bodies. For floating rate tranches, the annual interest rate is the sum of EURIBOR and a fixed spread determined by the EIB. The terms of the Existing EIB Loan also set forth that, if we fail to pay any amount payable by us under the Existing EIB Loan on its due date, a higher interest shall accrue from the due date to the date of the actual payment.

Amortization and Final Maturity

The Existing EIB Loan requires several amortization payments. The frequency of payment is determined separately for each tranche, taking into consideration, among other things, whether the tranche is fixed rate or floating rate. The first repayment date is no earlier than sixty days from the disbursement of the tranche and no later than three years after the disbursement. The final repayment for each tranche is no earlier than four years and no later than ten years from the date of disbursement.

Guarantees and Security

Our obligations under the Existing EIB Loan are guaranteed by the Issuer, Viajes el Corte Inglés, Supercor, S.A. and any other subsidiary that accedes to the guarantee (excepting Seguros El Corte Inglés). The guarantors must hold at all times more than 80% of the total gross assets, turnover and consolidated EBITDA of the Group, calculated on an unconsolidated basis and excluding all intra-Group (as defined in the Existing EIB Loan Agreement) items and investments in any members of the Group (as defined in the Existing EIB Loan Agreement). The Existing EIB loan is unsecured.

Certain Covenants and Events of Default

The terms of the Existing EIB Loan set forth certain financial ratios that must be complied with at all times during the life of the Existing EIB Loan. Moreover, the Existing EIB Loan contains a number of negative covenants that, among other things and subject to certain exceptions, may restrict our ability to: (i) incur additional indebtedness; (ii) pay dividends or distributions on its capital stock or redeem, repurchase or retire its capital stock or its other indebtedness; (iii) make investments, loans and acquisitions; (iv) engage in transactions; (v) sell assets, including capital stock of its subsidiaries; (vi) consolidate or merge or (vii) materially alter the business it conducts. The terms of the Existing EIB Loan also include a negative pledge.

Existing De-Linkage Loans

In May and June 2016, the Issuer entered into 15 bilateral loan agreements with several banks (e.g. amongst others, Banco Bilbao Vizcaya Argentaria, S.A., CaixaBank, S.A. and Banco Santander, S.A.) relating to loan amounts between €4,000,000 and €20,000,000 each (amounting to an aggregate amount of €92,500,000 as of the day of this offering memorandum) to finance our voluntary redundancy scheme.

Finance Leases

The Issuer and the Guarantors have entered into several leasing agreement relating to, among others, LED lighting for the department stores, in an aggregate amount of €100,535,828.

DESCRIPTION OF THE NOTES

You will find definitions of certain capitalized terms used in this "Description of the Notes" under the heading "Certain Definitions." For purposes of this "Description of the Notes," references to (i) the "Issuer," "we," "our," and "us" refer only to El Corte Inglés S.A.

The Issuer will issue €600.0 million aggregate principal amount of 3.000% Senior Notes due 2024 (the "**Notes**") under an indenture to be dated as of October 8, 2018 (the "**Indenture**"), between, *inter alios*, the Issuer and Bondholders, S.L. as trustee (the "**Trustee**"). Upon the initial issuance of the Notes, the Notes will be guaranteed by certain of our Subsidiaries. The Indenture will not incorporate by reference or include, or be subject to the U.S. Trust Indenture Act of 1939, as amended.

This "*Description of the Notes*" is intended to be an overview of the material provisions of the Notes and the Indenture. Since this description of the terms of the Notes is only a summary, you should refer to the Notes and the Indenture for complete descriptions of the obligations of the Issuer and its Subsidiaries and your rights.

The registered Holder of a Note will be treated as the owner of it for all purposes. Only registered Holders will have rights under the Indenture, including, without limitation, with respect to enforcement and the pursuit of other remedies. The Notes have not been, and will not be, registered under the Securities Act and are subject to certain transfer restrictions.

General

The Notes

The Notes will, upon issuance:

- be general senior obligations of the Issuer;
- rank *pari passu* in right of payment with any existing and future Indebtedness of the Issuer that is not subordinated in right of payment to the Notes, including the Syndicated Loan Facilities;
- rank senior in right of payment to any future Indebtedness of the Issuer that is expressly subordinated to the Notes, including its obligations under the Syndicated Loan Facilities;
- be effectively subordinated to any existing or future Indebtedness or obligation (including obligations to trade creditors) of the Issuer and its Subsidiaries that is secured by property or assets that do not secure the Notes, to the extent of the value of the property and assets securing such Indebtedness;
- be structurally subordinated to any existing or future Indebtedness of the Subsidiaries of the Issuer that are not Guarantors; and
- will be fully and unconditionally guaranteed on a senior basis by the Guarantors, subject to the limitations described herein and in "*Risk Factors—Risks Related to the Notes and the Notes Guarantees—Each Notes Guarantee will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability*" and "*Limitations on Validity and Enforceability of the Notes Guarantees and Certain Insolvency Law Considerations.*"

The Guarantees

Each Guarantee will, upon issuance:

- be a general senior obligation of the applicable Guarantor;
- rank *pari passu* in right of payment with any existing or future Indebtedness of the applicable Guarantor that is not subordinated in right of payment to the applicable Guarantee;
- rank senior in right of payment to any existing or future Indebtedness of the applicable Guarantor that is expressly subordinated in right of payment to the applicable Guarantee;

- be effectively subordinated to any existing or future Indebtedness or obligation of the applicable Guarantor that is secured by property or assets that do not secure the Guarantee, to the extent of the value of the property and assets securing such Indebtedness or obligation; and

- be subject to the limitations described herein and in "*Risk Factors—Risks Related to the Notes and the Notes Guarantees—Each Notes Guarantee will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability*," "*—The insolvency laws of Spain may not be as favorable to you as the U.S. bankruptcy laws and may preclude holders of the Notes from recovering payments due on the Notes*" and "*Limitations on Validity and Enforceability of the Notes Guarantees and Certain Insolvency Law Considerations.*"

Principal and Maturity

The Issuer will issue €600.0 million in aggregate principal amount of Notes on the Issue Date. The Notes will mature on March 15, 2024. The Notes will be issued in minimum denominations of €100,000 and in integral multiples of €1,000 in excess thereof.

Additional Notes

From time to time, subject to the Issuer's compliance with the covenants described under the headings "*—Certain Covenants—Limitation on Indebtedness*" and "*—Certain Covenants—Limitation on Liens*," the Issuer is permitted to issue additional Notes, which shall have terms substantially identical to the Notes except in respect of any of the following terms which shall be set forth in an Officer's Certificate (as defined below) supplied to the Trustee ("**Additional Notes**"):

(1) the title of such Additional Notes;

(2) the aggregate principal amount of such Additional Notes;

(3) the date or dates on which such Additional Notes will be issued;

(4) the rate or rates (which may be fixed or floating) at which such Additional Notes shall bear interest and, if applicable, the interest rate basis, formula or other method of determining such interest rate or rates, the date or dates from which such interest shall accrue, the interest payment dates on which such interest shall be payable or the method by which such dates will be determined, the record dates for the determination of holders thereof to whom such interest is payable and the basis upon which such interest will be calculated;

(5) the currency or currencies in which such Additional Notes shall be denominated and the currency in which cash or government obligations in connection with such series of Additional Notes may be payable;

(6) the date or dates and price or prices at which, the period or periods within which, and the terms and conditions upon which, such Additional Notes may be redeemed, in whole or in part;

(7) if other than in denominations of €100,000 and in integral multiples of €1,000 in excess thereof, the denominations in which such Additional Notes shall be issued and redeemed; and

(8) the ISIN, Common Code, CUSIP or other securities identification numbers with respect to such Additional Notes.

Such Additional Notes will be treated, along with all other Notes, as a single class for the purposes of the Indenture with respect to waivers, amendments and all other matters which are not specifically distinguished for such series. Unless the context otherwise requires, for all purposes of the Indenture and this "*Description of the Notes*," references to "**Notes**" shall be deemed to include references to the Notes initially issued on the Issue Date as well as any Additional Notes. Additional Notes may be designated to be of the same series as the Notes initially issued on the Issue Date, but only if they have terms substantially identical in all material respects to the initial Notes, and shall be deemed to form one series and references to the Notes shall be deemed to include the Notes initially issued on the Issue Date as well as any such Additional Notes; *provided that* any Additional Notes that are not fungible for U.S. federal income tax purposes with any Notes previously issued will be issued with a separate ISIN, Common Code, CUSIP or other securities identification number, as applicable.

Interest

Interest on the aggregate principal amount outstanding of the Notes will accrue at the rate of 3.000% per annum. Interest on the Notes will:

- accrue from the Issue Date or, if interest has already been paid, from the date it was most recently paid;
- be payable in cash semi-annually in arrears on each April 15 and October 15, commencing on April 15, 2019;
- be payable to the holder of record of such Notes on the March 31 and September 30 immediately preceding the related interest payment date; and
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

The rights of Holders to receive the payments of interest on such Notes are subject to applicable procedures of Euroclear and Clearstream. If the due date for any payment in respect of any Notes is not a Business Day at the place at which such payment is due to be paid, the Holder thereof will not be entitled to payment of the amount due until the next succeeding Business Day at such place, and will not be entitled to any further interest or other payment as a result of any such delay.

Methods of Receiving Payments on the Notes

Principal, interest and premium, if any, on the Global Notes (as defined below) will be payable at the specified office or agency of one or more Paying Agents; *provided that* all such payments with respect to the Notes represented by one or more Global Note registered in the name of or held by a nominee of a common depositary for Euroclear and Clearstream, as applicable, will be made by wire transfer of immediately available funds to the account specified by the Holder or Holders thereof.

Principal, interest and premium, Additional Amounts if any, on any certificated securities ("**Definitive Registered Notes**") will be payable at the specified office or agency of one or more Paying Agents maintained for such purposes. In addition, interest on the Definitive Registered Notes may be paid by wire transfer to the person entitled thereto as shown on the register for the Definitive Registered Notes. See "*—Paying Agent and Registrar for the Notes*."

Paying Agent and Registrar for the Notes

The Issuer will maintain one or more Paying Agents for the Notes. The initial Paying Agent will be Deutsche Bank AG, London Branch (the "**Principal Paying Agent**").

The Issuer will also maintain a registrar (the "**Registrar**") and a transfer agent (the "**Transfer Agent**"). The initial Registrar and Transfer Agent will be Deutsche Bank Luxembourg S.A. The Registrar will maintain a register reflecting ownership of the Notes outstanding from time to time, if any, and will make payments on and facilitate transfers of the Notes on behalf of the Issuer.

Upon written notice to the Trustee, the Issuer may change any Paying Agents, Registrars or Transfer Agents for the Notes without prior notice to the Holders of such Notes. However, if and for so long as the Notes are listed on the Official List of the Exchange and if and to the extent the rules of the Exchange so require, the Issuer will publish notice of any change of Paying Agent, Registrar or Transfer Agent to the extent and in the manner permitted by such rules, post such notice on the official website of the Exchange (*www.ise.ie*). The Issuer or any of its Subsidiaries may act as Paying Agent or Registrar in respect of the Notes.

Guarantees

On the Issue Date, the obligations of the Issuer pursuant to the Notes, including any payment obligation resulting from a Change of Control, will be fully and unconditionally guaranteed, jointly and severally on a senior basis, by the Guarantors (which includes each Subsidiary of the Issuer that is a guarantor under the Syndicated Loan Facilities).

The obligations of the Guarantors will be contractually limited under the applicable Guarantees to reflect limitations under applicable law with respect to maintenance of share capital, corporate benefit, fraudulent conveyance and other legal restrictions applicable to the Guarantors and their respective shareholders, directors and general partners. For a description of such contractual limitations, see "*Risk Factors—Risks Related to the Notes and the Notes Guarantees—Each Notes Guarantee will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability*," "*—The insolvency laws of Spain may not be as favorable to you as the U.S. bankruptcy laws and may preclude holders of the Notes from recovering payments due on the Notes*" and "*Limitations on Validity and Enforceability of the Notes Guarantees and Certain Insolvency Law Considerations*."

The initial Guarantors will consist of Viajes El Corte Inglés, S.A. and Supercor, S.A. As of and for the twelve months ended May 31, 2018, the Issuer and the Guarantors represented 87.8%, 83.7% and 87.6% of our net turnover, EBITDA and total assets, respectively. As of May 31, 2018, on an as adjusted basis after giving effect to the Transactions, the Issuer and its consolidated subsidiaries would have had €4,399 million principal amount of indebtedness. This does not include €557 million available under the Revolving Credit Facility.

A significant portion of the operations of the Issuer are conducted through its Subsidiaries. Claims of creditors of non-Guarantor Subsidiaries, including trade creditors, secured creditors and creditors holding debt and guarantees issued by those Subsidiaries, and claims of preferred and minority stockholders (if any) of those Subsidiaries generally will have priority with respect to the assets and earnings of those Subsidiaries over the claims of creditors of the Issuer and the Guarantors, including Holders of the Notes. The Notes and each Guarantee therefore will be structurally subordinated to creditors (including trade creditors) and preferred and minority stockholders (if any) of Subsidiaries of the Issuer (other than the Guarantors). On an as adjusted basis giving effect to the Transactions as of May 31, 2018, the Subsidiaries of the Issuer that will not guarantee the Notes would have had €51.3 million of outstanding financial indebtedness. Although the Indenture limits the incurrence of Indebtedness, Disqualified Stock and Preferred Stock of Restricted Subsidiaries, the limitation is subject to a number of significant exceptions. Moreover, the Indenture does not impose any limitation on the incurrence by Restricted Subsidiaries of liabilities that are not considered Indebtedness, Disqualified Stock or Preferred Stock under the Indenture. See "*—Certain Covenants—Limitation on Indebtedness*."

In addition, as described below under "*—Certain Covenants—Additional Guarantees*," each Restricted Subsidiary that guarantees the Syndicated Loan Facilities or any Material Indebtedness shall also enter into a supplemental indenture as a Guarantor of the Notes.

Each Guarantee will be limited to the maximum amount that would not render the Guarantor's obligations subject to avoidance under applicable fraudulent conveyance provisions of the U.S. Bankruptcy Code or any comparable provision of foreign or state law, or as otherwise required to comply with corporate benefit, financial assistance and other laws. By virtue of this limitation, a Guarantor's obligation under its Guarantee could be significantly less than amounts payable with respect to the Notes, or a Guarantor may have effectively no obligation under its Guarantee. See "*Risk Factors—Risks Related to the Notes and the Notes Guarantees—Each Notes Guarantee will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability*," "*—The insolvency laws of Spain may not be as favorable to you as the U.S. bankruptcy laws and may preclude holders of the Notes from recovering payments due on the Notes*" and "*Limitations on Validity and Enforceability of the Notes Guarantees and Certain Insolvency Law Considerations*."

The Guarantee of a Guarantor will terminate and release:

(1) upon a sale or other disposition (including by way of consolidation or merger) of the Capital Stock of the relevant Guarantor (whether by direct sale or sale of a holding company) or the sale or disposition of all or substantially all the assets of the Guarantor (other than to the Issuer or a Restricted Subsidiary) otherwise permitted by the Indenture;

(2) upon the designation in accordance with the Indenture of the Guarantor as an Unrestricted Subsidiary;

(3) upon defeasance or discharge of the Notes, as provided in "*—Defeasance*" and "*—Satisfaction and Discharge*;"

(4) with respect to a Guarantor that is not a Significant Subsidiary, so long as no Event of Default has occurred and is continuing, to the extent that such Guarantor (i) is unconditionally released and discharged from its liability with respect to the Syndicated Loan Facilities and (ii) does not guarantee any other Material Indebtedness;

(5) as described under "*—Amendments and Waivers*;"

(6) as described in the first paragraph of the covenant described below under "*—Certain Covenants—Additional Guarantees*;" or

(7) as a result of a transaction permitted by "*Certain Covenants—Merger and Consolidation—The Guarantors.*"

Upon the reasonable request and at the cost of the Issuer, the Trustee shall take all necessary actions, including the granting of releases or waivers to effectuate any release of a Guarantee in accordance with these provisions, subject to customary protections and indemnifications. Each of the releases set forth above shall be effected by the Trustee without the consent of the Holders or any other action or consent on the part of the Trustee.

Transfer and Exchange

The Notes will be issued in the form of several registered notes in global form without interest coupons, as follows:

- Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the "**144A Global Notes**"). The 144A Global Notes will, on the Issue Date, be deposited with and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream.

- Notes sold to non-US persons outside the United States pursuant to Regulation S under the Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the "**Regulation S Global Notes**" and, together with the 144A Global Notes, the "**Global Notes**"). The Regulation S Global Note will, on the Issue Date, be deposited with and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream.

Ownership of interests in the Global Notes ("**Book-Entry Interests**") will be limited to persons that have accounts with Euroclear and Clearstream or persons that may hold interests through such participants.

Ownership of interests in the Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer and certification requirements summarized below and described more fully under "*Transfer Restrictions*." In addition, transfers of Book-Entry Interests between participants in Euroclear or participants in Clearstream will be effected by Euroclear and Clearstream pursuant to customary procedures and subject to the applicable rules and procedures established by Euroclear or Clearstream and their respective participants.

Book-Entry Interests in the 144A Global Notes (the "**144A Book-Entry Interests**") may be transferred to a person who takes delivery in the form of Book-Entry Interests in the Regulation S Global Notes (the "**Regulation S Book-Entry Interests**") denominated in the same currency only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S under the Securities Act.

Prior to 40 days after the Issue Date of the Notes, ownership of Regulation S Book-Entry Interests will be limited to persons that have accounts with Euroclear or Clearstream or persons who hold interests through Euroclear or Clearstream, and any sale or transfer of such interest to U.S. persons shall not be permitted during such period unless such resale or transfer is made pursuant to Rule 144A under the Securities Act. Subject to the foregoing, Regulation S Book-Entry Interests may be transferred to a person who takes delivery in the form of 144A Book-Entry Interests only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "*Transfer Restrictions*" and in accordance with any applicable securities law of any other jurisdiction.

Any Book-Entry Interest that is transferred as described in the immediately preceding paragraphs will, upon transfer, cease to be a Book-Entry Interest in the Global Note from which it was transferred and will become a Book-Entry Interest in the Global Note to which it was transferred. Accordingly, from and after such transfer, it will become subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in the Global Note to which it was transferred.

If Definitive Registered Notes are issued, they will be issued only in minimum denominations of €100,000 principal amount, and integral multiples of €1,000 in excess thereof, upon receipt by the Registrar of instructions relating thereto and any certificates, opinions and other documentation required by the Indenture. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, as applicable, from the participant which owns the relevant Book-Entry Interests. Definitive Registered Notes issued in exchange for a Book-Entry Interest will, except as set forth in the Indenture or as otherwise determined by the Issuer in compliance with applicable law, be subject to, and will have a legend with respect to, the restrictions on transfer summarized below and described more fully under "*Transfer Restrictions*."

Subject to the restrictions on transfer referred to above, Notes issued as Definitive Registered Notes may be transferred or exchanged, in whole or in part, in minimum denominations of €100,000 in principal amount and integral multiples of €1,000 in excess thereof. In connection with any such transfer or exchange, the Indenture will require the transferring or exchanging Holder to, among other things, furnish appropriate endorsements and transfer documents, to furnish information regarding the account of the transferee at Euroclear or Clearstream, where appropriate, to furnish certain certificates and opinions, and to pay any Taxes in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the Holder, other than any Taxes payable in connection with such transfer.

Notwithstanding the foregoing, the Issuer is not required to register the transfer or exchange of any Definitive Registered Notes:

(1) for a period of 15 days prior to any date fixed for the redemption of the Notes;

(2) for a period of 15 days immediately prior to the date fixed for selection of Notes to be redeemed in part;

(3) for a period of 15 days prior to the record date with respect to any interest payment date; or

(4) which the Holder has tendered (and not withdrawn) for repurchase in connection with a Change of Control Offer or an Asset Disposition Offer.

The Issuer, the Trustee, the Paying Agent and the Registrar will be entitled to treat the Holder of a Note as the owner of it for all purposes.

Restricted Subsidiaries and Unrestricted Subsidiaries

As of the Issue Date, not all of our Subsidiaries will be "**Restricted Subsidiaries**" for purposes of the Indenture. The Initial Unrestricted Subsidiaries generated 0.7% and 0.1% of our revenue and EBITDA in the twelve months ended May 31, 2018. Under the circumstances described below under "*—Certain Definitions—Unrestricted Subsidiary*," we will be permitted to designate more of our Subsidiaries as "**Unrestricted Subsidiaries**." Our Unrestricted Subsidiaries will not be subject to any of the restrictive covenants in the Indenture.

Optional Redemption

Except as described below and except as described under "*—Redemption for Taxation Reasons*," the Notes are not redeemable until October 15, 2020. On and after October 15, 2020 the Issuer may redeem all or, from time to time, part of the Notes upon not less than 10 nor more than 60 days' notice, at the following redemption prices (expressed as a percentage of principal amount) plus accrued and unpaid interest and Additional Amounts (as defined below), if any, to, but not including, the applicable redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period beginning on October 15 of the years indicated below:

Year	Redemption Price
2020	101.500%
2021	100.750%
2022 and thereafter	100.000%

Prior to October 15, 2020, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of the Notes (including the principal amount of any Additional Notes), upon not less than 10 nor more than 60 days' notice, with funds in an aggregate amount (the "**Redemption Amount**") not exceeding the Net Cash Proceeds of one or more Equity Offerings at a redemption price of 103.000% of the principal amount of the Notes, plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the applicable redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date); *provided that*:

(1) at least 50% of the original principal amount of the Notes (including the principal amount of any Additional Notes) remains outstanding immediately after each such redemption; and

(2) the redemption occurs within 180 days after the closing of such Equity Offering.

In addition, prior to October 15, 2020, the Issuer may redeem all or, from time to time, a part of the Notes upon not less than 10 nor more than 60 days' notice at a redemption price equal to 100% of the principal amount of the Notes, plus the Applicable Premium and accrued and unpaid interest and Additional Amounts, if any, to, but not including, the applicable redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Any such redemption and notice may, in the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent. If such redemption or notice is subject to satisfaction of one or more conditions precedent, such notice shall state that, in the Issuer's discretion, the redemption date may be delayed until such time as any or all such conditions shall be satisfied, or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied by the redemption date, or by the redemption date so delayed; *provided that* in no case shall the notice have been delivered less than 10 days or more than 60 days prior to the date on which such redemption (if any) occurs. In addition, the Issuer may provide in such notice that payment of the redemption price and performance of the Issuer's obligations with respect to such redemption may be performed by another Person.

General

We may repurchase the Notes at any time and from time to time in the open market or otherwise.

Notice of redemption will be provided as set forth under "*—Selection and Notice*" below.

If the Issuer effects an optional redemption of Notes, it will, for so long as the Notes are listed on the Exchange and the rules of the Exchange so require, inform the Exchange of such optional redemption and confirm the aggregate principal amount of the Notes that will remain outstanding immediately after such redemption.

If the optional redemption date is on or after an interest record date and on or before the related interest payment date, the accrued and unpaid interest will be paid to the Person in whose name the Note is registered at the close of business on such record date, and no additional interest will be payable to Holders whose Notes will be subject to redemption by the Issuer.

Sinking Fund

The Issuer is not required to make mandatory redemption payments or sinking fund payments with respect to the Notes.

Redemption at Maturity

On March 15, 2024, the Issuer will redeem the Notes that have not been previously redeemed or purchased and canceled at 100% of their principal amount plus accrued and unpaid interest thereon and Additional Amounts, if any, to, but excluding, the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Selection and Notice

If less than all of any series of Notes is to be redeemed at any time, the Principal Paying Agent or the Registrar will select Notes for redemption in compliance with the requirements of the principal securities exchange, if any, on which that series of Notes are listed, and in compliance with the requirements of Euroclear or Clearstream, or if the Notes are not so listed or such exchange prescribes no method of selection and the Notes are not held through Euroclear or Clearstream, or Euroclear or Clearstream prescribes no method of selection, on a *pro rata* basis by use of a pool factor; *provided, however*, that no Definitive Registered Note of €100,000 in aggregate principal amount or less shall be redeemed in part and only Notes in integral multiples of €1,000 will be redeemed. None of the Trustee, the Principal Paying Agent or the Registrar will be liable for any selections made in accordance with this paragraph.

If and for so long as the Notes are listed on the Official List of the Exchange and if and to the extent the rules of the Exchange so require, the Issuer will notify the Exchange of any redemption. While in global form, notices to Holders may be delivered via Euroclear and Clearstream in lieu of notice via registered mail.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note shall state the portion of the principal amount thereof to be redeemed. In the case of a Definitive Registered Note, a new Definitive Registered Note in principal amount equal to the unredeemed portion of any Definitive Registered Note redeemed in part will be issued in the name of the Holder thereof upon cancellation of the original Definitive Registered Note. In the case of a Global Note, an appropriate notation will be made on such Note to decrease the principal amount thereof to an amount equal to the unredeemed portion thereof. Subject to the terms of the applicable redemption notice, Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of Notes called for redemption.

If the due date for any redemption payment in respect of the Notes is not a Business Day, payment shall be made on the next succeeding day that is a Business Day and no interest shall accrue in the intervening period.

Redemption for Taxation Reasons

The Issuer may redeem any series of Notes in whole, but not in part, at any time upon giving not less than 10 nor more than 60 days' prior notice to the Holders of the relevant series of Notes (which notice will be irrevocable) at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to, but not including, the date fixed for redemption (a "**Tax Redemption Date**") (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date) and all Additional Amounts (as defined below under "**Withholding Taxes**"), if any, then due and which will become due on the Tax Redemption Date as a result of the redemption or otherwise, if any, if the Issuer determines in good faith that, as a result of:

(1) any change in, or amendment to, the law or treaties (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction (as defined below) affecting taxation; or

(2) any amendment to, or change in an official application or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction or a change in published administrative practice) (each of the foregoing in clauses (1) and (2), a "**Change in Tax Law**"),

a Payor (as defined below) is, or on the next interest payment date in respect of the relevant series of Notes would be, required to pay Additional Amounts with respect to such series of Notes (but, in the case of a payment made by a Guarantor, only if the payment giving rise to such requirement cannot be made by the Issuer or another Guarantor who can make such payment without the obligation to pay Additional Amounts) and such obligation cannot be avoided by taking reasonable measures available to the Payor (including, for the avoidance of doubt, the appointment of a new Paying Agent where this would be reasonable). Such Change in Tax Law must be announced and become effective on or after the Issue Date (or, if the applicable Relevant Taxing Jurisdiction becomes a Relevant Taxing Jurisdiction on a date after the Issue Date, such later date). The foregoing provisions shall apply *mutatis mutandis* to any successor Person, after such successor Person becomes a party to the Indenture, with respect to a change or amendments occurring after the time such successor Person becomes a party to the Indenture.

Notice of redemption for taxation reasons will be published in accordance with the procedures described under "*—Selection and Notice*." Notwithstanding the foregoing, no such notice of redemption will be given (a) earlier than 60 days prior to the earliest date on which the Payor would be obligated to make such payment of Additional Amounts and (b) unless at the time such notice is given, such obligation to pay such Additional Amounts remains in effect.

Prior to the publication or mailing of any notice of redemption of any series of Notes pursuant to the foregoing, the Payor will deliver to the Trustee (a) an Officer's Certificate stating that it is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to its right so to redeem have been satisfied and (b) an opinion of an independent tax counsel of recognized standing to the effect that the Payor has been or will become obligated to pay Additional Amounts as a result of a Change in Tax Law. The Trustee will accept and shall be entitled to rely on such Officer's Certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, without further inquiry, in which event it will be conclusive and binding on the Holders.

Withholding Taxes

All payments made by or on behalf of the Issuer or any Guarantor (each, a "**Payor**") in respect of the Notes or with respect to any Guarantee, as applicable, will be made free and clear of and without withholding or deduction for, or on account of, any Taxes unless the withholding or deduction of such Taxes is then required by law. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of the Kingdom of Spain or any jurisdiction in which a Payor is incorporated or organized, engaged in business for tax purposes or otherwise considered to be resident for tax purposes or any jurisdiction through which payment is made, or in each case any political subdivision or governmental authority therein or thereof having the power to tax (each, a "**Relevant Taxing Jurisdiction**") will at any time be required by law to be made from any payments made by or on behalf of the Payor or the Paying Agent with respect to any Note or any Guarantee, including payments of principal, redemption price, interest or premium, if any, the Payor will pay (together with such payments) such additional amounts (the "**Additional Amounts**") as may be necessary in order that the net amounts received by each holder in respect of such payments, after such withholding, or deduction (including any such deduction or withholding from such Additional Amounts), will not be less than the amounts which would have been received in respect of such payments on any such Note or Guarantee in the absence of such withholding or deduction; *provided*, *however*, that no such Additional Amounts will be payable for or on account of:

(1) any Taxes that would not have been so imposed but for the existence of any present or former connection between the relevant Holder or the beneficial owner of a Note (or between a fiduciary, settlor, beneficiary, partner, member or shareholder of, or possessor of power over the relevant Holder or beneficial owner, if the relevant Holder or beneficial owner is an estate, nominee, trust, partnership, limited liability company or corporation) and the Relevant Taxing Jurisdiction (including, without limitation, being resident for tax purposes, or being a citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in, or being physically present in, the Relevant Taxing Jurisdiction) but excluding, in each case, any connection arising solely from the acquisition, ownership or holding of such Note or the receipt of any payment or the exercise or enforcement of rights under such Note, the Indenture or a Guarantee;

(2) any Tax that is imposed or withheld by reason of the failure by the Holder or the beneficial owner of the Note, to comply with a written request of the Payor addressed to the Holder, after reasonable notice, to provide certification, information, documents or other evidence concerning the nationality, residence or identity of the Holder or such beneficial owner or to make any declaration or similar claim or satisfy any other reporting requirement relating to such matters, which is required by a statute, treaty, regulation or administrative practice of a Relevant Taxing Jurisdiction as a precondition to exemption from all or part of such Tax but only to the extent the Holder or beneficial owner is legally entitled to provide such certification or documentation;

(3) any Taxes, to the extent that such Taxes were imposed as a result of the presentation of the Note for payment (where presentation is required) more than 30 days after the relevant payment is first made available for payment to the Holder (except to the extent that the Holder would have been entitled to Additional Amounts had the Note been presented on the last day of the 30-day period);

(4) any Taxes that are payable otherwise than by withholding from a payment of the principal of, premium, if any, or interest, if any, on the Notes or with respect to any Guarantee;

(5) any estate, inheritance, gift, sales, transfer, personal property or similar tax, assessment or other governmental charge (including, as a way of example, the eventual financial transaction tax);

(6) if the Issuer or (as the case may be) the Guarantors do not receive in a timely manner certain information required by the applicable Spanish Tax laws and regulations, including a duly executed and completed certificate from the Paying Agent, pursuant to Law 10/2014, and Royal Decree 1065/2007 of July 27, as amended by Royal Decree 1145/2011 of July 29, and any implementing legislation or regulation; or

(7) any combination of the items (1) through (6) above.

Notwithstanding any other provision contained herein, any amounts to be paid on the Notes by or on behalf of the Issuer or on any Guarantee, will be paid net of any deduction or withholding imposed or 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 (or any amended or successor version of such sections that are substantively comparable) (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement)) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

In addition, no Additional Amounts shall be paid with respect to a Holder who is a fiduciary or a partnership or any person other than the beneficial owner of the Notes, to the extent that the beneficiary or settler with respect to such fiduciary, the member of such partnership or the beneficial owner would not have been entitled to Additional Amounts had such beneficiary, settler, member or beneficial owner held such Notes directly.

The Payor will (i) make any required withholding or deduction and (ii) remit the full amount deducted or withheld to the Relevant Taxing Jurisdiction in accordance with applicable law. The Payor will use all reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any Taxes so deducted or withheld from the Relevant Taxing Jurisdiction and will provide such certified copies, or if, notwithstanding the Payor's reasonable efforts to obtain such tax receipts, such tax receipts are not available, certified copies of other reasonable evidence of such payments as soon as reasonably practicable to the Trustee and copied to the Paying Agent. Such copies shall be made available to the Holders upon request and will be made available at the offices of the Paying Agent.

If any Payor is obligated to pay Additional Amounts under or with respect to any payment made on any Note or any Guarantee, at least 45 days prior to the date of such payment, the Payor will deliver to the Trustee and the Paying Agent an Officer's Certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable and such other information necessary to enable the Paying Agent to pay Additional Amounts to Holders on the relevant payment date (unless such obligation to pay Additional Amounts arises less than 30 days prior to the relevant payment date, in which case the Payor may deliver such Officer's Certificate as promptly as practicable after the date that is 30 days prior to the payment date). The Trustee and the Paying Agent shall be entitled to rely solely on such Officer's Certificate without further inquiry or investigation as conclusive proof that such payments are necessary.

Wherever in the Indenture, the Notes or this "*Description of the Notes*" there is mentioned, in any context:

(1) the payment of principal;

(2) purchase prices in connection with a redemption of the Notes;

(3) interest; or

(4) any other amount payable on or with respect to any of the Notes or any Guarantee,

such reference shall be deemed to include payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The Payor will pay (and will indemnify the holder for) any present or future stamp, issue, registration, court or documentary taxes, or similar charges or levies (including any related interest, penalties or additions to tax) or any other excise, property or similar taxes or similar charges or levies (including any related interest, penalties or additions to tax) that arise in a Relevant Taxing Jurisdiction from the execution, delivery, issuance, or registration of any Notes, any Guarantee, the Indenture, or any other document or instrument in relation thereto (other than in each case, in connection with a transfer of the Notes after this Offering) or the receipt of any payments with respect thereto or any such taxes or similar charges or levies (including any related interest, penalties or additions to tax) imposed by any jurisdiction as a result of, or in connection with, the enforcement of the Notes or any Guarantee (limited, solely in the case of any such taxes or similar charges or levies attributable to the receipt of any payments with respect thereto, to any such taxes imposed by a Relevant Taxing Jurisdiction that are not excluded under clauses (1) through (3) and (5) through (6) or any combination thereof).

The foregoing obligations will survive any termination, defeasance or discharge of the Indenture and will apply *mutatis mutandis* to any jurisdiction in which any successor to a Payor is incorporated or organized, engaged in business for tax purposes or otherwise considered to be resident for tax purposes or any jurisdiction through which payment is made, or in each case any political subdivision or governmental authority therein or thereof having the power to tax.

Change of Control

If a Change of Control occurs, subject to the terms of the covenant described under this heading "*Change of Control*," each Holder will have the right to require the Issuer to repurchase all or any part of such Holder's Notes at a purchase price in cash equal to 101% of the principal amount of the Notes, plus accrued and unpaid interest to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date); *provided*, *however*, that the Issuer shall not be obligated to repurchase any series of Notes as described under this heading, "*Change of Control*," in the event and to the extent that it has unconditionally exercised its right to redeem all of the Notes of such series as described under "*—Optional Redemption*" or all conditions to such redemption have been satisfied or waived.

Unless the Issuer has unconditionally exercised its right to redeem all the Notes as described under "*—Optional Redemption*" or all conditions to such redemption have been satisfied or waived, no later than the date that is 60 days after any Change of Control, the Issuer will mail a notice (the "**Change of Control Offer**") to each Holder of any such Notes, with a copy to the Trustee:

(1) stating that a Change of Control has occurred or may occur and that such Holder has the right to require the Issuer to purchase all or any part of such Holder's Notes at a purchase price in cash equal to 101% of the principal amount of such Notes plus accrued and unpaid interest to, but not including, the date of purchase (subject to the right of Holders of record on a record date to receive interest on the relevant interest payment date) (the "**Change of Control Payment**");

(2) stating the repurchase date (which shall be no earlier than 10 days nor later than 60 days from the date such notice is mailed) and the record date (the "**Change of Control Payment Date**");

(3) stating that any Note accepted for payment pursuant to the Change of Control Offer will cease to accrue interest on the Change of Control Payment Date unless the Change of Control Payment is not paid, and that any Notes or part thereof not tendered will continue to accrue interest;

(4) describing the circumstances and relevant facts regarding the transaction or transactions that constitute the Change of Control;

(5) describing the procedures determined by the Issuer, consistent with the Indenture, that a Holder must follow in order to have its Notes repurchased; and

(6) if such notice is mailed prior to the occurrence of a Change of Control, stating that the Change of Control Offer is conditional on the occurrence of such Change of Control.

On the Change of Control Payment Date, if the Change of Control shall have occurred, the Issuer will, to the extent lawful:

(1) accept for payment all Notes or portion thereof properly tendered pursuant to the Change of Control Offer;

(2) deposit with the Principal Paying Agent an amount equal to the Change of Control Payment in respect of all Notes so tendered;

(3) deliver or cause to be delivered to the Trustee an Officer's Certificate stating the aggregate principal amount of Notes or portions of the Notes being purchased by the Issuer in the Change of Control Offer;

(4) in the case of Global Notes, deliver, or cause to be delivered, to the Principal Paying Agent the Global Notes in order to reflect thereon the portion of such Notes or portions thereof that have been tendered to and purchased by the Issuer; and

(5) in the case of Definitive Registered Notes, deliver, or cause to be delivered, to the relevant Registrar for cancellation all Definitive Registered Notes accepted for purchase by the Issuer.

If any Definitive Registered Notes have been issued, the Paying Agent will promptly mail to each Holder of Definitive Registered Notes so tendered the Change of Control Payment for such Notes, and the Trustee (or an authenticating agent) will, at the cost of the Issuer, promptly authenticate and mail (or cause to be transferred by book-entry) to each Holder of Definitive Registered Notes a new Definitive Registered Note equal in principal amount to the unpurchased portion of the Notes surrendered, if any; *provided that* each such new Note will be in a principal amount that is at least €100,000 and integral multiples of €1,000 in excess thereof.

If and for so long as the Notes are listed on the Official List of the Exchange and if and to the extent that the rules of the Exchange so require, the Issuer will notify the Exchange of any Change of Control Offer.

Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders to require that the Issuer repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction. The existence of a Holder's right to require the Issuer to repurchase such Holder's Notes upon the occurrence of a Change of Control may deter a third party from seeking to acquire the Issuer or its Subsidiaries in a transaction that would constitute a Change of Control.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer. Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control, conditioned upon the consummation of such Change of Control, if a definitive agreement is in place providing for the Change of Control at the time the Change of Control Offer is made.

If Holders of not less than 90% in aggregate principal amount of the applicable series of outstanding Notes validly tender and do not withdraw such Notes in a Change of Control Offer and the Issuer, or any third party making a Change of Control Offer in lieu of the Issuer as described above, purchases all of the applicable series of Notes validly tendered and not withdrawn by such Holders, the Issuer or such third party will have the right, upon not less than 10 nor more than 60 days' prior notice, given not more than 30 days following such purchase pursuant to the Change of Control Offer described above, to redeem all Notes of the applicable series that remain outstanding following such purchase at a price in cash equal to 101% of the aggregate principal amount of such Notes, plus accrued and unpaid interest on the Notes that remain outstanding to, but not including, the date of redemption (subject to the right of Holders of record on the relevant record date to receive interest due on an interest payment date that is on or prior to the redemption date). In determining whether the Holders of at least 90% of the aggregate principal amount of the applicable series of then outstanding Notes have validly tendered and not withdrawn Notes in a Change of Control Offer for all of the Notes of the applicable series, as applicable, Notes owned by an affiliate of the Issuer or by funds controlled or managed by any affiliate of the Issuer, or any successor thereof, shall be deemed to be outstanding for the purposes of such tender offer or other offer, as applicable.

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations conflict with provisions of the Indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the Indenture by virtue of the conflict.

The Issuer's ability to repurchase Notes issued by it pursuant to a Change of Control Offer may be limited by a number of factors. The occurrence of certain of the events that constitute a Change of Control would permit each lender to require a mandatory prepayment of certain Indebtedness, specifically under the Syndicated Loan Facilities. Future Indebtedness of the Issuer or its Subsidiaries may also contain prohibitions of certain events that would constitute a Change of Control or require such Indebtedness to be repurchased upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Issuer to repurchase the Notes could cause a default under, or require a repurchase of, such Indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on the Issuer. Finally, the Issuer's ability to pay cash to the Holders upon a repurchase may be limited by the Issuer's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases. See "*Risk Factors—Risks Related to the Notes and the Notes Guarantees—We may not have the ability to raise the funds necessary to finance an offer to repurchase the Notes upon the occurrence of a change of control as required by the Indenture and the change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events*."

The definition of "**Change of Control**" includes a disposition of all or substantially all of the property and assets of the Issuer and its Restricted Subsidiaries taken as a whole to specified other Persons. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase "substantially all" under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the property or assets of a Person. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Holder may require the Issuer to make an offer to repurchase the Notes as described above.

The provisions of the Indenture relating to the Issuer's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the written consent of Holders of a majority in outstanding principal amount of the Notes.

Certain Covenants

Limitation on Indebtedness

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, Incur any Indebtedness (including Acquired Indebtedness); *provided, however*, that the Issuer and any Restricted Subsidiary may Incur Indebtedness (including Acquired Indebtedness) if on the date of such Incurrence and after giving *pro forma* effect thereto (including *pro forma* application of the proceeds thereof), the Fixed Charge Coverage Ratio for the Issuer and its Restricted Subsidiaries would have been at least 2.0 to 1.0.

The first paragraph of this covenant will not prohibit the Incurrence of the following Indebtedness ("**Permitted Debt**"):

(1) Indebtedness Incurred pursuant to any Credit Facility (including in respect of letters of credit or bankers' acceptances issued or created thereunder), and any Refinancing Indebtedness in respect thereof and Guarantees in respect of such Indebtedness in a maximum aggregate principal amount at any time outstanding not exceeding (i) €3,000.0 million plus (ii) in the case of any refinancing of any Indebtedness permitted under this clause (1) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses Incurred in connection with such refinancing;

(2) (a) Guarantees by the Issuer or any Restricted Subsidiary of Indebtedness of the Issuer or any Restricted Subsidiary, so long as the Incurrence of such Indebtedness is permitted under the terms of the Indenture; or

(b) without limiting the covenant described under "*—Limitation on Liens*," Indebtedness arising by reason of any Lien granted by or applicable to any Person securing Indebtedness of the Issuer or any Restricted Subsidiary so long as the Incurrence of such Indebtedness is permitted under the terms of the Indenture;

(3) Indebtedness of the Issuer owing to and held by any Restricted Subsidiary or Indebtedness of a Restricted Subsidiary owing to and held by the Issuer or any Restricted Subsidiary; *provided*, *however*, that:

(a) in the case of Indebtedness owing to and held by any Restricted Subsidiary that is not a Guarantor (except in respect of intercompany current liabilities incurred in the ordinary course of business in connection with cash management positions of the Issuer and its Restricted Subsidiaries), such Indebtedness shall be unsecured and expressly subordinated in right of payment to the prior payment in full in cash of all obligations with respect to the Notes, in the case of the Issuer, and the respective Guarantee, in the case of a Guarantor; and

(b) (i) any subsequent issuance or transfer of Capital Stock or any other event which results in any such Indebtedness being beneficially held by a Person other than the Issuer or a Restricted Subsidiary; and (ii) any sale or other transfer of any such Indebtedness to a Person other than the Issuer or a Restricted Subsidiary, shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (3) by the Issuer or such Restricted Subsidiary, as the case may be;

(4) (a) Indebtedness represented by the Notes (other than any Additional Notes) outstanding on the Issue Date and the related Guarantees, (b) any Indebtedness (other than Indebtedness Incurred under the Syndicated Loan Facilities, Indebtedness described in clause (3) of this paragraph and Indebtedness Incurred under the Commercial Paper Program) outstanding on the Issue Date, (c) Refinancing Indebtedness Incurred in respect of any Indebtedness described in this clause (4) or clause (13) of this paragraph or Incurred pursuant to the first paragraph of this covenant and (d) Management Advances;

(5) Indebtedness of any Person (i) outstanding on the date on which such Person becomes a Restricted Subsidiary or any Restricted Subsidiary or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Issuer or any Restricted Subsidiary or (ii) Incurred to provide all or a portion of the funds utilized to consummate the transaction or series of related transactions pursuant to which any Person became a Restricted Subsidiary or was otherwise acquired by the Issuer or a Restricted Subsidiary; *provided*, *however*, with respect to this clause (5), that at the time of such acquisition or other transaction (x) the Issuer would have been able to Incur €1.00 of additional Indebtedness pursuant to clause (1) of the first paragraph of this covenant after giving *pro forma* effect to the relevant acquisition and the Incurrence of such Indebtedness pursuant to this clause (5) or (y) the Fixed Charge Coverage Ratio would not be less than it was immediately prior to giving effect to such acquisition or other transaction;

(6) Indebtedness under Currency Agreements, Interest Rate Agreements and Commodity Hedging Agreements not for speculative purposes (as determined in good faith by the Board of Directors or an Officer of the Issuer);

(7) Indebtedness consisting of (A) Capitalized Lease Obligations, mortgage financings, Purchase Money Obligations or other financings, incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvement of property, plant or equipment used in a Similar Business or (B) Indebtedness otherwise incurred to finance the purchase, lease, rental or cost of design, construction, installation or improvement of property (real or personal) or equipment that is used or useful in a Similar Business, whether through the direct purchase of assets or the Capital Stock of any Person owning such assets, and any Indebtedness which refinances, replaces or refunds such Indebtedness, in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this clause (7) and then outstanding, will not exceed at any time outstanding €650.0 million, so long as the Indebtedness exists on the date of such purchase, lease, rental or improvement or is created within 270 days thereafter;

(8) Indebtedness in respect of:

(a) workers' compensation claims, self-insurance obligations, performance, indemnity, surety, judgment, appeal, advance payment, customs, VAT or other tax or other guarantees or other similar bonds, instruments or obligations and completion guarantees and warranties provided by the Issuer or a Restricted Subsidiary or relating to liabilities, obligations or guarantees Incurred in the ordinary course of business or in respect of any governmental requirement;

(b) letters of credit, bankers' acceptances, guarantees or other similar instruments or obligations issued or relating to liabilities or obligations Incurred in the ordinary course of business or in respect of any governmental requirement; *provided*, *however*, that upon the drawing of such letters of credit or other similar instruments, the obligations are reimbursed within 30 days following such drawing;

(c) the financing of insurance premiums in the ordinary course of business; and

(d) any customary treasury and/or cash management services, including treasury, depository, overdraft, credit card processing, credit or debit card, purchase card, electronic funds transfer, the collection of checks and direct debits, cash pooling and other cash management arrangements, in each case, in the ordinary course of business;

(9) Indebtedness arising from agreements providing for customary guarantees, indemnification, obligations in respect of earn-outs or other adjustments of purchase price or, in each case, similar obligations, in each case, Incurred or assumed in connection with the acquisition or disposition of any business or assets or Person or any Capital Stock of a Subsidiary (other than Guarantees of Indebtedness Incurred by any Person acquiring or disposing of such business or assets or such Subsidiary for the purpose of financing such acquisition or disposition); *provided that*, in the case of a disposition, the maximum liability of the Issuer and its Restricted Subsidiaries in respect of all such Indebtedness shall at no time exceed the gross proceeds, including the fair market value of non-cash proceeds (measured at the time received and without giving effect to any subsequent changes in value), actually received by the Issuer and its Restricted Subsidiaries in connection with such disposition;

(10) (a) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided, however*, that such Indebtedness is extinguished within 30 Business Days of Incurrence;

(b) customer deposits and advance payments received in the ordinary course of business from customers for goods or services purchased in the ordinary course of business;

(c) Indebtedness owed on a short-term basis of no longer than 30 days to banks and other financial institutions incurred in the ordinary course of business of the Issuer and its Restricted Subsidiaries with such banks or financial institutions that arises in connection with ordinary banking arrangements to manage cash balances of the Issuer and its Restricted Subsidiaries; and

(d) Indebtedness incurred by a Restricted Subsidiary in connection with bankers acceptances, discounted bills of exchange or the discounting or factoring of receivables for credit management of bad debt purposes, in each case incurred or undertaken in the ordinary course of business;

(11) Indebtedness in an aggregate outstanding principal amount which, when taken together with any Refinancing Indebtedness in respect thereof and the principal amount of all other Indebtedness Incurred pursuant to this clause (11) and then outstanding, will not exceed the greater of 2.73% of Total Assets and €500.0 million;

(12) Indebtedness Incurred pursuant to factoring, securitizations, receivables financings or similar arrangements that (a) is not recourse to the Issuer or any Restricted Subsidiary or (b) in the case of factoring or similar arrangements, are in the ordinary course of business and in respect of receivables from franchisees, landlords, loyalty card programs or other wholesale business receivables or in respect of forfaiting arrangements in an aggregate outstanding principal amount which, when taken together with any Refinancing Indebtedness in respect thereof and the principal amount of all other Indebtedness Incurred pursuant to this clause (12)(b) and then outstanding, will not exceed the greater of 8.7% of Consolidated EBITDA or €100.0 million;

(13) Indebtedness in an aggregate outstanding principal amount which, when taken together with any Refinancing Indebtedness in respect thereof and the principal amount of all other Indebtedness Incurred pursuant to this clause (13) and then outstanding, will not exceed 100% of the Net Cash Proceeds received by the Issuer from the issuance or sale (other than to a Restricted Subsidiary) of its Capital Stock (other than Disqualified Stock, Designated Preference Shares, the Equity Contribution, Excluded Amounts or an Excluded Contribution) or otherwise contributed to the equity (other than through the issuance of Disqualified Stock, Designated Preference Shares, the Equity Contribution, Excluded Amounts or an Excluded Contribution) of the Issuer, in each case, subsequent to the Issue Date; *provided*, *however*, that (i) any such Net Cash Proceeds that are so received or contributed shall be excluded for purposes of making Restricted Payments under the first paragraph and clauses (1), (6) and (10) of the fourth paragraph of the covenant described below under "*—Limitation on Restricted Payments*" to the extent the Issuer and its Restricted Subsidiaries incur Indebtedness in reliance thereon and (ii) any Net Cash Proceeds that are so received or contributed shall be excluded for purposes of Incurring Indebtedness pursuant to this clause (13) to the extent the Issuer or any of its Restricted Subsidiaries makes a Restricted Payment under the first paragraph and clauses (1), (6) and (10) of the fourth paragraph of the covenant described below under "*—Limitation on Restricted Payments*" in reliance thereon;

(14) Indebtedness under daylight borrowing facilities incurred in connection with Refinancing Transactions or any refinancing of Indebtedness (including by way of set-off or exchange) so long as any such Indebtedness is repaid within three days of the date on which such Indebtedness is Incurred; and

(15) Indebtedness Incurred pursuant to the Commercial Paper Program, and any Refinancing Indebtedness in respect thereof and Guarantees in respect of such Indebtedness in a maximum aggregate principal amount at any time outstanding not exceeding (i) €500.0 million plus (ii) in the case of any refinancing of any Indebtedness permitted under this clause (15) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses Incurred in connection with such refinancing.

For purposes of determining compliance with, and the outstanding principal amount of any particular Indebtedness Incurred pursuant to and in compliance with, this covenant:

(1) in the event that Indebtedness meets the criteria of more than one of the types of Indebtedness described in the first and second paragraphs of this covenant, the Issuer, in its sole discretion, will classify, and may from time to time reclassify, such item of Indebtedness and only be required to include the amount and type of such Indebtedness in one of the clauses of the second paragraph or the first paragraph of this covenant;

(2) all Indebtedness outstanding on the Issue Date under the Syndicated Loan Facilities shall be deemed initially Incurred under clause (1) of the second paragraph of this covenant and not the first paragraph or clause (4)(b) of the second paragraph of this covenant, and may not be reclassified;

(3) all Indebtedness outstanding on the Issue Date under the Commercial Paper Program shall be deemed initially Incurred under clause (15) of the second paragraph of this covenant and not the first paragraph or clause (4)(b) of the second paragraph of this covenant, and may not be reclassified;

(4) Guarantees of, or obligations in respect of letters of credit, bankers' acceptances or other similar instruments relating to, or Liens securing, Indebtedness that is otherwise included in the determination of a particular amount of Indebtedness shall not be included;

(5) if obligations in respect of letters of credit, bankers' acceptances or other similar instruments are Incurred pursuant to any Credit Facility and are being treated as Incurred pursuant to clause (1), (7), (11), (12) or (13) of the second paragraph above or the first paragraph above and the letters of credit, bankers' acceptances or other similar instruments relate to other Indebtedness, then such other Indebtedness shall not be included;

(6) the principal amount of any Disqualified Stock of the Issuer or a Restricted Subsidiary, or Preferred Stock of a Restricted Subsidiary, will be equal to the greater of the maximum mandatory redemption or repurchase price (not including, in either case, any redemption or repurchase premium) or the liquidation preference thereof;

(7) Indebtedness permitted by this covenant need not be permitted solely by reference to one provision permitting such Indebtedness but may be permitted in part by one such provision and in part by one or more other provisions of this covenant permitting such Indebtedness;

(8) for the purposes of determining "Consolidated EBITDA" (x) pro forma effect shall be given to Consolidated EBITDA on the same basis as for calculating the Consolidated Net Leverage Ratio for the Issuer and its Restricted Subsidiaries and (y) in relation to clause (1)(ii) of the second paragraph of this covenant, Consolidated EBITDA shall be measured on the most recent date on which new commitments are obtained (in the case of revolving facilities) or the date on which new Indebtedness is Incurred (in the case of term facilities) and for the period of the most recent four consecutive fiscal quarters ending prior to such date for which such internal consolidated financial statements of the Issuer are available; and

(9) the amount of Indebtedness issued at a price that is less than the principal amount thereof will be equal to the amount of the liability in respect thereof determined on the basis of IFRS.

Accrual of interest, accrual of dividends, the accretion of accreted value, the accretion or amortization of original issue discount, the payment of interest in the form of additional Indebtedness, the payment of dividends in the form of additional shares of Preferred Stock or Disqualified Stock or the reclassification of commitments or obligations not treated as Indebtedness due to a change in IFRS will not be deemed to be an Incurrence of Indebtedness for purposes of the covenant described under this "*—Limitation on Indebtedness*." Except as otherwise specified, the amount of any Indebtedness outstanding as of any date shall be (a) the accreted value thereof in the case of any Indebtedness issued with original issue discount and (b) the principal amount, or liquidation preference thereof, in the case of any other Indebtedness.

If at any time an Unrestricted Subsidiary becomes a Restricted Subsidiary, any Indebtedness of such Subsidiary shall be deemed to be Incurred by a Restricted Subsidiary as of such date (and, if such Indebtedness is not permitted to be Incurred as of such date under the covenant described under this "*—Limitation on Indebtedness*," the Issuer shall be in Default of this covenant).

For purposes of determining compliance with any euro-denominated restriction on the Incurrence of Indebtedness, the Euro Equivalent of the principal amount of Indebtedness denominated in another currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or, at the option of the Issuer, first committed, in the case of Indebtedness Incurred under a revolving credit facility; *provided that* (a) if such Indebtedness is Incurred to refinance other Indebtedness denominated in a currency other than euro, and such refinancing would cause the applicable euro-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such euro-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such Refinancing Indebtedness does not exceed the amount set forth in clause (2) of the definition of Refinancing Indebtedness; (b) the Euro Equivalent of the principal amount of any such Indebtedness outstanding on the Issue Date shall be calculated based on the relevant currency exchange rate in effect on the Issue Date; and (c) if any such Indebtedness that is denominated in a different currency is subject to a Currency Agreement (with respect to the euro) covering principal amounts payable on such Indebtedness, the amount of such Indebtedness expressed in euro will be adjusted to take into account the effect of such agreement.

Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Issuer or a Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such Refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

Neither the Issuer nor any Guarantor will incur any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of the Issuer or any Guarantor unless such Indebtedness is also contractually subordinated in right of payment to the Notes and the applicable Guarantee, if any, on substantially identical terms; *provided, however,* that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness of the Issuer or any Guarantor solely by virtue of being unsecured or by virtue of being secured on a first or junior Lien basis.

Limitation on Restricted Payments

The Issuer will not, and will not permit any of its Restricted Subsidiaries, directly or indirectly, to:

(1) declare or pay any dividend or make any other payment or distribution on or in respect of the Issuer's or any Restricted Subsidiary's Capital Stock (including any payment in connection with any merger or consolidation involving the Issuer or any of its Restricted Subsidiaries) except:

(a) dividends or distributions payable in Capital Stock of the Issuer (other than Disqualified Stock) or in options, warrants or other rights to purchase such Capital Stock of the Issuer or in Subordinated Shareholder Funding; and

(b) dividends or distributions payable to the Issuer or a Restricted Subsidiary (and, in the case of any such Restricted Subsidiary making such dividend or distribution, to holders of its Capital Stock other than the Issuer or another Restricted Subsidiary on no more than a *pro rata* basis, measured by value);

(2) purchase, redeem, retire or otherwise acquire for value any Capital Stock of the Issuer or any direct or indirect Parent of the Issuer held by Persons other than the Issuer or a Restricted Subsidiary (other than in exchange for Capital Stock of the Issuer (other than Disqualified Stock));

(3) make any principal payment on, or purchase, repurchase, redeem, defease or otherwise acquire or retire for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment, any Subordinated Indebtedness (other than (a) any such payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement or in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case, due within one year of the date of payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement and (b) any Indebtedness Incurred pursuant to clause (3) of the second paragraph of the covenant described under "*—Limitation on Indebtedness*");

(4) make any payment (other than by capitalization of interest) on or with respect to, or purchase, repurchase, redeem, defease or otherwise acquire or retire for value, any Subordinated Shareholder Funding); or

(5) make any Restricted Investment in any Person,

(any such dividend, distribution, payment, purchase, redemption, repurchase, defeasance, other acquisition, retirement or Restricted Investment referred to in clauses (1) through (5) are referred to herein as a "**Restricted Payment**"), if at the time the Issuer or such Restricted Subsidiary makes such Restricted Payment:

(a) a Default shall have occurred and be continuing (or would result immediately thereafter therefrom);

(b) the Issuer is not able to Incur an additional €1.00 of Indebtedness under the Fixed Charge Coverage Ratio pursuant to the first paragraph of the covenant described under "*—Limitation on Indebtedness*" after giving effect, on a pro forma basis, to such Restricted Payment; or

(c) the aggregate amount of such Restricted Payment and all other Restricted Payments made subsequent to the Issue Date (and not returned or rescinded) (including Permitted Payments permitted below by clauses (5), (9), (10), (11), (14) and (16) of the second succeeding paragraph, but excluding all other Restricted Payments permitted by the second succeeding paragraph) would exceed the sum of (without duplication):

(i) 50% of Consolidated Net Income for the period (treated as one accounting period) from March 1, 2018, to the end of the most recent fiscal quarter ending prior to the date of such Restricted Payment for which internal consolidated financial statements of the Issuer are available (or, in the case such Consolidated Net Income is a deficit, minus 100% of such deficit);

(ii) 100% of the aggregate Net Cash Proceeds, and the fair market value (as determined in accordance with the next succeeding paragraph) of property or assets or marketable securities, received by the Issuer from the issue or sale of its Capital Stock (other than Disqualified Stock or Designated Preference Shares) or Subordinated Shareholder Funding subsequent to the Issue Date or otherwise contributed to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares) of the Issuer subsequent to the Issue Date (other than (v) Subordinated Shareholder Funding, or (w) Capital Stock sold to a Subsidiary of the Issuer, (x) Net Cash Proceeds or property or assets or marketable securities received from an issuance or sale of such Capital Stock to a Restricted Subsidiary or an employee stock ownership plan or trust established by the Issuer or any Subsidiary of the Issuer for the benefit of its employees to the extent funded by the Issuer or any Restricted Subsidiary, (y) Net Cash Proceeds or property or assets or marketable securities to the extent that any Restricted Payment has been made from such proceeds in reliance on clause (6) of the second succeeding paragraph and (z) Excluded Contributions);

(iii) 100% of the aggregate Net Cash Proceeds, and the fair market value (as determined in accordance with the next succeeding paragraph) of property or assets or marketable securities, received by the Issuer or any Restricted Subsidiary from the issuance or sale (other than to the Issuer or a Restricted Subsidiary or an employee stock ownership plan or trust established by the Issuer or any Subsidiary of the Issuer for the benefit of its employees to the extent funded by the Issuer or any Restricted Subsidiary) by the Issuer or any Restricted Subsidiary subsequent to the Issue Date of any Indebtedness that has been converted into or exchanged for Capital Stock of the Issuer (other than Disqualified Stock or Designated Preference Shares) or Subordinated Shareholder Funding (plus the amount of any cash, and the fair market value (as determined in accordance with the next succeeding paragraph) of property or assets or marketable securities, received by the Issuer or any Restricted Subsidiary upon such conversion or exchange) but excluding (x) the Disqualified Stock or Indebtedness issued or sold to a Subsidiary of the Issuer, (y) Net Cash Proceeds to the extent that any Restricted Payment has been made from such proceeds in reliance on clause (6) of the second succeeding paragraph, and (z) Excluded Contributions;

(iv) 100% of the aggregate Net Cash Proceeds, and the fair market value (as determined in accordance with the next succeeding paragraph) of property or assets or marketable securities, received by the Issuer or any Restricted Subsidiary (other than to the Issuer or a Restricted Subsidiary or an employee stock ownership plan or trust established by the Issuer or any Subsidiary of the Issuer for the benefit of its employees to the extent funded by the Issuer or any Restricted Subsidiary) from the disposition of any Unrestricted Subsidiary or the disposition or repayment of any Investment constituting a Restricted Payment made after the Issue Date;

(v) in the case of the designation of an Unrestricted Subsidiary as a Restricted Subsidiary or all of the assets of such Unrestricted Subsidiary are transferred to the Issuer or a Restricted Subsidiary, or the Unrestricted Subsidiary is merged or consolidated into the Issuer or a Restricted Subsidiary, 100% of such amount received in cash and the fair market value of any property or marketable securities received by the Issuer or any Restricted Subsidiary in respect of such redesignation, merger, consolidation or transfer of assets, excluding the amount of any Investment in such Unrestricted Subsidiary that constituted a Permitted Investment made pursuant to clause (12) of the definition of "Permitted Investment;" and

(vi) 100% of any dividends or distributions received by the Issuer or a Restricted Subsidiary after the Issue Date from an Unrestricted Subsidiary,

provided, *however*, that no amount will be included in Consolidated Net Income for purposes of the preceding clause (i) to the extent that it is (at the Issuer's option) included in the foregoing clause (iv), (v) or (vi).

The fair market value of property or assets other than cash covered by the preceding two sentences shall be the fair market value thereof as determined in good faith by an officer of the Issuer, or, if such fair market value exceeds the greater of (i) 8.7% of Consolidated EBITDA and (ii) €100.0 million, by the Board of Directors.

The foregoing provisions will not prohibit any of the following (collectively, "**Permitted Payments**"):

(1) any Restricted Payment made by exchange (including any such exchange pursuant to the exercise of a conversion right or privilege in connection with which cash is paid in lieu of the issuance of fractional shares) for, or out of the proceeds of the substantially concurrent sale (other than to a Subsidiary of the Issuer) of, Capital Stock of the Issuer (other than Disqualified Stock or Designated Preference Shares), Subordinated Shareholder Funding or a substantially concurrent contribution to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares or through an Excluded Contribution) of the Issuer; *provided*, *however*, that to the extent so applied, the Net Cash Proceeds, or fair market value (as determined in accordance with the preceding sentence) of property or assets or of marketable securities, from such sale of Capital Stock or Subordinated Shareholder Funding or such contribution will be excluded from clause (c)(ii) of the preceding paragraph;

(2) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Indebtedness made by exchange for, or out of the proceeds of the substantially concurrent sale of, Refinancing Indebtedness permitted to be Incurred pursuant to the covenant described under "*—Limitation on Indebtedness*" above;

(3) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Preferred Stock of the Issuer or a Restricted Subsidiary made by exchange for or out of the proceeds of the substantially concurrent sale of Preferred Stock of the Issuer or a Restricted Subsidiary, as the case may be, that, in each case, is permitted to be Incurred pursuant to the covenant described under "*—Limitation on Indebtedness*" above, and that, in each case, constitutes Refinancing Indebtedness;

(4) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Indebtedness:

(a) (i) from Net Available Cash to the extent permitted under "*—Limitation on Sales of Assets and Subsidiary Stock*" below, but only if the Issuer shall have first complied with the terms described under "*—Limitation on Sales of Assets and Subsidiary Stock*" and purchased all Notes tendered pursuant to any offer to repurchase all the Notes required thereby, prior to purchasing, repurchasing, redeeming, defeasing or otherwise acquiring or retiring such Subordinated Indebtedness and (ii) at a purchase price not greater than 100% of the principal amount of such Subordinated Indebtedness plus accrued and unpaid interest;

(b) following the occurrence of a Change of Control (or other similar event described therein as a "change of control"), but only (i) if the Issuer shall have first complied with the terms described under "*—Change of Control*" and purchased all Notes tendered pursuant to the offer to repurchase all the Notes required thereby, prior to purchasing, repurchasing, redeeming, defeasing or otherwise acquiring or retiring such Subordinated Indebtedness and (ii) at a purchase price not greater than 101% of the principal amount of such Subordinated Indebtedness plus accrued and unpaid interest; or

(c) (i) consisting of Acquired Indebtedness (other than Indebtedness Incurred (A) to provide all or any portion of the funds utilized to consummate the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was otherwise acquired by the Issuer or a Restricted Subsidiary or (B) otherwise in connection with or contemplation of such acquisition) and (ii) at a purchase price not greater than 100% of the principal amount of such Subordinated Indebtedness plus accrued and unpaid interest and any premium required by the terms of any Acquired Indebtedness;

(5) any dividends paid within 60 days after the date of declaration if at such date of declaration such dividend would have complied with this covenant;

(6) the purchase, repurchase, redemption, defeasance or other acquisition, cancellation or retirement for value of Capital Stock of the Issuer, any Restricted Subsidiary or any Parent (including any options, warrants or other rights in respect thereof) and loans, advances, dividends or distributions by the Issuer to any Parent to permit any Parent to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital Stock of the Issuer, any Restricted Subsidiary or any Parent (including any options, warrants or other rights in respect thereof), or payments to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital Stock of the Issuer, any Restricted Subsidiary or any Parent (including any options, warrants or other rights in respect thereof), in each case from Company Investors; *provided that* such payments, loans, advances, dividends or distributions do not exceed an amount (net of repayments of any such loans or advances) equal to (1) €100.0 million *per annum*; plus (2) the Net Cash Proceeds received by the Issuer or its Restricted Subsidiaries since the Issue Date (including through receipt of proceeds from the issuance or sale of its Capital Stock or Subordinated Shareholder Funding) from, or as a contribution to the equity (in each case under this clause (2), other than through the issuance of Disqualified Stock or Designated Preference Shares) of the Issuer from, the issuance or sale to Company Investors of Capital Stock (including any options, warrants or other rights in respect

thereof); plus (3) the Net Cash Proceeds of any key man life insurance policies, to the extent such Net Cash Proceeds are not included in any calculation under clause (c)(ii) of the first paragraph describing this covenant;

(7) the declaration and payment of dividends to holders of any class or series of Disqualified Stock, or of any Preferred Stock of a Restricted Subsidiary, Incurred in accordance with the terms of the covenant described under "*—Limitation on Indebtedness*;"

(8) purchases, repurchases, redemptions, defeasances or other acquisitions or retirements of Capital Stock deemed to occur upon the exercise of stock options, warrants or other rights in respect thereof if such Capital Stock represents a portion of the exercise price thereof;

(9) dividends, loans, advances or distributions to any Parent or other payments by the Issuer or any Restricted Subsidiary in amounts equal to (without duplication) amounts constituting or to be used for purposes of making payments of fees and expenses Incurred (i) in connection with the Transactions or disclosed in the Offering Memorandum or (ii) to the extent specified in clauses (2), (3), (5) and (7) of the second paragraph under "*—Limitation on Affiliate Transactions*;"

(10) so long as no Default or Event of Default has occurred and is continuing (or would result therefrom), the declaration and payment by the Issuer of, or loans, advances, dividends or distributions to any Parent to pay, dividends on the common stock or common equity interests of the Issuer or any Parent following a Public Offering of such common stock or common equity interests, in an amount not to exceed in any fiscal year the greater of (a) 6% of the Net Cash Proceeds received by the Issuer from such Public Offering or contributed to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares or through an Excluded Contribution) of the Issuer or contributed as Subordinated Shareholder Funding to the Issuer and (b) following the Initial Public Offering, an amount equal to the greater of (A) 8% of the Market Capitalization and (B) 8% of the IPO Market Capitalization; *provided that* in the case of this clause (b) after giving *pro forma* effect to such loans, advances, dividends or distributions, the Consolidated Net Leverage Ratio shall be equal to or less than 3.5 to 1.0;

(11) so long as no Default or Event of Default has occurred and is continuing (or would result from), Restricted Payments in an aggregate amount outstanding at any time not to exceed €75.0 million *per annum*;

(12) payments by the Issuer, or loans, advances, dividends or distributions to any Parent to make payments, to holders of Capital Stock of the Issuer or any Parent in lieu of the issuance of fractional shares of such Capital Stock; *provided*, *however*, that any such payment, loan, advance, dividend or distribution shall not be for the purpose of evading any limitation of this covenant or otherwise to facilitate any dividend or other return of capital to the holders of such Capital Stock (as determined in good faith by the Board of Directors or an Officer of the Issuer);

(13) Restricted Payments in an aggregate amount outstanding at any time not to exceed the aggregate cash amount of Excluded Contributions, or consisting of non-cash Excluded Contributions, or Investments in exchange for or using as consideration Investments previously made under this clause (13);

(14) (i) the declaration and payment of dividends to holders of any class or series of Designated Preference Shares of the Issuer issued after the Issue Date; and (ii) the declaration and payment of dividends to any Parent or any Affiliate thereof, the proceeds of which will be used to fund the payment of dividends to holders of any class or series of Designated Preference Shares of such Parent or Affiliate issued after the Issue Date; *provided*, *however*, that, in the case of clauses (i) and (ii), the amount of all dividends declared or paid pursuant to this clause (14) shall not exceed the Net Cash Proceeds received by the Issuer or the aggregate amount contributed in cash to the equity (other than through the issuance of Disqualified Stock or an Excluded Contribution or, in the case of Designated Preference Shares by such Parent or an Affiliate, the issuance of Designated Preference Shares) of the Issuer or contributed as Subordinated Shareholder Funding to the Issuer, as applicable, from the issuance or sale of such Designated Preference Shares;

(15) dividends or other distributions of Capital Stock, Indebtedness or other securities of Unrestricted Subsidiaries;

(16) so long as no Default or Event of Default has occurred and is continuing (or would result from), any Restricted Payment; *provided that* the Consolidated Net Leverage Ratio does not exceed 3.25 to 1.0 on a *pro forma* basis after giving effect to any such Restricted Payment; and

(17) any Restricted Payment which constitutes the payment of principal and/or interest on Existing Shareholder Arrangements; *provided that* (in the case of any payment of interest) the interest rate payable in respect of such Existing Shareholder Arrangements is not increased to a rate per annum which exceeds the rate per annum payable in respect of the loans under tranche C1 of the Syndicated Loan Facilities.

The amount of all Restricted Payments (other than cash) shall be the fair market value on the date of such Restricted Payment of the asset(s) or securities proposed to be paid, transferred or issued by the Issuer or such Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment. The fair market value of any cash Restricted Payment shall be its face amount, and the fair market value of any non-cash Restricted Payment shall be determined conclusively by the Board of Directors of the Issuer acting in good faith.

For the purposes of calculating "Consolidated EBITDA," pro forma effect shall be given to Consolidated EBITDA on the same basis as for calculating the Consolidated Net Leverage Ratio for the Issuer and its Restricted Subsidiaries.

Limitation on Liens

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create, Incur or suffer to exist any Lien upon any of its property or assets (including Capital Stock of a Restricted Subsidiary), whether owned on the Issue Date or acquired after that date, or any interest therein or any income or profits therefrom, which Lien is securing any Public Debt or any Material Indebtedness (such Lien, the "**Initial Lien**"), except (1) Permitted Liens or (2) Liens on property or assets that are not Permitted Liens if the Notes and the Indenture (or a Guarantee in the case of Liens of a Guarantor) are directly secured equally and ratably with, or prior to, the Indebtedness secured by such Initial Lien for so long as such Indebtedness is so secured.

Any such Lien created in favor of the Notes will be automatically and unconditionally released and discharged upon the release and discharge of the Initial Lien to which it relates.

Limitation on Sales of Assets and Subsidiary Stock

The Issuer will not, and will not permit any Restricted Subsidiary to, consummate any Asset Disposition unless:

(1) the consideration the Issuer or such Restricted Subsidiary receives for such Asset Disposition is not less than the fair market value of the assets sold (as determined by the Issuer's Board of Directors); and

(2) at least 75% of the consideration the Issuer or such Restricted Subsidiary receives in respect of such Asset Disposition consists of:

(i) cash (including any Net Cash Proceeds received from the conversion within 365 days of such Asset Disposition of securities, notes or other obligations received in consideration of such Asset Disposition);

(ii) Cash Equivalents;

(iii) the assumption by the purchaser of (x) any liabilities recorded on the Issuer's or such Restricted Subsidiary's balance sheet or the notes thereto (or, if incurred since the date of the latest balance sheet, that would be recorded on the next balance sheet) (other than Subordinated Indebtedness), as a result of which neither the Issuer nor any of the Restricted Subsidiaries remains obligated in respect of such liabilities or (y) Indebtedness of a Restricted Subsidiary that is no longer a Restricted Subsidiary as a result of such Asset Disposition, if the Issuer and each other Restricted Subsidiary is released from any guarantee of such Indebtedness as a result of such Asset Disposition;

(iv) Replacement Assets;

(v) any Capital Stock or assets of the kind referred to in clause (D) or (F) in the second paragraph of this covenant;

(vi) consideration consisting of Indebtedness of the Issuer or any Guarantor received from Persons who are not the Issuer or any Restricted Subsidiary, but only to the extent that such Debt (i) has been extinguished by the Issuer or the applicable Guarantor and (ii) is not Subordinated Indebtedness of the Issuer or such Guarantor;

(vii) any Designated Non-Cash Consideration received by the Issuer or any Restricted Subsidiary, having an aggregate fair market value, taken together with all other Designated Non-Cash Consideration received pursuant to this covenant that is at any one time outstanding, not to exceed the greater of 3.9% of Consolidated EBITDA and €50.0 million (with the fair market value of each issue of Designated Non-Cash Consideration being measured at the time received and without giving effect to subsequent changes in value); or

(viii) a combination of the consideration specified in clauses (i) through (vii) of this clause (2).

If the Issuer or any Restricted Subsidiary consummates an Asset Disposition, the Net Cash Proceeds of the Asset Disposition, within 360 days (or 540 days in the circumstances described in clause (H) below) of the later of (i) the date of the consummation of such Asset Disposition and (ii) the receipt of such Net Cash Proceeds, may be used by the Issuer or such Restricted Subsidiary to:

(A) to the extent the Issuer or any Restricted Subsidiary, as the case may be, elects (or is required by the terms of any Indebtedness of a Restricted Subsidiary), to prepay, repay or purchase any Indebtedness of the Issuer or any Restricted Subsidiaries (in each case, other than Indebtedness owed to the Issuer or any Restricted Subsidiary or Subordinated Indebtedness) within 360 days from the later of (A) the date of such Asset Disposition and (B) the receipt of such Net Available Cash; *provided that* the Issuer shall redeem, repay or repurchase Indebtedness that is Public Debt only if the Issuer makes (at such time in compliance with this covenant) an offer to the Holders of each series of the Notes to purchase their Notes in accordance with the provisions set forth below for an Asset Disposition Offer in an aggregate principal amount at least equal to the proportion that (x) the total aggregate principal amount of Notes of such series outstanding bears to (y) the sum of the total aggregate principal amount of Notes of all series outstanding plus the total aggregate principal amount outstanding of such Indebtedness; or

(B) purchase any series of Notes pursuant to an offer to all Holders of such series of Notes at a purchase price in cash equal to at least 100% of the principal amount thereof, plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date) or redeem any series of Notes pursuant to the redemption provisions of the Indenture or by making an Asset Disposition Offer to all Holders of the Notes (in accordance with the procedures set out below);

(C) invest in any Replacement Assets;

(D) acquire all or substantially all of the assets of, or any Capital Stock of, another Similar Business, if, after giving effect to any such acquisition of Capital Stock, the Similar Business is or becomes a Restricted Subsidiary;

(E) make a capital expenditure;

(F) acquire other assets (other than Capital Stock and cash or Cash Equivalents) that are used or useful in a Similar Business;

(G) consummate any combination of the foregoing; or

(H) enter into a binding commitment to apply the Net Cash Proceeds pursuant to clause (A), (C), (D), (E) or (F) of this paragraph or a combination thereof; *provided that*, a binding commitment shall be treated as a permitted application of the Net Cash Proceeds from the date of such commitment until the earlier of (x) the date on which such investment is consummated, (y) the 180th day following the expiration of the aforementioned 360 day period, if the investment has not been consummated by that date.

The amount of such Net Cash Proceeds not so used as set forth in this paragraph constitutes "**Excess Proceeds**." Pending the final application of any such Net Cash Proceeds, the Issuer may temporarily reduce revolving credit borrowings or otherwise invest such Net Cash Proceeds in any manner that is not prohibited by the terms of the Indenture.

On the 361st day (or the 541st day if a binding commitment as described in clause (H) is entered into) after an Asset Disposition, or such earlier time if the Issuer elects, if the aggregate amount of Excess Proceeds exceeds €100.0 million, the Issuer will be required within 10 Business Days thereof to make an offer ("**Asset Disposition Offer**") to all Holders and, to the extent the Issuer elects, to all holders of other outstanding Indebtedness (other than Subordinated Indebtedness), to purchase the maximum principal amount of Notes and any such Indebtedness (other than Subordinated Indebtedness) to which the Asset Disposition Offer applies that may be purchased out of the Excess Proceeds, at an offer price in respect of the Notes in an amount equal to (and, in the case of Indebtedness (other than Subordinated Indebtedness), an offer price of no more than) 100% of the principal amount of the Notes and 100% of the principal amount of Indebtedness (other than Subordinated Indebtedness), in each case, plus accrued and unpaid interest, if any, to, but not including, the date of purchase, in accordance with the procedures set forth in the Indenture or the agreements governing the Indebtedness, as applicable, in minimum denominations of €100,000 and in integral multiples of €1,000 in excess thereof in the case of the Notes.

To the extent that the aggregate amount of Notes and Indebtedness (other than Subordinated Indebtedness) so validly tendered and not properly withdrawn pursuant to an Asset Disposition Offer is less than the Excess Proceeds, the Issuer may use any remaining Excess Proceeds for general corporate purposes, subject to other covenants contained in the Indenture. If the aggregate principal amount of the Notes surrendered in any Asset Disposition Offer by Holders and other Indebtedness (other than Subordinated Indebtedness) surrendered by holders or lenders, collectively, exceeds the amount of Excess Proceeds, the Excess Proceeds shall be allocated among the Notes and Indebtedness (other than Subordinated Indebtedness) to be repaid or purchased on a pro rata basis on the basis of the aggregate principal amount of tendered Notes and Indebtedness (other than Subordinated Indebtedness). For the purposes of calculating the principal amount of any such Indebtedness not denominated in euro, such Indebtedness shall be calculated by converting any such principal amounts into their Euro Equivalent determined as of a date selected by the Issuer that is within the Asset Disposition Offer Period (as defined below). Upon completion of any Asset Disposition Offer, the amount of Excess Proceeds shall be reset at zero.

To the extent that any portion of Net Available Cash payable in respect of the Notes is denominated in a currency other than the currency in which the relevant Notes are denominated, the amount thereof payable in respect of such Notes shall not exceed the net amount of funds in the currency in which such Notes are denominated that is actually received by the Issuer upon converting such portion of the Net Available Cash into such currency.

The Asset Disposition Offer, in so far as it relates to the Notes, will remain open for a period of not less than 20 Business Days following its commencement (the "**Asset Disposition Offer Period**"). No later than five Business Days after the termination of the Asset Disposition Offer Period (the "**Asset Disposition Purchase Date**"), the Issuer will purchase the principal amount of Notes and, to the extent it elects, Indebtedness (other than Subordinated Indebtedness) required to be repaid or purchased by it pursuant to this covenant (the "**Asset Disposition Offer Amount**") or, if less than the Asset Disposition Offer Amount has been so validly tendered, all Notes and Indebtedness (other than Subordinated Indebtedness) validly tendered in response to the Asset Disposition Offer.

On or before the Asset Disposition Purchase Date, the Issuer will, to the extent lawful, accept for payment, on a pro rata basis to the extent necessary, the Asset Disposition Offer Amount of Notes and Indebtedness (other than Subordinated Indebtedness) or portions of Notes and Indebtedness (other than Subordinated Indebtedness) so validly tendered and not properly withdrawn pursuant to the Asset Disposition Offer, or if less than the Asset Disposition Offer Amount has been validly tendered and not properly withdrawn, all Notes and Indebtedness (other than Subordinated Indebtedness) so validly tendered and not properly withdrawn and in minimum denominations of €100,000 and in integral multiples of €1,000 in excess thereof. The Issuer will deliver to the Trustee an Officer's Certificate stating that such Notes or portions thereof were accepted for payment by the Issuer in accordance with the terms of this covenant. The Issuer or the Paying Agent, as the case may be, will promptly (but in any case not later than five Business Days after termination of the Asset Disposition Offer Period) mail or deliver to each tendering Holder an amount equal to the purchase price of the Notes so validly tendered and not properly withdrawn by such Holder, and accepted by the Issuer for purchase, and the Issuer will promptly issue a new Note (or amend the applicable Global Note), and the Trustee (or an authenticating agent), upon delivery of an Officer's Certificate from the Issuer, will authenticate and mail or deliver (or cause to be transferred by book-entry) such new Note to such Holder, in a principal amount equal to any unpurchased portion of the Note surrendered;

provided that each such new Note will be in a principal amount with a minimum denomination of €100,000. Any Note not so accepted will be promptly mailed or delivered (or transferred by book-entry) by the Issuer to the Holder thereof.

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to the Indenture. To the extent that the provisions of any securities laws or regulations conflict with provisions of this covenant, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance.

Limitation on Affiliate Transactions

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into or conduct any transaction or series of related transactions (including the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate of the Issuer (any such transaction or series of related transactions being an "**Affiliate Transaction**") involving aggregate value in excess of €15.0 million unless:

(1) the terms of such Affiliate Transaction taken as a whole are not materially less favorable to the Issuer or such Restricted Subsidiary, as the case may be, than those that could be obtained in a comparable transaction at the time of such transaction or the execution of the agreement providing for such transaction in arm's-length dealings with a Person who is not such an Affiliate; and

(2) in the event such Affiliate Transaction involves an aggregate value in excess of €50.0 million, the terms of such transaction or series of related transactions have been approved by a resolution of the majority of the disinterested members of the Board of Directors of the Issuer resolving that such transaction complies with clause (1) above.

The provisions of the preceding paragraph will not apply to:

(1) any Restricted Payment permitted to be made pursuant to the covenant described under "*—Limitation on Restricted Payments*," any Permitted Payments (other than pursuant to clause (9) of the fourth paragraph of the covenant described under "*—Limitations on Restricted Payments*") or any Permitted Investments (other than Permitted Investments as defined in paragraphs (1)(b) and (2) of the definition thereof);

(2) any issuance or sale of Capital Stock, options, other equity-related interests or other securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, or entering into, or maintenance of, any employment, consulting, collective bargaining or benefit plan, program, agreement or arrangement, related trust or other similar agreement and other compensation arrangements, options, warrants or other rights to purchase Capital Stock of the Issuer, any Restricted Subsidiary or any Parent, restricted stock plans, long-term incentive plans, stock appreciation rights plans, participation plans or similar employee benefits or consultants' plans (including valuation, health, insurance, deferred compensation, severance, retirement, savings or similar plans, programs or arrangements) or indemnities provided on behalf of officers, employees, directors or consultants approved by the Board of Directors of the Issuer, in each case in the ordinary course of business;

(3) any Management Advances and any waiver or transaction with respect thereto;

(4) any transaction between or among the Issuer and any Restricted Subsidiary (or entity that becomes a Restricted Subsidiary as a result of such transaction), or between or among Restricted Subsidiaries;

(5) the payment of reasonable fees and reimbursement of expenses to, and customary indemnities (including under customary insurance policies) and employee benefit and pension expenses provided on behalf of, directors, officers, consultants or employees of the Issuer, any Restricted Subsidiary or any Parent (whether directly or indirectly and including through any Person owned or controlled by any of such directors, officers or employees);

(6) (i) the Transactions, (ii) the entry into and performance of obligations of the Issuer or any of its Restricted Subsidiaries under the terms of any transaction pursuant to or contemplated by, and any payments pursuant to or for purposes of funding, any agreement or instrument in effect as of or on the Issue Date or described in "*Certain Relationships and Related Party Transactions*" in the Offering Memorandum, as these agreements and instruments may be amended, modified, supplemented, extended, renewed, replaced or refinanced from time to time in accordance with the other terms of this covenant or to the extent not more disadvantageous to the Holders in any material respect, and (iii) the entry into and performance of any registration rights or other listing agreement;

(7) the execution, delivery and performance of any arrangement pursuant to which the Issuer or any of its Restricted Subsidiaries is required or permitted to file a consolidated tax return, or the formation and maintenance of any

consolidated group for tax, accounting or cash pooling or management purposes in the ordinary course of business;

(8) transactions with customers, clients, suppliers or purchasers or sellers of goods or services, in each case in the ordinary course of business, which are fair to the Issuer or the relevant Restricted Subsidiary in the reasonable determination of the Board of Directors or an officer of the Issuer or the relevant Restricted Subsidiary, or are on terms no less favorable than those that could reasonably have been obtained at such time from an unaffiliated party;

(9) any transaction in the ordinary course of business between or among the Issuer or any Restricted Subsidiary and any Affiliate of the Issuer or an Associate or similar entity that would constitute an Affiliate Transaction solely because the Issuer or a Restricted Subsidiary or any Affiliate of the Issuer or a Restricted Subsidiary or any Affiliate of any Permitted Holder owns an equity interest in or otherwise controls such Affiliate, Associate or similar entity;

(10) issuances or sales of Capital Stock (other than Disqualified Stock or Designated Preference Shares) of the Issuer or options, warrants or other rights to acquire such Capital Stock or Subordinated Shareholder Funding; *provided that* the interest rate and other financial terms of such Subordinated Shareholder Funding are approved by a majority of the members of the Board of Directors in their reasonable determination and (b) any amendment, waiver or other transaction with respect to any Subordinated Shareholder Funding in compliance with the other provisions of the Indenture;

(11) any transaction effected as part of an ordinary course receivables financing;

(12) any participation in a public tender or exchange offers for securities or debt instruments issued by the Issuer or any of its Subsidiaries that are conducted on arms' length terms and provide for the same price or exchange ratio, as the case may be, to all holders accepting such tender or exchange offer; and

(13) any other transactions for which the Issuer or the relevant Restricted Subsidiary determines to be commercially appropriate and beneficial to it notwithstanding that it is not on arms' length terms and for fair market value.

Reports

So long as any Notes are outstanding, the Issuer will furnish to the Trustee the following reports:

(1) within 150 days after the end of the Issuer's fiscal year ended February 28, 2019, and then within 120 days after the end of each subsequent fiscal year, annual reports containing, to the extent applicable: (i) an operating and financial review of the audited consolidated financial statements, including a discussion of the results of operations, financial condition and liquidity and capital resources of the Issuer and its subsidiaries; (ii) unaudited *pro forma* income statement and balance sheet information of the Issuer, together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed fiscal year as to which such annual report relates (other than the Transactions and unless such *pro forma* information has been provided in a previous report pursuant to clause (2) or (3) below); *provided that* such *pro forma* financial information will be provided only to the extent available without unreasonable expense, in which case the Issuer will provide, in the case of a material acquisition, acquired company financial statements or financial data; (iii) the audited consolidated balance sheet of the Issuer as at the end of the most recent fiscal year and audited consolidated income statements and statements of cash flow of the Issuer for the most recent two fiscal years, including appropriate footnotes to such financial statements, for and as at the end of such fiscal years and the report of the independent auditors on the financial statements in respect of the most recently completed fiscal year; (iv) a description of the management and shareholders of the Issuer and material affiliate transactions; (v) a description of all material debt instruments; (vi) a description of material business risk factors and material subsequent events; and (vii) consolidated EBITDA; *provided that* the information described in clauses (iv), (v) and (vi) may be provided in the footnotes to the audited financial statements;

(2) within 75 days following the end of the each first fiscal half of the Issuer, beginning with the first half ended August 31, 2018, half yearly summary financial statements containing the following information: (i) an unaudited condensed consolidated balance sheet as of the end of such half year and unaudited condensed statements of income and cash flow for the half year period then ended, and the comparable prior year periods, together with condensed footnote disclosure; *provided that* the line items included in such statements of income will not include any items below the line item EBITDA; (ii) unaudited *pro forma* income statement and balance sheet information of the Issuer, together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed fiscal half as to which such half yearly report relates (other than the Transactions and unless such *pro forma* information has been provided in a previous

report pursuant to clause (3) below); *provided that* such *pro forma* financial information will be provided only to the extent available without unreasonable expense, in which case the Issuer will provide, in the case of a material acquisition, acquired company financial statements or financial data; (iii) an operating and financial review of the unaudited financial statements, including a discussion of the results of operations, financial condition, and liquidity and capital resources, and a discussion of material commitments and contingencies and critical accounting policies; and (iv) a description of material recent developments and any material changes to the risk factors disclosed in the most recent annual report;

(3) promptly after the occurrence of a material event that the Issuer announces publicly, or any acquisition, disposition, restructuring, merger or similar transaction that is material to the Issuer and the Restricted Subsidiaries (other than the Transactions), taken as a whole, or a senior executive officer or director changes at the Issuer or a change in auditors of the Issuer, a report containing a description of such event.

In addition, the Issuer shall furnish to the Holders and to prospective investors, upon the request of such parties, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act for so long as the Notes are not freely transferable under the Exchange Act by persons who are not "affiliates" under the Securities Act.

The Issuer will also make available to Holders and prospective Holders of the Notes copies of all reports furnished to the Trustee on the Issuer's website and if and so long as the Notes are listed on the Official List of the Exchange and, to the extent that the rules and regulations of the Exchange so require, copies of such reports furnished to the Trustee will also be posted to the website of the Exchange.

All financial statement information shall be prepared in accordance with IFRS as in effect on the date of such report or financial statements (or otherwise on the basis of IFRS as then in effect) and on a consistent basis for the periods presented, except as may otherwise be described in such information; *provided*, *however*, that the reports set forth in clauses (1), (2) and (3) above may, in the event of a change in IFRS, present earlier periods on a basis that applied to such periods. To the extent (i) consolidated financial information or (ii) comparable prior period financial information of the Issuer does not exist or is not meaningful, the (x) consolidated financial information or (y) the comparable period financial information of the Company may be provided in lieu thereof. The reports set forth in clause (2) are not required to be reviewed by independent auditors. No report need include separate financial statements of the Issuer (or an unconsolidated basis) or for any Subsidiaries of the Issuer. The inclusion in any report of any key performance indicators (KPIs) with respect to the Issuer shall be as determined by the Issuer from time to time. In addition, the reports set forth above will not be required to contain any reconciliation to U.S. generally accepted accounting principles.

At any time that any of the Issuer's subsidiaries are Unrestricted Subsidiaries and any such Unrestricted Subsidiary or a group of Unrestricted Subsidiaries, taken as a whole, constitutes a Significant Subsidiary of the Issuer, then the quarterly and annual financial information required by the first paragraph of this "*Reports*" covenant will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of the Issuer and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Issuer.

All reports provided pursuant to this "*Reports*" covenant shall be made in the English language.

In the event that (i) the Issuer becomes subject to the reporting requirements of Section 13(a) or 15(d) of the Exchange Act, or elects to comply with such provisions, for so long as it continues to file the reports required by Section 13(a) with the SEC or (ii) the Issuer elects to provide to the Trustee reports which, if filed with the SEC, would satisfy (in the good faith judgment of the Issuer) the reporting requirements of Section 13(a) or 15(d) of the Exchange Act (other than the provision of U.S. GAAP information, certifications, exhibits or information as to internal controls and procedures), for so long as it elects, the Issuer will make available to the Trustee such annual reports, information, documents and other reports that the Issuer is, or would be, required to file with the SEC pursuant to such Section 13(a) or 15(d). Upon complying with the foregoing requirement, the Issuer will be deemed to have complied with the provisions contained in the preceding paragraphs.

Delivery of information, documents and reports to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute notice of any information contained therein, including the Issuer's compliance with any of its covenants under the Indenture.

Merger and Consolidation

The Issuer

The Issuer will not consolidate with or merge with or into, or assign, convey, transfer, lease or otherwise dispose of all or substantially all the assets of the Issuer and its Restricted Subsidiaries, taken as a whole, in one transaction or a series of related transactions to, any Person, unless:

(1) the resulting, surviving or transferee Person (the "**Successor Company**") will be a Person organized and existing under the laws of any member state of the European Union, or the United States of America, any State of the United States or the District of Columbia, Canada or any province of Canada, Norway or Switzerland and the Successor Company (if not the Issuer) will expressly assume, by supplemental indenture, executed and delivered to the Trustee, in form reasonably satisfactory to the Trustee, all the obligations of the Issuer under the Notes and the Indenture;

(2) immediately after giving effect to such transaction (and treating any Indebtedness that becomes an obligation of the Successor Company or any Subsidiary of the Successor Company as a result of such transaction as having been Incurred by the Successor Company or such Subsidiary at the time of such transaction), no Default or Event of Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction, either (a) the Successor Company would be able to Incur at least an additional €1.00 of Indebtedness pursuant to clause (1) of the first paragraph of the covenant described under "*—Limitation on Indebtedness*" or (b) the Fixed Charge Coverage Ratio would not be less than it was immediately prior to giving effect to such transaction; and

(4) the Issuer shall have delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each to the effect that such consolidation, merger or transfer and such supplemental indenture (if any) comply with the Indenture and an Opinion of Counsel to the effect that such supplemental indenture (if any) has been duly authorized, executed and delivered and is a legal, valid and binding agreement enforceable against the Successor Company (in each case, in form and substance reasonably satisfactory to the Trustee); *provided that* in giving an Opinion of Counsel, counsel may rely on an Officer's Certificate as to any matters of fact.

Any Indebtedness that becomes an obligation of the Issuer or any Restricted Subsidiary (or that is deemed to be Incurred by any Restricted Subsidiary that becomes a Restricted Subsidiary) as a result of any such transaction undertaken in compliance with this covenant, and any Refinancing Indebtedness with respect thereto, shall be deemed to have been Incurred in compliance with the covenant described under "*—Limitation on Indebtedness*."

For purposes of this covenant, the sale, lease, conveyance, assignment, transfer, or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of the Issuer, which properties and assets, if held by the Issuer instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Issuer on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Issuer.

The Successor Company will succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Indenture but in the case of a lease of all or substantially all its assets, the predecessor company will not be released from its obligations under the Indenture or the Notes.

There is no precise established definition of the phrase "substantially all" under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the property or assets of a Person.

The foregoing provisions (other than the requirements of clause (2) of the first paragraph of this "*Merger and Consolidation*" covenant) shall not apply to (i) any transactions which constitute an Asset Disposition if the Issuer has complied with the covenant described under "*—Limitation on Sales of Assets and Subsidiary Stock*" or (ii) the creation of a new subsidiary as a Restricted Subsidiary.

The Guarantors

No Guarantor (other than a Guarantor whose guarantee is to be released in accordance with the terms of the Indenture) may:

(1) consolidate with or merge with or into any Person (whether or not such Guarantor is the surviving corporation);

(2) sell, assign, convey, transfer, lease or otherwise dispose of, all or substantially all of the assets of such Guarantor and its Restricted Subsidiaries taken as a whole, in one transaction or a series of related transactions, to any Person; or

(3) permit any Person to merge with or into it unless:

(A) the other Person is the Issuer or any Restricted Subsidiary that is a Guarantor or becomes a Guarantor;

(B) (1) either (x) a Guarantor is the continuing Person or (y) the resulting, surviving or transferee Person expressly assumes all of the obligations of the Guarantor under its Guarantee and the Indenture (pursuant to a supplemental indenture executed and delivered in a form reasonably satisfactory to the Trustee); and (2) immediately after giving effect to the transaction, no Default or Event of Default shall have occurred and is continuing; or

(C) the transaction constitutes a sale or other disposition (including by way of consolidation or merger) of a Guarantor or the sale or disposition of all or substantially all the assets of a Guarantor (in each case other than to the Issuer or a Restricted Subsidiary) otherwise permitted by the Indenture,

provided however, that the prohibition in clauses (1), (2) and (3) of this covenant shall not apply to the extent that compliance with clauses (A) and (B)(1) could give rise to or result in: (1) any breach or violation of statutory limitations, corporate benefit, financial assistance, fraudulent preference, thin capitalization rules, capital maintenance rules, guidance and coordination rules or the laws rules or regulations (or analogous restriction) of any applicable jurisdiction; (2) any risk or liability for the officers, directors or (except in the case of a Restricted Subsidiary that is a partnership) shareholders of such Restricted Subsidiary (or, in the case of a Restricted Subsidiary that is a partnership, directors or shareholders of the partners of such partnership); or (3) any cost, expense, liability or obligation (including with respect to any Taxes) other than reasonable out of pocket expenses.

The provisions set forth in this "*Merger and Consolidation*" covenant shall not restrict (and shall not apply to): (i) any Restricted Subsidiary that is not a Guarantor from consolidating with, merging or liquidating into or transferring all or substantially all of its properties and assets to the Issuer, a Guarantor or any other Restricted Subsidiary that is not a Guarantor; (ii) a Guarantor from merging or liquidating into or transferring all or part of its properties and assets to the Issuer or another Guarantor; (iii) a Guarantor transferring all or part of its properties and assets to a Restricted Subsidiary that is not a Guarantor in order to comply with any law, rule, regulation or order, recommendation or directions of, or agreement with, any regulatory authority having jurisdiction over the Issuer or any of its Restricted Subsidiaries; (iv) any consolidation or merger of the Issuer into any Guarantor; *provided that*, if the Issuer is not the surviving entity of such merger or consolidation, the relevant Guarantor will assume the obligations of the Issuer under the Notes and the Indenture and clauses (1) and (4) under the heading "*—The Issuer*" shall apply to such transaction; and (v) the Issuer or any Guarantor consolidating into or merging or combining with an Affiliate incorporated or organized for the purpose of changing the legal domicile of such entity, reincorporating such entity in another jurisdiction, or changing the legal form of such entity; *provided that* clauses (1), (2) and (4) under the heading "*—The Issuer*" or clauses (3)(A) and (3)(B) under the heading "*—The Guarantors*," as the case may be, shall apply to any such transaction.

Additional Guarantees

Notwithstanding anything to the contrary in this covenant, no Restricted Subsidiary shall Guarantee the Indebtedness outstanding under the Syndicated Loan Facilities or any Public Debt or any Material Indebtedness, in each case of the Issuer or a Guarantor unless such Restricted Subsidiary is or becomes a Guarantor on the date on which the Guarantee is incurred and, if applicable, executes and delivers to the Trustee a supplemental indenture pursuant to which such Restricted Subsidiary will provide a Guarantee, which Guarantee will be senior to or pari passu with such Restricted Subsidiary's guarantee of such other Indebtedness; *provided*, *however*, that such Restricted Subsidiary shall not be obligated to become such a Guarantor to the extent and for so long as the Incurrence of such Guarantee could give rise to or result in: (1) any breach or violation of statutory limitations, corporate benefit, financial assistance, fraudulent preference, thin capitalization rules, capital maintenance rules, guidance and coordination rules or the laws rules or regulations (or analogous restriction) of any applicable jurisdiction; (2) any risk or liability for the officers, directors or (except in the case of a Restricted Subsidiary that is a partnership) shareholders of such Restricted Subsidiary (or, in the case of a Restricted Subsidiary that is a partnership, directors or shareholders of the partners of such partnership); or (3) any cost, expense, liability or obligation (including with respect to any Taxes) other than reasonable out of pocket expenses. At the option of the Issuer, any Guarantee may contain limitations on Guarantor liability to the extent reasonably necessary.

Future Guarantees granted pursuant to this provision shall be released as set forth under "*—Guarantees*." A Guarantee of a future Guarantor may also be released at the option of the Issuer if at the date of such release either (i) there is no Indebtedness of such Guarantor outstanding which was Incurred after the Issue Date and which could not have been Incurred in compliance with the Indenture if such Guarantor had not been designated as a Guarantor, or (ii) there is no

Indebtedness of such Guarantor outstanding which was Incurred after the Issue Date and which could not have been Incurred in compliance with the Indenture as at the date of such release if such Guarantor were not designated as a Guarantor as at that date. The Trustee shall take all necessary actions to effectuate any release of a Guarantee in accordance with these provisions, subject to customary protections and indemnifications.

The validity and enforceability of the Guarantees and the liability of each Guarantor will be subject to the limitations as described and set out in "*Risk Factors*."

Fall-away of Covenants on Achievement of Investment Grade Status

If on any date following the Issue Date, the Notes have achieved Investment Grade Status and no Default or Event of Default has occurred and is continuing (a "**Fall-Away Event**"), then, beginning on that day, the provisions of the Indenture summarized under the following captions will not apply to the Notes:

(1) "*—Limitation on Indebtedness*;"

(2) "*—Limitation on Restricted Payments*;"

(3) "*—Limitation on Sales of Assets and Subsidiary Stock*;"

(4) "*—Limitation on Affiliate Transactions*;"

(5) "*—Additional Guarantees*;" and

(6) the provisions of clause (3) of the first paragraph of the covenant described under "*—Merger and Consolidation*,"

and, in each case, any related default provision of the Indenture will cease to be effective and will not be applicable to the Issuer and its Restricted Subsidiaries. The Issuer shall notify the Trustee that the conditions set forth in the first paragraph under this caption has been satisfied; *provided that*, no such notification shall be a condition for the fall-away of the covenants described under this caption to be effective. The Trustee shall be under no obligation to notify the Holders that the conditions set forth in the first paragraph have been satisfied.

Events of Default

Each of the following is an "**Event of Default**" under the Indenture:

(1) default in any payment of interest on any Note issued under the Indenture when due and payable, continued for 30 days;

(2) default in the payment of the principal amount of or premium, if any, on any Note issued under the Indenture when due at its Stated Maturity, upon optional redemption, upon required repurchase, upon declaration or otherwise;

(3) failure by the Issuer or any of its Restricted Subsidiaries to comply for 60 days after notice by the Trustee or the Holders of at least 25% in principal amount of the outstanding Notes with its other agreements contained in the Indenture;

(4) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Issuer or any of its Restricted Subsidiaries (or the payment of which is Guaranteed by the Issuer or any of its Restricted Subsidiaries) other than Indebtedness owed to the Issuer or a Restricted Subsidiary whether such Indebtedness or Guarantee now exists, or is created after the Issue Date, which default:

    (a) is caused by a failure to pay principal at stated maturity on such Indebtedness, immediately upon the expiration of the grace period provided in such Indebtedness ("**payment default**"); or

    (b) results in the acceleration of such Indebtedness prior to its maturity (the "**cross acceleration provision**"),

    and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a payment default or the maturity of which has been so accelerated, aggregates €50.0 million or more;

(5) certain events of bankruptcy, insolvency or court protection of the Issuer or a Significant Subsidiary or group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Issuer and its Restricted Subsidiaries), would constitute a Significant Subsidiary (the "**bankruptcy provisions**");

(6) failure by the Issuer or any Significant Subsidiary or group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Issuer and its Restricted Subsidiaries), would constitute a Significant Subsidiary to pay final judgments aggregating in excess of €50.0 million (exclusive of any amounts that a solvent insurance company has acknowledged liability for), which judgments are not paid, discharged or stayed for a period of 60 days after the judgment becomes final (the "**judgment default provision**"); and

(7) any Guarantee of a Significant Subsidiary ceases to be in full force and effect (other than in accordance with the terms of such Guarantee or the Indenture) or is declared invalid or unenforceable in a judicial proceeding or any Guarantor denies or disaffirms in writing its obligations under its Guarantee and any such Default continues for 10 days.

However, a default under clauses (3), (4) or (6) of this paragraph will not constitute an Event of Default until the Trustee or the Holders of 25% in principal amount of the outstanding Notes under the Indenture notify the Issuer of the default and, with respect to clauses (3), (4) and (6) the Issuer does not cure such default within the time specified in clauses (3), (4) or (6), as applicable, of this paragraph after receipt of such notice.

If an Event of Default (other than an Event of Default described in clause (5) above) occurs and is continuing, the Trustee by notice to the Issuer or the Holders of at least 25% in principal amount of the outstanding Notes under the Indenture by written notice to the Issuer and the Trustee, may, and the Trustee at the request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on all the Notes under the Indenture to be due and payable. Upon such a declaration, such principal, premium and accrued and unpaid interest will be due and payable immediately. In the event of a declaration of acceleration of the Notes because an Event of Default described in clause (4) under "*Events of Default*" has occurred and is continuing, the declaration of acceleration of the Notes shall be automatically annulled if the event of default or payment default triggering such Event of Default pursuant to clause (4) shall be remedied or cured, or waived by the holders of the Indebtedness, or the Indebtedness that gave rise to such Event of Default shall have been discharged in full, within 30 days after the declaration of acceleration with respect thereto and if (1) the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all existing Events of Default, except nonpayment of principal, premium or interest on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived.

If an Event of Default described in clause (5) above occurs and is continuing, the principal of, premium, if any, and accrued and unpaid interest on all the Notes will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holders.

Holders of the Notes may not enforce the Indenture or the Notes except as provided in the Indenture.

The Holders of a majority in principal amount of the outstanding Notes under the Indenture may waive all past or existing Defaults or Events of Default (except with respect to nonpayment of principal, premium, interest or Additional Amounts, if any) and rescind any such acceleration with respect to such Notes and its consequences if rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Subject to the provisions of the Indenture relating to the duties of the Trustee, if an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the Holders unless such Holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee against any loss, liability or expense. Except to enforce the right to receive payment of principal or interest when due, no Holder may pursue any remedy with respect to the Indenture or the Notes unless:

(1) such Holder has previously given the Trustee notice that an Event of Default is continuing;

(2) Holders of at least 25% in principal amount of the outstanding Notes have requested the Trustee to pursue the remedy;

(3) such Holders have offered the Trustee security and/or indemnity satisfactory to it against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security and/or indemnity; and

(5) the Holders of a majority in principal amount of the outstanding Notes have not given the Trustee a direction that, in the opinion of the Trustee, is inconsistent with such request within such 60-day period.

Subject to certain restrictions, the Holders of a majority in principal amount of the outstanding Notes are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee.

The Indenture will provide that, in the event an Event of Default has occurred and is continuing, the Trustee will be required in the exercise of its powers to use the degree of care that a prudent person would use in the conduct of its own affairs. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of any other Holder or that would involve the Trustee in personal liability. Prior to taking any action under the Indenture, the Trustee will be entitled to indemnification and/or security satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action. The Indenture will provide that if a Default occurs and is continuing and the Trustee is informed of such occurrence by the Issuer, the Trustee must give notice of the Default to the Holders within 60 days after being notified by the Issuer. Except in the case of a Default in the payment of principal of, or premium, if any, or interest on any Note, the Trustee may withhold notice if and so long as the Trustee determines that withholding notice is in the interests of the Holders. The Issuer is required to deliver to the Trustee, within 120 days after the end of each fiscal year, an Officer's Certificate indicating whether the signers thereof know of any Default or Event of Default that occurred during the previous year. The Issuer is required to deliver to the Trustee, within 30 days after the occurrence thereof, written notice of any events of which it is aware which would constitute certain Defaults, their status and what action the Issuer is taking or proposes to take in respect thereof.

The Indenture will provide that (i) if a Default occurs for a failure to deliver a required certificate in connection with another default (an "**Initial Default**") then at the time such Initial Default is cured, such Default for a failure to report or deliver a required certificate in connection with the Initial Default will also be cured without any further action and (ii) any Default or Event of Default for the failure to comply with the time periods prescribed in the covenant entitled "*—Reports*" or otherwise to deliver any notice or certificate pursuant to any other provision of the Indenture shall be deemed to be cured upon the delivery of any such report required by such covenant or notice or certificate, as applicable, even though such delivery is not within the prescribed period specified in the Indenture.

The Indenture will provide for the Trustee to take action on behalf of the Holders in certain circumstances, but only if the Trustee is indemnified and/or secured to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and, accordingly, in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for Holders to take action directly.

Amendments and Waivers

Subject to certain exceptions, the Notes Documents may be amended, supplemented or otherwise modified with the consent of Holders of at least a majority in principal amount of the Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes) and, subject to certain exceptions, any default or compliance with any provisions thereof may be waived with the consent of the Holders of at least a majority in principal amount of the Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes); *provided that*, if any amendment, waiver or other modification will only affect one series of the Notes, only the consent of a majority in principal amount of the then outstanding Notes of such series shall be required. However, without the consent of Holders holding not less than 90% of the then outstanding principal amount of the Notes affected, then outstanding, an amendment or waiver may not, with respect to any such series of Notes held by a non-consenting Holder:

(1) reduce the principal amount of Notes whose Holders must consent to an amendment, waiver or modification;

(2) reduce the stated rate of or extend the stated time for payment of interest on any Note;

(3) reduce the principal of or extend the Stated Maturity of any Note;

(4) reduce the premium payable upon the redemption of any Note or change the time at which any Note may be redeemed, in each case as described above under "*—Optional Redemption*;"

(5) make any Note payable in money other than that stated in the Note;

(6) impair the contractual right of any Holder to institute suit for the payment of principal, interest or Additional Amounts, if any, on or with respect to such Holder's Notes on or after the due dates thereof;

(7) make any change in the provision of the Indenture described under "—*Withholding Taxes*" that adversely affects the right of any Holder of such Notes in any material respect or amends the terms of such Notes in a way that would result in a loss of an exemption from any of the Taxes described thereunder or an exemption from any obligation to withhold or deduct Taxes so described thereunder unless the Issuer or the applicable Payor agrees to pay Additional Amounts, if any, in respect thereof;

(8) release any future security interests granted for the benefit of the Holders in the collateral other than in accordance with the terms of any applicable intercreditor agreement, the Indenture or any applicable security documents;

(9) waive a Default or Event of Default with respect to the nonpayment of principal, premium or interest or Additional Amounts, if any, on the Notes (except pursuant to a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of such Notes and a waiver of the payment default that resulted from such acceleration);

(10) release any Guarantor from any of its obligations under its Guarantee or the Indenture, except in accordance with the terms of the Indenture; or

(11) make any change in the amendment or waiver provisions which require the Holders' consent described in this sentence.

Notwithstanding the foregoing, without the consent of any Holder, the Issuer, the Trustee and the other parties thereto, as applicable, may amend or supplement any Notes Documents to:

(1) cure any ambiguity, omission, defect, error or inconsistency;

(2) provide for the assumption by a successor Person of the obligations of the Issuer or any Restricted Subsidiary under any Notes Document;

(3) add to the covenants or provide for a Guarantee for the benefit of the Holders or surrender any right or power conferred upon the Issuer or any Restricted Subsidiary;

(4) make any change that would provide additional rights or benefits to the Trustee or the Holders or that does not adversely affect the rights or benefits to the Trustee or any of the Holders in any material respect under the Notes Documents;

(5) make such provisions as necessary (as determined in good faith by the Board of Directors or an Officer of the Issuer) for the issuance of Additional Notes;

(6) to provide for any Restricted Subsidiary to provide a Guarantee in accordance with the covenant described under "*—Certain Covenants—Additional Guarantees*," to add Guarantees with respect to the Notes, to add security to or for the benefit of the Notes, or to confirm and evidence the release, termination, discharge or retaking of any Guarantee or Lien or any amendment in respect thereof with respect to or securing the Notes when such release, termination, discharge or retaking or amendment is provided for under the Indenture;

(7) to conform the text of the Indenture or the Notes to any provision of this "*Description of the Notes*" to the extent that such provision in this "*Description of the Notes*" was intended to be a verbatim recitation of a provision of the Indenture or the Notes; or

(8) to evidence and provide for the acceptance and appointment under the Indenture of a successor Trustee pursuant to the requirements thereof or to provide for the accession by the Trustee to any Notes Document.

In formulating its decision on such matters, the Trustee shall be entitled to require and rely absolutely on such evidence as it deems necessary, including Officer's Certificates and Opinions of Counsel.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment of any Notes Document. It is sufficient if such consent approves the substance of the proposed amendment. A consent to any amendment or waiver under the Indenture by any Holder of Notes given in connection with a tender of such Holder's Notes will not be rendered invalid by such tender.

For so long as the Notes are listed on the Official List of the Exchange and the rules of such exchange so require, the Issuer will notify the Exchange of any amendment, supplement and waiver.

Acts by Holders

In determining whether the Holders of the required principal amount of the Notes have concurred in any direction, waiver or consent, the Notes owned by the Issuer or by any Person directly or indirectly controlled, or controlled by, or under direct or indirect common control with, the Issuer will be disregarded and deemed not to be outstanding.

Defeasance

The Issuer at any time may terminate all obligations of the Issuer and the Guarantors under the Notes and the Indenture ("**legal defeasance**") and cure all then existing Defaults and Events of Default, except for certain obligations, including those respecting the defeasance trust, the rights, powers, trusts, duties, immunities and indemnities of the Trustee and the obligations of the Issuer in connection therewith and obligations concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust.

The Issuer at any time may terminate its and the Guarantors' obligations under the covenants described under "*—Certain Covenants*" (other than clauses (1) and (2) of "*—Certain Covenants—Merger and Consolidation*") and "*—Change of Control*" and the default provisions relating to such covenants described under "*—Events of Default*" above, the operation of the cross-default upon a payment default, the cross acceleration provisions, the bankruptcy provisions with respect to the Issuer and Significant Subsidiaries, the judgment default provision, the guarantee provision and the security default provision described under "*Events of Default*" above ("**covenant defeasance**").

The Issuer at its option at any time may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option. If the Issuer exercises its legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default with respect to such Notes. If the Issuer exercises its covenant defeasance option with respect to the Notes, payment of the Notes may not be accelerated because of an Event of Default specified in clause (3) (other than with respect to clauses (1) and (2) of the covenant described under "*—Certain Covenants—Merger and Consolidation*"), (4), (5) (with respect only to the Issuer and Significant Subsidiaries), (6) or (7) under "*—Events of Default*" above.

In order to exercise either defeasance option, the Issuer must irrevocably deposit in trust (the "**defeasance trust**") with the Trustee (or another entity designated by the Trustee for this purpose) cash in euros or euro-denominated European Government Obligations or a combination thereof for the payment of principal, premium, if any, and interest on the Notes to redemption or maturity, as the case may be, and must comply with certain other conditions, including delivery to the Trustee of:

(1) an Opinion of Counsel in the United States to the effect that beneficial owners of the relevant Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred (and in the case of legal defeasance only, such Opinion of Counsel in the United States must be based on a ruling of the U.S. Internal Revenue Service or other change in applicable U.S. federal income tax law);

(2) an Officer's Certificate stating that the deposit was not made by the Issuer with the intent of defeating, hindering, delaying, defrauding or preferring any creditors of the Issuer;

(3) an Officer's Certificate and an Opinion of Counsel (which opinion of counsel may be subject to customary assumptions and exclusions), each stating that all conditions precedent provided for or relating to legal defeasance or covenant defeasance, as the case may be, have been complied with;

(4) an Opinion of Counsel to the effect that the trust resulting from the deposit does not constitute, or is qualified as, a regulated investment company under the U.S. Investment Company Act of 1940; and

(5) the Issuer delivers to the Trustee all other documents or other information that the Trustee may reasonably require in connection with either defeasance option.

Satisfaction and Discharge

The Indenture will be discharged and cease to be of further effect (except as to surviving rights of conversion or transfer or exchange of the Notes, as expressly provided for in the Indenture) as to all outstanding Notes when (1) either (a) all the Notes previously authenticated and delivered (other than certain lost, stolen or destroyed Notes, and certain Notes for which provision for payment was previously made and thereafter the funds have been released to the Issuer) have been delivered to the Principal Paying Agent for cancellation; or (b) all Notes not previously delivered to the Principal Paying Agent for cancellation (i) have become due and payable, (ii) will become due and payable at their Stated Maturity within one year or (iii) are to be called for redemption within one year under arrangements reasonably satisfactory to the Trustee for the giving of notice of redemption by the Principal Paying Agent in the name, and at the expense, of the Issuer; (2) the Issuer has deposited or caused to be deposited with the Trustee (or another entity designated by the Trustee for this purpose), money or euro-denominated European Government Obligations, or a combination thereof, as applicable, in an amount sufficient to pay and discharge the entire indebtedness on the Notes not previously delivered to the Principal Paying Agent for cancellation, for principal, premium, if any, and interest to the date of deposit (in the case of Notes that have become due and payable), or to the Stated Maturity or redemption date, as the case may be; (3) the Issuer has paid or caused to be paid all other sums payable under the Indenture; (4) the Issuer has delivered irrevocable instructions to the Paying Agent (copying the Trustee) to apply the funds deposited towards the payment of the Notes at maturity or on the redemption date, as the case may be; and (5) the Issuer has delivered to the Trustee an Officer's Certificate and an Opinion of Counsel each to the effect that all conditions precedent under the "*Satisfaction and Discharge*" section of the Indenture relating to the satisfaction and discharge of the Indenture have been complied with; *provided that* any such counsel may rely on any Officer's Certificate as to matters of fact (including as to compliance with the foregoing clauses (1), (2) and (3)).

No Personal Liability of Directors, Officers, Employees and Shareholders

No director, officer, employee, incorporator or shareholder of the Issuer or any of their respective Subsidiaries or Affiliates, as such, shall have any liability for any obligations of the Issuer or any Guarantor under the Notes Documents or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver may not be effective to waive liabilities under the U.S. federal securities laws and it is the view of the SEC that such a waiver is against public policy.

Concerning the Trustee

Bondholders, S.L. is to be appointed as Trustee under the Indenture. The Indenture will provide that, except during the continuance of an Event of Default of which a responsible officer of the Trustee has received written notice, the Trustee will perform only such duties as are set forth specifically in the Indenture. During the existence of an Event of Default of which a responsible officer of the Trustee is informed in writing, the Trustee will exercise such of the rights and powers vested in it under the Indenture and use the same degree of care that a prudent Person would use in conducting its own affairs. The permissive rights of the Trustee to take or refrain from taking any action enumerated in the Indenture will not be construed as an obligation or duty.

The Indenture will impose certain limitations on the rights of the Trustee, should it become a creditor of the Issuer, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions with the Issuer and its Affiliates and Subsidiaries. If the Trustee becomes the Holder, beneficial owner or pledgee of any Notes, it may deal with the Issuer with the same rights it would have if it were not the Trustee.

The Indenture will set out the terms under which the Trustee may retire or be removed, and replaced. Such terms will include, among others, (1) that the Trustee may be removed at any time by the Holders of a majority in principal amount of the then outstanding Notes, or may resign at any time by giving written notice to the Issuer and (2) that if the Trustee at any time (a) has or acquires a conflict of interest that is not eliminated or (b) becomes incapable of acting as Trustee or becomes insolvent or bankrupt, then the Issuer may remove the Trustee, or any Holder who has been a bona fide Holder for not less than six months may petition any court for removal of the Trustee and appointment of a successor Trustee.

Any removal or resignation of the Trustee shall not become effective until the acceptance of appointment by the successor Trustee.

The Indenture will contain provisions for the indemnification of the Trustee for any loss, liability, taxes expenses incurred without gross negligence, willful misconduct or fraud on its part, arising out of or in connection with the acceptance or administration of the Indenture.

Notices

If and for so long as any of the Notes are listed on the Official List of the Exchange and if and to the extent the rules of the Exchange so require, the Issuer will notify the Exchange of any notice to the Holders of the Notes and, in connection with any redemption, the Issuer will notify the Exchange of any change in the principal amount of the Notes outstanding. In addition, for so long as any Notes are represented by Global Notes, all notices to Holders of the Notes will be delivered by or on behalf of the Issuer to Euroclear and Clearstream.

Each such notice shall be deemed to have been given on the date of such publication or, if published more than once on different dates, on the first date on which publication is made; *provided that*, if notices are mailed, such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed. Any notice or communication mailed to a Holder shall be mailed to such Person by first-class mail or other equivalent means and shall be sufficiently given to such Holder if so mailed within the time prescribed. Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it. For so long as any Notes are represented by Global Notes, notices to Holders of the Notes may be delivered via Euroclear and Clearstream in lieu of notice via registered mail and shall be deemed delivered on the same day.

Prescription

Claims against the Issuer and the Guarantors for the payment of principal, or premium, if any, on the Notes will be prescribed ten years after the applicable due date for payment thereof. Claims against the Issuer and the Guarantors for the payment of interest on the Notes will be prescribed five years after the applicable due date for payment of interest.

Currency Indemnity and Calculation of Euro-Denominated Restrictions

The euro is the sole currency of account and payment for all sums payable by the Issuer and the Guarantors, if any, under or in connection with the Notes and the Guarantees, if any, including damages. Any amount received or recovered in a currency other than euro, whether as a result of, or the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer, any Guarantor or otherwise by any Holder or by the Trustee, in respect of any sum expressed to be due to it from the Issuer or a Guarantor will only constitute a discharge to the Issuer or such Guarantor, as applicable, to the extent of the euro amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that euro amount is less than the euro amount expressed to be due to the recipient or the Trustee under any Note, the Issuer and the Guarantors, if any, will indemnify them against any loss sustained by such recipient or the Trustee as a result. In any event, the Issuer and the Guarantors, if any, will indemnify the recipient or the Trustee on a joint or several basis against the cost of making any such purchase. For the purposes of this currency indemnity provision, it will be *prima facie* evidence of the matter stated therein for the Holder of a Note or the Trustee to certify in a manner reasonably satisfactory to the Issuer (indicating the sources of information used) the loss it Incurred in making any such purchase. These indemnities constitute a separate and independent obligation from the Issuer's and the Guarantors' other obligations, will give rise to a separate and independent cause of action, will apply irrespective of any waiver granted by any Holder of a Note or the Trustee (other than a waiver of the indemnities set out herein) and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any Guarantee, or to the Trustee.

Except as otherwise specifically set forth herein, for purposes of determining compliance with any euro-denominated restriction herein, the Euro Equivalent amount for purposes hereof that is denominated in a non-euro currency shall be calculated based on the relevant currency exchange rate in effect on the date such non-euro amount is Incurred or made, as the case may be.

Listing

Application has been made to list the Notes on the Official List of the Exchange and for permission to be granted to deal in the Notes on the Official List of the Exchange. There can be no assurance that the application to list the Notes on the Official List of the Exchange will be approved or that permission to deal in the Notes thereon will be granted, and settlement of the Notes is not conditioned on obtaining this listing or permission.

Enforceability of Judgments

Since substantially all the assets of the Issuer are located outside the United States, any judgment obtained in the United States against the Issuer, including judgments with respect to the payment of principal, premium, interest, Additional Amounts, if any, and any redemption price and any purchase price with respect to the Notes, may not be collectable within the United States.

Consent to Jurisdiction and Service

In relation to any legal action or proceedings arising out of or in connection with the Indenture and the Notes, the Issuer will in the Indenture irrevocably submit to the jurisdiction of the federal and state courts in the Borough of Manhattan in the City of New York, County and State of New York, United States.

Governing Law

The Indenture and the Notes, and the rights and duties of the parties thereunder shall be governed by and construed in accordance with the laws of the State of New York.

Certain Definitions

"**Acquired Indebtedness**" means Indebtedness (1) of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary, or (2) assumed in connection with the acquisition of assets from such Person, in each case whether or not Incurred by such Person in connection with such Person becoming a Restricted Subsidiary or such acquisition or (3) of a Person at the time such Person merges with or into or consolidates or otherwise combines with the Issuer or any Restricted Subsidiary. Acquired Indebtedness shall be deemed to have been Incurred, with respect to clause (1) of the preceding sentence, on the date such Person becomes a Restricted Subsidiary and, with respect to clause (2) of the preceding sentence, on the date of consummation of such acquisition of assets and, with respect to clause (3) of the preceding sentence, on the date of the relevant merger, consolidation or other combination.

"**Affiliate**" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"**Applicable Premium**" means, with respect to any Note the greater of:

(a) 1% of the principal amount of such Note; and

(b) with respect to any Note, the excess (to the extent positive) of:

(i) the present value at such redemption date of (A) the redemption price of such Note at October 15, 2020 (such redemption price (expressed in percentage of principal amount) being set forth in the table under the heading "—*Optional Redemption*" (excluding accrued and unpaid interest)), plus (B) all required interest payments due on such Note to and including October 15, 2020 (excluding accrued but unpaid interest), computed upon the redemption date using a discount rate equal to the Bund Rate at such redemption date plus 50 basis points; over

(ii) the outstanding principal amount of such Note.

Applicable Premium shall be calculated by the Issuer or on behalf of the Issuer by such Person as the Issuer shall designate. For the avoidance of doubt, calculation of Applicable Premium shall not be an obligation or duty of the Trustee or any Paying Agent or Registrar.

"**Asset Disposition**" means any direct or indirect sale, lease (other than an operating lease entered into in the ordinary course of business), transfer, issuance or other disposition, or a series of related sales, leases (other than operating leases entered into in the ordinary course of business), transfers, issuances or dispositions that are part of a common plan, of shares of Capital Stock of a Subsidiary (other than directors' qualifying shares), property or other assets (each referred to for the purposes of this definition as a "disposition") by the Issuer or any of its Restricted Subsidiaries, including any disposition by means of a merger, consolidation or similar transaction. Notwithstanding the preceding provisions of this definition, the following items shall not be deemed to be Asset Dispositions:

(1) a disposition by a Restricted Subsidiary to the Issuer or by the Issuer or a Restricted Subsidiary to a Restricted Subsidiary;

(2) a disposition of cash, Cash Equivalents, Temporary Cash Investments or Investment Grade Securities;

(3) a disposition of inventory, trading stock, security equipment or other equipment or assets in the ordinary course of business;

(4) a disposition of obsolete, damaged, retired, surplus or worn out equipment or assets or equipment, facilities or other assets that are no longer useful in the conduct of the business of the Issuer and its Restricted Subsidiaries and any transfer, termination, unwinding or other disposition of hedging instruments or arrangements not for speculative purposes;

(5) transactions permitted under "—*Certain Covenants—Merger and Consolidation*" or a transaction that constitutes a Change of Control;

(6) an issuance of Capital Stock by a Restricted Subsidiary to the Issuer or to another Restricted Subsidiary or as part of or pursuant to an equity incentive or compensation plan approved by the Board of Directors or the issuance of directors' qualifying shares and shares issued to individuals as required by applicable law;

(7) any dispositions of Capital Stock, properties or assets in a single transaction or series of related transactions with a fair market value (as determined in good faith by the Board of Directors or an Officer of the Issuer) of less than €100.0 million;

(8) any Restricted Payment that is permitted to be made, and is made, under the covenant described above under "—*Certain Covenants—Limitation on Restricted Payments*" and the making of any Permitted Payment or Permitted Investment or, solely for purposes of the second paragraph of the covenant described under "—*Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*," asset sales, the proceeds of which are used to make such Restricted Payments or Permitted Investments;

(9) the granting of Liens not prohibited by the covenant described above under the caption "*—Certain Covenants—Limitation on Liens*;"

(10) dispositions of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements or any sale of assets received by the Issuer or a Restricted Subsidiary upon the foreclosure of a Lien granted in favor of the Issuer or any Restricted Subsidiary;

(11) the licensing or sub-licensing of intellectual property or other general intangibles and licenses, sub-licenses, leases or subleases of other property, in each case, in the ordinary course of business;

(12) foreclosure, condemnation, taking by eminent domain or any similar action with respect to any property or other assets;

(13) the sale or discount (with or without recourse, and on customary or commercially reasonable terms) of accounts receivable or notes receivable arising in the ordinary course of business, or the conversion or exchange of accounts receivable for notes receivable;

(14) sales or dispositions of receivables in connection with any ordinary course receivables financing or any factoring transaction or in the ordinary course of business or arising as a result of the entry into of service and supply agreements with third party service providers in relation to the collection and settlement of outstanding customer invoices in the ordinary course of business;

(15) any issuance, sale or disposition of Capital Stock, Indebtedness or other securities of an Unrestricted Subsidiary;

(16) any disposition of Capital Stock of a Restricted Subsidiary pursuant to an agreement or other obligation with or to a Person (other than the Issuer or a Restricted Subsidiary) from whom such Restricted Subsidiary was acquired, or from whom such Restricted Subsidiary acquired its business and assets (having been newly formed in connection with such acquisition), made as part of such acquisition and in each case comprising all or a portion of the consideration in respect of such sale or acquisition;

(17) any surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;

(18) an issuance of Capital Stock by a Restricted Subsidiary to the Issuer or to another Restricted Subsidiary, an issuance or sale by a Restricted Subsidiary of Preferred Stock or Redeemable Capital Stock that is permitted by the covenant described above under "*—Limitation on Indebtedness*" or an issuance of Capital Stock by the Issuer pursuant to an equity incentive or compensation plan approved by the Board of Directors;

(19) the disposition of assets to a Person under concession partnership arrangements or franchise partnership arrangements in the ordinary course of business;

(20) sales, transfers or other dispositions of Investments in joint ventures to the extent required by, or made pursuant to, customary buy/sell arrangements between the joint venture parties set forth in joint venture arrangements and similar binding agreements; *provided that* any cash or Cash Equivalents received in such sale, transfer or disposition is applied in accordance with the "*—Limitation on Sales of Assets and Subsidiary Stock*" covenant; and

(21) any disposition with respect to property built, owned or otherwise acquired by the Issuer or any Restricted Subsidiary pursuant to customary sale and lease-back transactions, asset securitizations and other similar financings permitted by the Indenture.

"**Associate**" means (i) any Person engaged in a Similar Business of which the Issuer or its Restricted Subsidiaries are the legal and beneficial owners of between 20% and 50% of all outstanding Voting Stock and (ii) any joint venture entered into by the Issuer or any Restricted Subsidiary.

"**Board of Directors**" means (1) with respect to the Issuer or any corporation, the board of directors or managers, as applicable, of the corporation, or any duly authorized committee thereof; (2) with respect to any partnership, the board of directors or other governing body of the general partner of the partnership or any duly authorized committee thereof; and (3) with respect to any other Person, the board or any duly authorized committee of such Person serving a similar function. Whenever any provision of the Indenture requires any action or determination to be made by, or any approval of, a Board of Directors, such action, determination or approval shall be deemed to have been taken or made if approved by a majority of the directors (excluding employee representatives, if any) on any such Board of Directors (whether or not such action or approval is taken as part of a formal board meeting or as a formal board approval). The obligations of the "Board of

Directors of the Issuer" under the Indenture may be exercised pursuant by the Board of Directors of a Restricted Subsidiary or a Parent pursuant to a delegation of powers of the Board of Directors of the Issuer.

"**Bund Rate**" means the yield to maturity at the time of computation of direct obligations of the Federal Republic of Germany (*Bunds* or *Bundesanleihen*) with a constant maturity (as officially compiled and published in the most recent financial statistics that has become publicly available at least two Business Days (but not more than five Business Days) prior to the redemption date (or, if such financial statistics are not so published or available, any publicly available source of similar market data selected in good faith by the Board of Directors or an Officer of the Issuer)) most nearly equal to the period from the redemption date to October 15, 2020; *provided, however*, that if the period from the redemption date to October 15, 2020 is not equal to the constant maturity of a direct obligation of the Federal Republic of Germany for which a weekly average yield is given, the Bund Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of direct obligations of the Federal Republic of Germany for which such yields are given, except that if the period from such redemption date to October 15, 2020 is less than one year, the weekly average yield on actually traded direct obligations of the Federal Republic of Germany adjusted to a constant maturity of one year shall be used.

"**Business Day**" means each day that is not a Saturday, Sunday or other day on which banking institutions in Madrid, Spain or London, United Kingdom are authorized or required by law to close and, with respect to payments to be made under the Indenture, other than any day which is not a TARGET Settlement Day.

"**Capital Stock**" of any Person means any and all shares of, rights to purchase, warrants or options for, or other equivalents of or partnership or other interests in (however designated), equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

"**Capitalized Lease Obligations**" means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes on the basis of IFRS (as in effect on the Issue Date for purposes of determining whether a lease is a capitalized lease). The amount of Indebtedness will be, at the time any determination is to be made, the amount of such obligation required to be capitalized on a balance sheet (excluding any notes thereto) prepared in accordance with IFRS, and the stated maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty.

"**Cash Equivalents**" means:

(1) securities issued or directly and fully Guaranteed or insured by the United States or Canadian governments, a Permissible Jurisdiction, Switzerland or Norway or, in each case, any agency or instrumentality thereof (*provided that* the full faith and credit of such country or such member state is pledged in support thereof), having maturities of not more than two years from the date of acquisition;

(2) certificates of deposit, time deposits, eurodollar time deposits, overnight bank deposits or bankers' acceptances having maturities of not more than one year from the date of acquisition thereof (a "**Deposit**") or cash in credit balance or deposit which are freely transferable or convertible within 90 days issued or held by any lender party to the Syndicated Loan Facilities or by any bank or trust company (a) if at any time since January 1, 2007 the Issuer or any of its Subsidiaries held Deposits with such bank or trust company (or any branch or subsidiary thereof), (b) whose commercial paper is rated at least "A-3" or the equivalent thereof by S&P or at least "P-3" or the equivalent thereof by Moody's (or if at the time neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) or (c) (in the event that the bank or trust company does not have commercial paper which is rated) having combined capital and surplus in excess of €250.0 million;

(3) Deposits in connection with the business of the Issuer or its Subsidiaries in the ordinary course of business and consistent with past practice issued by a bank or a trust company organized, or authorized to operate as a bank or trust company, under the laws of any state of the United States of America, any province of Canada, any member of a Permissible Jurisdiction, Switzerland or Norway or any political subdivision thereof;

(4) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clauses (1) and (2) entered into with any bank meeting the qualifications specified in clause (2) above;

(5) commercial paper rated at the time of acquisition thereof at least "A-3" or the equivalent thereof by S&P or "P-3" or the equivalent thereof by Moody's or carrying an equivalent rating by a Nationally Recognized Statistical Rating Organization, if both of the two named rating agencies cease publishing ratings of investments or, if no rating is available in respect of the commercial paper, the issuer of which has an equivalent rating in respect of its long-term debt, and in any case maturing within one year after the date of acquisition thereof;

(6) readily marketable direct obligations issued by any state of the United States of America, any province of Canada, a Permissible Jurisdiction, Switzerland or Norway or any political subdivision thereof, in each case, having one of the two highest rating categories obtainable from either Moody's or S&P (or, if at the time, neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) with maturities of not more than two years from the date of acquisition;

(7) Indebtedness or preferred stock issued by Persons with a rating of "BBB−" or higher from S&P or "Baa3" or higher from Moody's (or, if at the time, neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) with maturities of 12 months or less from the date of acquisition;

(8) bills of exchange issued in the United States, Canada, a Permissible Jurisdiction, Switzerland, Norway or Japan eligible for rediscount at the relevant central bank and accepted by a bank (or any dematerialized equivalent); and

(9) interests in any investment company, money market or enhanced high yield fund which invests 95% or more of its assets in instruments of the type specified in clauses (1) through (8) above.

"**Change of Control**" means the occurrence of any of the following:

(1) the Issuer becoming aware of (by way of a report or any other filing pursuant to Section 13(d) of the Exchange Act, proxy, vote, written notice or otherwise) any "person" or "group" of related persons (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act as in effect on the Issue Date), other than one or more Permitted Holders, is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act as in effect on the Issue Date), directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the Issuer; *provided that* for the purposes of this clause, (x) no Change of Control shall be deemed to occur by reason of the Issuer becoming a Subsidiary of a Successor Parent; and (y) any Voting Stock of which any Permitted Holder is the "beneficial owner" (as so defined) shall not be included in any Voting Stock of which any "person" or "group of related persons" is the "beneficial owner" (as so defined) unless that person or group is not an Affiliate of a Permitted Holder and has greater voting power with respect to that Voting Stock; or

(2) the sale, lease, transfer, conveyance or other disposition (other than by way of merger, consolidation or other business combination transaction), in one or a series of related transactions, of all or substantially all of the assets of the Issuer and its Restricted Subsidiaries taken as a whole to a Person, other than a Restricted Subsidiary or one or more Permitted Holders.

"**Clearstream**" means Clearstream Banking, *société anonyme,* as currently in effect or any successor securities clearing agency.

"**Commercial Paper Program**" means the commercial paper program with a maximum outstanding balance of €500.0 initiated by Issuer on December 11, 2017 and admitted to listing on the Spanish Alternative Fixed-Income Market as it may be renewed or amended from time to time, including with respect to listing on a regulated market or in other multilateral trading facilities.

"**Commodity Hedging Agreements**" means, in respect of a Person, any commodity purchase contract, commodity futures or forward contract, commodities option contract or other similar contract (including commodities derivative agreements or arrangements), to which such Person is a party or a beneficiary.

"**Company Investors**" means (i) directors of the Issuer, members of the management team of the Issuer or its Subsidiaries and employees of the Issuer and its Subsidiaries who subsequently invest directly or indirectly in the Issuer from time to time and (ii) any entity that may hold shares transferred by departing members of the management team or employees of the Issuer or its Subsidiaries for future redistribution to the management team or employees of the Issuer or its Subsidiaries.

"**Confirming Lines**" means confirming lines, "reverse" factoring arrangements or other supplier payment arrangements with banks or other financial institutions or special purpose entities providing for the payment by such bank or financial institution or special purpose entity of supplier invoices and other trade payables owed by a Person, which payments are reimbursed by the Person in accordance with the terms of such lines or arrangements.

"**Consolidated EBITDA**" means the consolidated profits of the Issuer from ordinary activities before taxation for the period of the four most recent fiscal quarters ending prior to the relevant date of measurement for which internal consolidated financial statements are available:

(a) before deducting any Consolidated Interest Expense whether paid, payable or capitalized by any member of the Group (calculated on a consolidated basis) in respect of the relevant period;

(b) not including any accrued interest owing to Issuer or any Restricted Subsidiary;

(c) after adding back any amount attributable to the amortization, or depreciation or impairment of assets of members of the Issuer and its Restricted Subsidiaries (and taking no account of the reversal of any previous impairment charge);

(d) before taking into account any Exceptional Items of the Issuer and its Restricted Subsidiaries;

(e) after deducting the amount of any profit of any of the Issuer and its Restricted Subsidiaries which is attributable to minority interests;

(f) after deducting the amount of any profit of any Non-Group Entity;

(g) after adding back the amount of any dividends received in cash by the Issuer or a Restricted Subsidiary (net of any applicable withholding taxes) through dividends or other distributions from any Non-Group Entity;

(h) before taking into account any unrealized gains or losses of the Issuer and its Restricted Subsidiaries on any financial instrument (including any derivative instrument, other than any derivative instrument which is accounted for on a hedge accounting basis);

(i) before taking into account any gain or loss arising from an upward or downward revaluation of any other asset at any time after February 28, 2017;

(j) before taking into account any Pension Items of the Issuer and its Restricted Subsidiaries;

(k) excluding the charge to profit of the Issuer and its Restricted Subsidiaries represented by the expensing of stock options;

(l) before taking into account any gain or loss arising from the Issuer or a Restricted Subsidiary buying-back (howsoever arising, and whether directly or indirectly) any indebtedness of the Issuer or a Restricted Subsidiary (including that Group member's own indebtedness); and

(m) after adding back the financial income of Seguros Ecl, S.A.,

in each case, to the extent added, deducted or taken into account, as the case may be, for the purposes of determining profits of the Group from ordinary activities before taxation.

"**Consolidated Interest Expense**" means, for any period (in each case, determined on the basis of IFRS), the consolidated interest, commission, fees, discounts, prepayment fees, premiums or charges and other finance payments whether paid, payable or capitalized by any member of the Group (calculated on a consolidated basis) in respect of the relevant period.

"**Consolidated Net Income**" means, for any period, the net income (loss) of the Company and its Restricted Subsidiaries determined on a consolidated basis and on the basis of IFRS; *provided*, *however*, that there will not be included in such Consolidated Net Income (adjusted for the corresponding tax impact (if any)):

(a) any net income (loss) of any person that is not a member of the Group, except that a member of the Group's equity in the net income of any such person for such period will be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such person during such period to a member of the Group as a dividend or other distribution or return on investment;

(b) any net gain (or loss) realized upon the sale, abandonment or other disposition of any asset or disposed operations of any member of the Group (including pursuant to any sale and leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of its day to day operations (as determined in good faith by the Company);

(c) any extraordinary, exceptional, unusual or nonrecurring gain, loss, charge or expense or any charges, expenses or reserves in respect of any restructuring, redundancy or severance or any similar transaction;

(d) the cumulative effect of a change in accounting principles;

(e) any non-cash compensation charge or expense arising from any grant of stock, stock options or other equity based awards and any non-cash deemed finance charges in respect of any pension liabilities or other provisions;

(f) all deferred financing costs written off and premiums paid or other expenses incurred directly in connection with any early extinguishment of Indebtedness and any net gain (loss) from any write-off or forgiveness of Indebtedness;

(g) any unrealized gains or losses in respect of hedging or other derivative instruments or any ineffectiveness recognized in earnings related to qualifying hedge transactions or the fair value or changes therein recognized in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of hedging or other derivative instruments;

(h) any unrealized foreign currency translation gains or losses in respect of Indebtedness of any member of the Group denominated in a currency other than the functional currency of such member of the Group and any unrealized foreign exchange gains or losses relating to translation of assets and liabilities denominated in foreign currencies;

(i) any unrealized foreign currency translation or transaction gains or losses in respect of Indebtedness or other obligations of any member of the Group owing to another member of the Group;

(j) any one-time non-cash charges or any increases in amortization or depreciation resulting from purchase accounting, in each case, in relation to any acquisition of any person or business or resulting from any reorganization or restructuring involving any member of the Group; and

(k) any goodwill or other intangible asset impairment charge or write-off.

"**Consolidated Net Leverage**" means the sum of the aggregate outstanding Indebtedness of the Issuer and its Restricted Subsidiaries (excluding Hedging Obligations) less cash and Cash Equivalents of the Issuer and its Restricted Subsidiaries, as of the relevant date of calculation on a consolidated basis on the basis of IFRS.

"**Consolidated Net Leverage Ratio**" means, as of any date of determination, the ratio of (x) Consolidated Net Leverage at such date to (y) the aggregate amount of Consolidated EBITDA for the period of the four most recent quarters ending prior to the date of such determination for which internal consolidated financial statements of the Issuer are available. In the event that the Issuer or any of its Restricted Subsidiaries Incurs, assumes, guarantees, repays, repurchases, redeems, defeases or otherwise discharges any Indebtedness subsequent to the commencement of the period for which the Consolidated Net Leverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Consolidated Net Leverage Ratio is made (the "**Calculation Date**"), then the Consolidated Net Leverage Ratio will be calculated giving *pro forma* effect (as determined in good faith by a responsible accounting or financial officer of the Issuer) to such Incurrence, assumption, guarantee, repayment, repurchase, redemption, defeasance or other discharge of Indebtedness, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable reference period; *provided*, *however*, that (other than in connection with making any Restricted Payment pursuant to clause (16) of the fourth paragraph of the covenant described under "*—Certain Covenants—Limitation on Restricted Payments*") the *pro forma* calculation shall not give effect to (i) any Indebtedness incurred on the Calculation Date pursuant to the provisions described in the second paragraph under "*—Limitation on Indebtedness*" or (ii) the discharge on the Calculation Date of any Indebtedness to the extent that such discharge results from the proceeds incurred pursuant to the provisions described in the second paragraph under "*—Limitation on Indebtedness*."

In addition, for purposes of calculating the Consolidated Net Leverage Ratio:

(1) acquisitions and Investments (each, a "**Purchase**") that have been made by the Issuer or any of its Restricted Subsidiaries, including through mergers or consolidations, or any Person or any of its Subsidiaries which are Restricted Subsidiaries acquired by the Issuer or any of its Restricted Subsidiaries, and including all related financing transactions and including increases in ownership of Subsidiaries which are Restricted Subsidiaries, during the reference period or subsequent to such reference period and on or prior to the Calculation Date, or that are to be made on the Calculation Date, will be given *pro forma* effect (as determined in good faith by a responsible accounting or financial officer of the Issuer and may include anticipated expense and cost reduction synergies) as if they had occurred on the first day of the reference period; *provided that*, if definitive documentation has been entered into with respect to a Purchase that is part of the transaction causing a calculation to be made hereunder, Consolidated EBITDA for such period will be calculated after giving *pro forma* effect to such Purchase (including anticipated synergies and cost savings) as if such Purchase had occurred on the first day of such period, even if the Purchase has not yet been consummated as of the date of determination;

(2) the Consolidated EBITDA (whether positive or negative) attributable to discontinued operations, as determined in accordance with IFRS, and operations, businesses or group of assets constituting a business or operating unit (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded on a *pro forma* basis as if such disposition occurred on the first day of such period (taking into account anticipated expense and cost reduction synergies resulting from any such disposal, as determined in good faith by a responsible accounting or financial officer of the Issuer);

(3) the Consolidated Interest Expense attributable to discontinued operations, as determined in accordance with IFRS, and operations, businesses or group of assets constituting a business or operating unit (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded on a *pro forma* basis as if such disposition occurred on the first day of such period, but only to the extent that the obligations giving rise to such Consolidated Interest Expense will not be obligations of the Issuer or any of its Restricted Subsidiaries following the Calculation Date;

(4) any Person that is a Restricted Subsidiary on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such reference period;

(5) any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such reference period;

(6) if any Indebtedness bears a floating rate of interest, the interest expense on such Indebtedness will be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness, and if any Indebtedness is not denominated in the Issuer's functional currency, that Indebtedness for purposes of the calculation of Consolidated Net Leverage shall be treated in accordance with IFRS; and

(7) the reasonably anticipated full run rate effect of expense and cost reduction synergies (as determined in good faith by an Officer of the Issuer responsible for accounting or financial reporting) projected to result from actions taken by the Issuer or its Restricted Subsidiaries shall be included as though such synergies had been achieved on the first day of the relevant period, net of the amount of actual benefits realized during such period from such actions; *provided that* such synergies (A) are reasonably identifiable and factually supportable and (B) are not duplicative of any cost savings, reductions or synergies already included for such period.

For the purposes of the definitions of Consolidated EBITDA, Consolidated Interest Expense and Consolidated Net Income, calculations will be determined in accordance with the terms set forth above.

"**Contingent Obligations**" means, with respect to any Person, any obligation of such Person guaranteeing in any manner, whether directly or indirectly, any operating lease, dividend or other obligation that does not constitute Indebtedness ("**primary obligations**") of any other Person (the "**primary obligor**"), including any obligation of such Person, whether or not contingent:

(1) to purchase any such primary obligation or any property constituting direct or indirect security therefor;

(2) to advance or supply funds:

(a) for the purchase or payment of any such primary obligation; or

(b) to maintain the working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; or

(3) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof.

"**Credit Facility**" means, with respect to the Issuer or any of its Subsidiaries, one or more debt facilities, arrangements, instruments or indentures (including the Syndicated Loan Facilities or commercial paper facilities and overdraft facilities) with banks, institutions or investors providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables), notes, letters of credit or other Indebtedness, in each case, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time (and whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or other banks, institutions or investors and whether provided under the Syndicated Loan Facilities or one or more other credit or other agreements, indentures, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and letters of credit issued pursuant thereto and any Guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other Guarantees, pledges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term "**Credit Facility**" shall include any agreement or instrument (1) changing the maturity of any Indebtedness Incurred thereunder or contemplated thereby, (2) adding Subsidiaries of the Issuer as additional borrowers or guarantors thereunder, (3) increasing the amount of Indebtedness Incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

"**Currency Agreement**" means, in respect of a Person, any foreign exchange contract, currency swap agreement, currency futures contract, currency option contract, currency derivative or other similar agreement to which such Person is a party or beneficiary.

"**Default**" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"**Designated Non-Cash Consideration**" means the fair market value (as determined in good faith by the Board of Directors or an Officer of the Issuer) of non-cash consideration received by the Issuer or one of its Restricted Subsidiaries in connection with an Asset Disposition that is so designated as Designated Non-Cash Consideration pursuant to an Officer's Certificate, setting forth the basis of such valuation, less the amount of cash, Cash Equivalents or Temporary Cash Investments received in connection with a subsequent payment, redemption, retirement, sale or other disposition of such Designated Non-Cash Consideration. A particular item of Designated Non-Cash Consideration will no longer be considered to be outstanding when and to the extent it has been paid, redeemed or otherwise retired or sold or otherwise disposed of in compliance with the covenant described under "*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*."

"**Designated Preference Shares**" means, with respect to the Issuer or any Parent, Preferred Stock (other than Disqualified Stock) (a) that is issued for cash (other than to the Issuer or a Subsidiary of the Issuer or an employee stock ownership plan or trust established by the Issuer or any such Subsidiary for the benefit of their employees to the extent funded by the Issuer or such Subsidiary) and (b) that is designated as "Designated Preference Shares" pursuant to an Officer's Certificate of the Issuer at or prior to the issuance thereof, the Net Cash Proceeds of which are excluded from the calculation set forth in clause (c)(ii) of the first paragraph of the covenant described under "*—Certain Covenants—Limitation on Restricted Payments*."

"**Disqualified Stock**" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable, in each case, at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, in each case on or prior to the date that is 90 days after the earlier of (a) the Stated Maturity of the Notes or (b) the date on which there are no Notes outstanding. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require the issuer thereof to repurchase such Capital Stock upon the occurrence of a Change of Control or an Asset Disposition will not constitute Disqualified Stock if the terms of such Capital Stock provide that the issuer thereof may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption "*—Certain Covenants—Limitation on Restricted Payments*." For purposes hereof, the amount of Disqualified Stock which does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were purchased on any date on which Indebtedness shall be required to be determined pursuant to the Indenture, and if such price is based upon, or measured by, the fair market value of such Disqualified Stock, such fair market value to be determined as set forth herein. Only the portion of Capital Stock which so matures or is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the holder thereof prior to such date will be deemed to be Disqualified Stock.

"**Equity Offering**" means (x) a sale of Capital Stock of a Parent, the Issuer or a Restricted Subsidiary (other than Disqualified Stock and other than offerings registered on Form S-8 (or any successor form) under the Securities Act or any similar offering in other jurisdictions and other than offerings to the Issuer or any Restricted Subsidiary), or (y) the sale of Capital Stock or other securities by any Person (other than to the Issuer or a Restricted Subsidiary), the proceeds of which are contributed as Subordinated Shareholder Funding or to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares or through an Excluded Contribution) of the Issuer or any of its Restricted Subsidiaries.

"**Euro Equivalent**" means, with respect to any monetary amount in a currency other than euro, at any time of determination thereof by the Issuer or the Trustee, the amount of euro obtained by converting such currency other than euro involved in such computation into euro at the spot rate for the purchase of euro with the applicable currency other than euro as published in *The Financial Times* in the "Currency Rates" section (or, if *The Financial Times* is no longer published, or if such information is no longer available in *The Financial Times*, such source as may be selected in good faith by the Board of Directors or an Officer of the Issuer) on the date of such determination.

"**Euroclear**" means Euroclear Bank SA/NV or any successor securities clearing agency.

"**European Government Obligations**" means any security that is (1) a direct obligation of any country that is a member of the European Monetary Union on the date of the Indenture, for the payment of which the full faith and credit of such country is pledged or (2) an obligation of a person controlled or supervised by and acting as an agency or instrumentality of any such country the payment of which is unconditionally Guaranteed as a full faith and credit obligation by such country, which, in either case under the preceding clause (1) or (2), is not callable or redeemable at the option of the issuer thereof.

"**European Union**" means all members of the European Union as of January 1, 2004.

"**Exceptional Items**" means any items (positive or negative) of an exceptional, one off, non-recurring or extraordinary nature (including, without limitation, severance payments).

"**Exchange**" means The Irish Stock Exchange plc (trading as Euronext Dublin).

"**Exchange Act**" means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder, as amended.

"**Excluded Contribution**" means Net Cash Proceeds or property or assets received by the Issuer as capital contributions to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares) of the Issuer after the Issue Date or from the issuance or sale (other than to a Restricted Subsidiary or an employee stock ownership plan or trust established by the Issuer or any Subsidiary of the Issuer for the benefit of its employees to the extent funded by the Issuer or any Restricted Subsidiary) of Capital Stock (other than Disqualified Stock or Designated Preference Shares) or Subordinated Shareholder Funding of the Issuer, in each case, to the extent designated as an Excluded Contribution pursuant to an Officer's Certificate of the Issuer.

"**Existing Shareholder Arrangements**" means, in each case as of the Issue Date:

(a) the Fundación Ramón Areces bank account deposit, in a principal amount not exceeding €25.0 million;

(b) the directors' bank account deposit, in a principal amount not exceeding €78.0 million;

(c) the loans granted by Fundación Ramón Areces, in a principal amount not exceeding €48.0 million; and

(d) the loan granted by Fundación César Rodríguez, in a principal amount not exceeding €1.0 million.

"**fair market value**" wherever such term is used in this "*Description of the Notes*" or the Indenture (except as otherwise specifically provided in this "*Description of the Notes*" or the Indenture), may be conclusively established by means of an Officer's Certificate or a resolution of the Board of Directors of the Issuer setting out such fair market value as determined by such Officer or such Board of Directors in good faith.

"**Fitch**" means Fitch Ratings or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

"**Fixed Charge Coverage Ratio**" means, as of any date of determination, the ratio of (x) the aggregate amount of Consolidated EBITDA of such Person for the period of the four most recent fiscal quarters prior to the date of such determination for which internal consolidated financial statements are available to (y) the Fixed Charges of such Person for such four fiscal quarters.

In the event that the specified Person or any of its Restricted Subsidiaries incurs, assumes, guarantees, repays, repurchases, redeems, defeases, retires, extinguishes or otherwise discharges any Indebtedness (other than Indebtedness incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) or issues, repurchases or redeems Disqualified Stock or Preferred Stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the "**Calculation Date**"), then the Fixed Charge Coverage Ratio will be calculated giving *pro forma* effect (as determined in good faith by a responsible accounting or financial officer of such Person), including in respect of anticipated expense and cost reduction synergies, to such incurrence, assumption, guarantee, repayment, repurchase, redemption, defeasance, retirement, extinguishment or other discharge of Indebtedness, or such issuance, repurchase or redemption of Disqualified Stock or Preferred Stock, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable four-quarter reference period; *provided, however*, that the *pro forma* calculation of Fixed Charges shall not give effect to (i) any Indebtedness incurred on the Calculation Date pursuant to the provisions described in the second paragraph of the covenant described above under "*—Certain Covenants—Limitation on Indebtedness*" (other than for the purposes of the calculation of the Fixed Charge Coverage Ratio under clause (5) thereunder) or (ii) the discharge on the Calculation Date of any Indebtedness to the extent that such discharge results from the proceeds incurred pursuant to the provisions described in the second paragraph of the covenant described above under "*—Certain Covenants—Limitation on Indebtedness*."

In addition, for purposes of calculating the Fixed Charge Coverage Ratio:

(1) acquisitions or Investments (each, a "**Purchase**") that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers or consolidations, or by any Person or any of its Restricted Subsidiaries acquired by the specified Person or any of its Subsidiaries which are Restricted Subsidiaries, and including all related financing transactions and including increases in ownership of Restricted Subsidiaries, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date, or that are to be made on the Calculation Date, will be given *pro forma* effect (as determined in good faith by a responsible accounting or financial officer of such Person), including in respect of anticipated expense and cost reductions and synergies, as if they had occurred on the first day of the four-quarter reference period; *provided that*, if definitive documentation has been entered into with respect to a Purchase that is part of the transaction causing a calculation to be made hereunder, Consolidated EBITDA for such period will be calculated after giving *pro forma* effect to such Purchase (including anticipated synergies and cost savings) as if such Purchase had occurred on the first day of such period, even if the Purchase has not yet been consummated as of the date of determination;

(2) the Consolidated EBITDA attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded;

(3) the Fixed Charges attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date;

(4) any Person that is a Restricted Subsidiary on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period;

(5) any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period;

(6) if any Indebtedness bears a floating rate of interest and is being given *pro forma* effect, the interest expense on such Indebtedness will be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period (taking into account any Hedging Obligation applicable to such Indebtedness if such Hedging Obligation has a remaining term as at the Calculation Date in excess of 12 months, or, if shorter, at least equal to the remaining term of such Indebtedness);

(7) Interest on a Capitalized Lease Obligation shall be deemed to accrue at an interest rate reasonably determined by a responsible financial or accounting officer of the Issuer to be the rate of interest implicit in such Capitalized Lease Obligation in accordance with IFRS; and

(8) the reasonably anticipated full run rate effect of expense and cost reduction synergies (as determined in good faith by a responsible accounting or financial Officer) projected to result from actions taken by the Issuer or its Restricted Subsidiaries shall be included as though such synergies had been achieved on the first day of the relevant period, net of the amount of actual benefits realized during such period from such actions; *provided* such synergies (A) are reasonably identifiable and factually supportable and (B) are not duplicative of any costs savings, reductions or synergies already included for the period.

"**Fixed Charges**" means, with respect to any specified Person for any period, the sum, without duplication, of:

(1) the Consolidated Interest Expense of such Person for such period; plus

(2) all dividends, whether paid or accrued and whether or not in cash, on or in respect of all Disqualified Stock of the Issuer or any series of Preferred Stock of any Restricted Subsidiary, other than dividends on equity interests payable to the Issuer or a Restricted Subsidiary.

(3) any interest expense on Indebtedness of another person that is guaranteed by such Person or its Restricted Subsidiaries or secured by a Lien on assets of such Person or its Restricted Subsidiaries, but only to the extent such interest expense is actually paid;

determined on a consolidated basis in accordance with IFRS.

"**Guarantee**" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person, including any such obligation, direct or indirect, contingent or otherwise, of such Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or

(2) entered into primarily for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part),

provided, *however*, that the term "Guarantee" will not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"**Guarantor**" means (i) Viajes El Corte Inglés, S.A. and Supercor, S.A. and (ii) any other Restricted Subsidiary that Guarantees the Notes from time to time.

"**Hedging Obligations**" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement, Currency Agreement or Commodity Hedging Agreement.

"**Holder**" means each Person in whose name the Notes are registered on the Registrar's books, which shall initially be the respective nominee of Euroclear or Clearstream, as applicable.

"**Holding Company**" means, in relation to any Person, any other Person in respect of which it is a Subsidiary.

"**IFRS**" means International Financial Reporting Standards (formerly International Accounting Standards) ("**IFRS**") endorsed from time to time by the European Union or any variation thereof with which the Issuer or its Restricted Subsidiaries are, or may be, required to comply. Except as otherwise set forth in the Indenture, all ratios and calculations based on IFRS contained in the Indenture shall be computed in accordance with IFRS as in effect on the Issue Date; *provided that* at any date after the Issue Date the Issuer may make an irrevocable election to establish that "IFRS" shall mean, except as otherwise specified herein, IFRS as in effect on a date that is on or prior to the date of such election.

"**Incur**" means issue, create, assume, enter into any Guarantee of, incur or otherwise become liable for; *provided*, *however*, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (whether by merger, consolidation, acquisition or otherwise) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and the terms "**Incurred**" and "**Incurrence**" have meanings correlative to the foregoing and any Indebtedness pursuant to any revolving credit or similar facility shall only be "**Incurred**" at the time any funds are borrowed thereunder.

"**Indebtedness**" means, with respect to any Person on any date of determination (without duplication):

(1) the principal of indebtedness of such Person for borrowed money;

(2) the principal of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all reimbursement obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments (the amount of such obligations being equal at any time to the aggregate then undrawn and unexpired amount of such letters of credit or other instruments plus the aggregate amount of drawings thereunder that have been reimbursed) (except to the extent such reimbursement obligations relate to trade payables or other obligations not constituting Indebtedness and such obligations are satisfied within 30 days of Incurrence), in each case, only to the extent that the underlying obligation in respect of which the instrument was issued would be treated as Indebtedness;

(4) the principal component of all obligations of such Person to pay the deferred and unpaid purchase price of property (except trade payables), where the deferred payment is arranged primarily as a means of raising finance, which purchase price is due more than one year after the date of placing such property in service or taking final delivery and title thereto;

(5) Capitalized Lease Obligations of such Person;

(6) the principal component of all obligations, or liquidation preference, of such Person with respect to any Disqualified Stock or, with respect to any Restricted Subsidiary, any Preferred Stock (but excluding, in each case, any accrued dividends);

(7) the principal component of all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided, however*, that the amount of such Indebtedness will be the lesser of (a) the fair market value of such asset at such date of determination (as determined in good faith by the Board of Directors or an Officer of the Issuer) and (b) the amount of such Indebtedness of such other Persons;

(8) Guarantees by such Person of the principal component of Indebtedness of other Persons to the extent Guaranteed by such Person; and

(9) to the extent not otherwise included in this definition, net obligations of such Person under Currency Agreements and Interest Rate Agreements (the amount of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time).

The term "**Indebtedness**" shall not include (i) Subordinated Shareholder Funding, (ii) any lease, concession or license of property (or Guarantee thereof) which would be considered an operating lease under IFRS as in effect on the

Issue Date, (iii) prepayments of deposits received from clients or customers in the ordinary course of business, (iv) obligations under any license, permit or other approval (or Guarantees given in respect of such obligations) Incurred prior to the Issue Date or in the ordinary course of business, or (v) any asset retirement obligations.

The amount of Indebtedness of any Person at any time in the case of a revolving credit or similar facility shall be the total amounts of funds borrowed and then outstanding. The amount of Indebtedness of any Person at any date shall be determined as set forth above or otherwise provided in the Indenture, and (other than with respect to letters of credit or Guarantees or Indebtedness specified in clause (7) or (8) above) shall equal the amount thereof that would appear on a balance sheet of such Person (excluding any notes thereto) prepared on the basis of IFRS.

Notwithstanding the above provisions, in no event shall the following constitute Indebtedness:

(1) Contingent Obligations Incurred in the ordinary course of business, obligations under or in respect of receivables financings and factoring or similar arrangements which are non-recourse to the relevant Restricted Subsidiary except to the extent customary for such type of factoring or similar arrangements, and accrued liabilities Incurred in the ordinary course of business that are not more than 90 days past due;

(2) in connection with the purchase by the Issuer or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; *provided*, *however*, that, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid within 30 days thereafter;

(3) (A) Guarantees, letters of credit (to the extent not drawn or satisfied within 60 days of such drawing), documentary credits or similar instruments in respect of any leases or provided to suppliers in the ordinary course of business (or provided to credit insurers relating to ordinary course of business payables of the Issuer and its Restricted Subsidiaries), (B) other Indebtedness in respect of standby letters of credit, documentary credits, performance bonds or surety bonds provided by the Issuer or any Restricted Subsidiary in the ordinary course of business to the extent that such letters or documentary credits are not drawn upon or, if and to the extent drawn upon are honored in accordance with their terms and if, to be reimbursed, are reimbursed no later than then fifth Business Day following receipt by such Person of a demand for reimbursement following payment on the letter of credit or documentary credit or bond and (C) obligations in respect of Confirming Lines; or

(4) for the avoidance of doubt, any obligations in respect of workers' compensation claims, early retirement or termination obligations, pension fund obligations or contributions or similar claims, obligations or contributions or social security or wage Taxes.

"**Initial Public Offering**" or "**IPO**" means an Equity Offering of common stock or other common equity interests of the Issuer, any Parent or any Subsidiary or any successor of the Issuer, any Parent or any Subsidiary (the "**IPO Entity**") following which there is a Public Market and, as a result of which, the shares of common stock or other common equity interests of the IPO Entity in such offering are listed on an internationally recognized exchange or traded on an internationally recognized market.

"**Initial Unrestricted Subsidiaries**" means Parinver, S.A. and Seguros ECI Vida y Pensiones.

"**Interest Rate Agreement**" means, with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement to which such Person is party or a beneficiary.

"**Investment**" means, with respect to any Person, all investments by such Person in other Persons (including Affiliates) in the form of any advance, loan or other extensions of credit (other than advances or extensions of credit to customers, suppliers, directors, officers or employees of any Person in the ordinary course of business, and excluding any debt or extension of credit represented by a bank deposit other than a time deposit) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or the Incurrence of a Guarantee of any obligation of, or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by, such other Persons and all other items that are or would be classified as investments on a balance sheet (excluding any notes thereto) prepared on the basis of IFRS; *provided*, *however*, that endorsements of negotiable instruments and documents in the ordinary course of business will not be deemed to be an Investment. If the Issuer or any Restricted Subsidiary issues, sells or otherwise disposes of any Capital Stock of a Person that is a Restricted Subsidiary such that, after giving effect thereto, such Person is no longer a Restricted Subsidiary, any Investment by the Issuer or any Restricted Subsidiary in such Person remaining after giving effect thereto will be deemed to be a new Investment equal to the fair market value of the Capital Stock of such Subsidiary not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption "*—Certain Covenants—Limitation on Restricted Payments*."

For purposes of "*—Certain Covenants—Limitation on Restricted Payments*:"

(1) "**Investment**" will include the portion (proportionate to the Issuer's equity interest in a Restricted Subsidiary to be designated as an Unrestricted Subsidiary) of the fair market value of the net assets of such Restricted Subsidiary at the time that such Restricted Subsidiary is designated an Unrestricted Subsidiary; and

(2) any property transferred to or from an Unrestricted Subsidiary will be valued at its fair market value at the time of such transfer, in each case as determined in good faith by the Board of Directors or an Officer of the Issuer.

The amount of any Investment outstanding at any time shall be the original cost of such Investment, reduced (at the Issuer's option) by any dividend, distribution, interest payment, return of capital, repayment or other amount or value received in respect of such Investment.

"**Investment Grade Securities**" means:

(1) securities issued or directly and fully Guaranteed or insured by the United States or Canadian government or any agency or instrumentality thereof (other than Cash Equivalents);

(2) securities issued or directly and fully guaranteed or insured by a Permissible Jurisdiction, Switzerland or Norway or any agency or instrumentality thereof (other than Cash Equivalents);

(3) debt securities or debt instruments with a rating of "BBB−" or higher from S&P or "Baa3" or higher by Moody's or the equivalent of such rating by such rating organization or, if no rating of Moody's or S&P then exists, the equivalent of such rating by any other Nationally Recognized Statistical Ratings Organization, but excluding any debt securities or instruments constituting loans or advances among the Issuer and its Subsidiaries;

(4) investments in any fund that invests exclusively in investments of the type described in clauses (1), (2) and (3) above which fund may also hold cash and Cash Equivalents pending investment or distribution; and

(5) any investment in repurchase obligations with respect to any securities of the type described in clauses (1), (2) and (3) above which are collateralized at par or over.

"**Investment Grade Status**" shall occur when all of the Notes receive at least two of the following:

(1) a rating of "BBB−" or higher from S&P;

(2) a rating of "Baa3" or higher from Moody's; and

(3) a rating of "BBB-" or higher from Fitch,

or the equivalent of such rating by either such rating organization or, if no rating of Moody's, S&P or Fitch then exists, the equivalent of such rating by any other Nationally Recognized Statistical Ratings Organization.

"**IPO Entity**" has the meaning given it in the definition of Initial Public Offering.

"**IPO Event**" means a public equity offering of any member of the Group or any of its holding companies.

"**IPO Market Capitalization**" means an amount equal to (i) the total number of issued and outstanding shares of common stock or common equity interests of the IPO Entity at the time of closing of the Initial Public Offering multiplied by (ii) the price per share at which such shares of common stock or common equity interests are sold in such Initial Public Offering.

"**Issue Date**" means October 8, 2018.

"**Issuer**" means El Corte Inglés, S.A. or any other Successor Company in accordance with the Indenture.

"**Lien**" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"**Management Advances**" means loans or advances made to, or Guarantees with respect to loans or advances made to, directors, officers, employees or consultants of any Parent, the Issuer or any Restricted Subsidiary:

(1) (a) in respect of travel, entertainment or moving related expenses Incurred in the ordinary course of business or (b) for purposes of funding any such person's purchase of Capital Stock or Subordinated Shareholder Funding (or similar obligations) of the Issuer, its Subsidiaries or any Parent with (in the case of this sub-clause (b)) the approval of the Board of Directors;

(2) in respect of moving related expenses Incurred in connection with any closing or consolidation of any facility or office; or

(3) (in the case of this clause (3)) not exceeding €80.0 million in the aggregate outstanding at any time.

"**Market Capitalization**" means an amount equal to (i) the total number of issued and outstanding shares of common stock or common equity interests of the IPO Entity on the date of the declaration of the relevant dividend multiplied by (ii) the arithmetic mean of the closing prices per share of such common stock or common equity interests for the 30 consecutive trading days immediately preceding the date of declaration of such dividend.

"**Material Indebtedness**" means the Syndicated Loan Facilities and any Indebtedness obligations in excess of the greater of 2% of Total Assets and €350.0 million.

"**Moody's**" means Moody's Investors Service, Inc. or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

"**Nationally Recognized Statistical Rating Organization**" means a nationally recognized statistical rating organization within the meaning of Section 3(a)(62) under the Exchange Act.

"**Net Available Cash**" from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise and net proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Disposition or received in any other non-cash form) therefrom, in each case net of:

(1) all legal, accounting, investment banking, title and recording tax expenses, commissions and other fees and expenses Incurred, and all Taxes paid or required to be paid or accrued as a liability under IFRS (after taking into account any available tax credits or deductions), as a consequence of such Asset Disposition;

(2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law, be repaid out of the proceeds from such Asset Disposition;

(3) all distributions and other payments required to be made to minority interest holders (other than any Parent, the Issuer or any of their respective Subsidiaries) in Subsidiaries or joint ventures as a result of such Asset Disposition; and

(4) the deduction of appropriate amounts required to be provided by the seller as a reserve, on the basis of IFRS, against any liabilities associated with the assets disposed of in such Asset Disposition and retained by the Issuer or any Restricted Subsidiary after such Asset Disposition.

"**Net Cash Proceeds**," with respect to any issuance or sale of Capital Stock or Subordinated Shareholder Funding, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, listing fees, discounts or commissions and brokerage, consultant and other fees and charges actually Incurred in connection with such issuance or sale and net of taxes paid or payable as a result of such issuance or sale (after taking into account any available tax credit or deductions).

"**Non-Group Entity**" means any investment or entity (which is not itself the Issuer or a Restricted Subsidiary) in which any of the Issuer and the Restricted Subsidiaries has an ownership interest.

"**Notes Documents**" means the Notes (including Additional Notes) and the Indenture.

"**Offering Memorandum**" means this offering memorandum in relation to the Notes.

"**Officer**" means, with respect to any Person, (1) any member of the Board of Directors, the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, the Treasurer or the Secretary (a) of such Person or (b) if such Person is owned or managed by a single entity, of such entity, or (2) any other individual designated as an "Officer" for the purposes of the Indenture by the Board of Directors of such Person. The obligations of an "Officer of the Issuer" may be exercised by the Officer of any Restricted Subsidiary who has been delegated such authority by the Board of Directors of the Issuer.

"**Officer's Certificate**" means, with respect to any Person, a certificate signed by one Officer of such Person.

"**Opinion of Counsel**" means a written opinion from legal counsel reasonably satisfactory to the Trustee. The counsel may be an employee of or counsel to the Issuer or its Subsidiaries.

"**Parent**" means any Person of which the Issuer at any time is or becomes a Subsidiary after the Issue Date and any holding companies established by any Permitted Holder for purposes of holding its investment in any Parent.

"**Paying Agent**" means any Person authorized by the Issuer to pay the principal of (and premium, if any) or interest on any Note on behalf of the Issuer.

"**Pension Items**" means any income or charge attributable to a post-employment benefit scheme other than the current service costs and any past service costs and curtailments and settlements attributable to the scheme.

"**Permissible Jurisdiction**" means any member state of the European Union.

"Permitted Holders" means, collectively, (1) Fundación Ramon Areces, (2) Marta Francisca Álvarez Guil, (3) Cristina Consuela Álvarez Guil (4) any Related Person of any Persons specified in clause (1), (2) or (3), (5) any Person who is acting as an underwriter in connection with a public or private offering of Capital Stock of any Parent or the Issuer, acting in such capacity and (6) any group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act or any successor provision) of which any of the foregoing (or any Persons mentioned in the following sentence) are members; *provided that*, in the case of such group and without giving effect to the existence of such group or any other group, such Persons referred to in the following sentence, collectively, have beneficial ownership of more than 50% of the total voting power of the Voting Stock of the Issuer or any of its direct or indirect parent companies held by such group. Any person or group whose acquisition of beneficial ownership constitutes a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the Indenture will thereafter, together with its Affiliates, constitute an additional Permitted Holder.

"**Permitted Investment**" means (in each case, by the Issuer or any of its Restricted Subsidiaries):

(1) Investments in (a) a Restricted Subsidiary (including the Capital Stock of a Restricted Subsidiary) or the Issuer or (b) a Person (including the Capital Stock of any such Person) and such Person will, upon the making of such Investment, become a Restricted Subsidiary;

(2) Investments in another Person and as a result of such Investment such other Person is merged, consolidated or otherwise combined with or into, or transfers or conveys all or substantially all its assets to, the Issuer or a Restricted Subsidiary;

(3) Investments in cash, Cash Equivalents, Temporary Cash Investments or Investment Grade Securities;

(4) Investments in receivables owing to the Issuer or any Restricted Subsidiary created or acquired in the ordinary course of business;

(5) Investments in payroll, travel, relocation, entertainment and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(6) Investments in Capital Stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Issuer or any Restricted Subsidiary, or as a result of foreclosure, perfection or enforcement of any Lien, or in satisfaction of judgments or pursuant to any plan of reorganization or similar arrangement including upon the bankruptcy or insolvency of a debtor;

(7) Investments made as a result of the receipt of non-cash consideration from a sale or other disposition of property or assets, including an Asset Disposition, in each case, that was made in compliance with "*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*;"

(8) Investments in existence on, or made pursuant to legally binding commitments in existence on, the Issue Date and any extension, modification or renewal of any such Investment; *provided that* the amount of the Investment may be increased (i) as required by the terms of the Investment as in existence on the Issue Date or (b) as otherwise permitted under the Indenture;

(9) Currency Agreements, Interest Rate Agreements, Commodity Hedging Agreements and related Hedging Obligations, which transactions or obligations are Incurred in compliance with "*—Certain Covenants—Limitation on Indebtedness*;"

(10) Investments, taken together with all other Investments made pursuant to this clause (10) and at any time outstanding, in an aggregate amount at the time of such Investment (net of any distributions, dividends, payments or other returns in respect of such Investments) not to exceed the greater of 43.3% of Consolidated EBITDA and €500.0 million; *provided that*, if an Investment is made pursuant to this clause in a Person that is not a Restricted Subsidiary and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary pursuant to the covenant described under "*—Certain Covenants—Limitation on Restricted Payments*," such Investment shall thereafter be deemed to have been made pursuant to clause (1) or (2) of the definition of "Permitted Investment" and not this clause;

(11) pledges or deposits with respect to leases or utilities provided to third parties in the ordinary course of business or Liens otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under the covenant described under "*—Certain Covenants—Limitation on Liens*;"

(12) any Investment to the extent made using Capital Stock of the Issuer (other than Disqualified Stock), Subordinated Shareholder Funding or Capital Stock of any Parent as consideration;

(13) any transaction to the extent constituting an Investment that is permitted and made in accordance with the provisions of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Affiliate Transactions*" (except those described in clauses (1), (3), (8), (9) and (12) of that paragraph);

(14) Guarantees not prohibited by the covenant described under "*—Certain Covenants—Limitation on Indebtedness*" and (other than with respect to Indebtedness) guarantees, keepwells and similar arrangements in the ordinary course of business;

(15) Investments consisting of purchases and acquisitions of inventory, supplies, materials and equipment or licenses or leases of intellectual property, in any case, in the ordinary course of business and in accordance with the Indenture;

(16) Investments in the Notes and any Additional Notes;

(17) Investments acquired after the Issue Date as a result of the acquisition by the Issuer or any of its Restricted Subsidiaries of another Person, including by way of a merger, amalgamation or consolidation with or into the

Issuer or any of its Restricted Subsidiaries in a transaction that is not prohibited by the covenant described above under the caption "—*Certain Covenants—Merger and Consolidation*" to the extent that such Investments were not made in contemplation of such acquisition, merger, amalgamation or consolidation and were in existence on the date of such acquisition, merger, amalgamation or consolidation; and

(18) Investments in licenses, concessions, authorizations, franchises, permits or similar arrangements that are related to the Issuer's or any Restricted Subsidiary's business.

"**Permitted Liens**" means, with respect to any Person:

(1) Liens on assets or property of any Restricted Subsidiary that is not a Guarantor securing Indebtedness of any Restricted Subsidiary that is not a Guarantor;

(2) pledges, deposits or Liens under workmen's compensation laws, unemployment insurance laws, social security laws or similar legislation, or insurance related obligations (including pledges or deposits securing liability to insurance carriers under insurance or self-insurance arrangements), or in connection with bids, tenders, completion guarantees, contracts (other than for borrowed money) or leases, or to secure utilities, licenses, public or statutory obligations, or to secure surety, indemnity, judgment, appeal or performance bonds, guarantees of government contracts (or other similar bonds, instruments or obligations), or as security for contested taxes or import or customs duties or for the payment of rent, or other obligations of like nature, in each case Incurred in the ordinary course of business;

(3) Liens imposed by law, including carriers', warehousemen's, mechanics', landlords', materialmens' and repairmen's or other similar Liens, in each case for sums not yet overdue for a period of more than 60 days or that are bonded or being contested in good faith by appropriate proceedings;

(4) Liens for taxes, assessments or other governmental charges not yet delinquent or which are being contested in good faith by appropriate proceedings; *provided that* appropriate reserves required pursuant to IFRS have been made in respect thereof;

(5) Liens in favor of issuers of surety, performance or other bonds, guarantees or letters of credit or bankers' acceptances (not issued to support Indebtedness for borrowed money) issued pursuant to the request of and for the account of the Issuer or any Restricted Subsidiary in the ordinary course of its business;

(6) encumbrances, ground leases, easements (including reciprocal easement agreements), survey exceptions, or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning, building codes or other restrictions (including minor defects or irregularities in title and similar encumbrances) as to the use of real properties or Liens incidental to the conduct of the business of the Issuer and its Restricted Subsidiaries or to the ownership of its properties which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of the Issuer and its Restricted Subsidiaries;

(7) Liens on assets or property of the Issuer or any Restricted Subsidiary securing Hedging Obligations permitted under the Indenture relating to Indebtedness permitted to be Incurred under the Indenture and which is secured by a Lien on the same assets or property that secures such Indebtedness;

(8) leases, licenses, subleases and sublicenses of assets (including real property and intellectual property rights), in each case entered into in the ordinary course of business;

(9) Liens arising out of judgments, decrees, orders or awards not giving rise to an Event of Default so long as any appropriate legal proceedings which may have been duly initiated for the review of such judgment, decree, order or award have not been finally terminated or the period within which such proceedings may be initiated has not expired;

(10) Liens on assets or property of the Issuer or any Restricted Subsidiary for the purpose of securing Capitalized Lease Obligations or Purchase Money Obligations, or securing the payment of all or a part of the purchase price of, or securing other Indebtedness Incurred to finance or refinance the acquisition, improvement or construction of, assets or property acquired or constructed in the ordinary course of business; *provided that* (a) the aggregate principal amount of Indebtedness secured by such Liens is otherwise permitted to be Incurred under clause (7) of the covenant described above under "*—Certain Covenants—Limitation on Indebtedness*" and (b) any such Lien may not extend to any assets or property of the Issuer or any Restricted Subsidiary other than assets or property acquired, improved, constructed or leased with the proceeds of such Indebtedness and any improvements or accessions to such assets and property;

(11) Liens arising by virtue of any statutory or common law provisions relating to banker's Liens, rights of setoff or similar rights and remedies as to deposit accounts or other funds maintained with a depositary or financial institution;

(12) Liens arising from Uniform Commercial Code financing statement filings (or similar filings in other applicable jurisdictions) regarding operating leases entered into by the Issuer and its Restricted Subsidiaries in the ordinary course of business;

(13) Liens existing on, or provided for or required to be granted under written agreements existing on, the Issue Date;

(14) Liens on property, other assets or shares of stock of a Person at the time such Person becomes a Restricted Subsidiary (or at the time the Issuer or a Restricted Subsidiary acquires such property, other assets or shares of stock, including any acquisition by means of a merger, consolidation or other business combination transaction with or into the Issuer or any Restricted Subsidiary); *provided, however*, that such Liens are not created, Incurred or assumed in anticipation of or in connection with such other Person becoming a Restricted Subsidiary (or such acquisition of such property, other assets or stock); *provided that* such Liens are limited to all or part of the same property, other assets or stock (plus improvements, accession, proceeds or dividends or distributions in connection with the original property, other assets or stock) that secured (or, under the written arrangements under which such Liens arose, could secure) the obligations to which such Liens relate;

(15) Liens on assets or property of the Issuer or any Restricted Subsidiary securing Indebtedness or other obligations of such Restricted Subsidiary owing to the Issuer or another Restricted Subsidiary, or Liens in favor of the Issuer or any Restricted Subsidiary;

(16) Liens securing Refinancing Indebtedness Incurred to refinance Indebtedness that was previously so secured, and permitted to be secured under the Indenture; *provided that* any such Lien is limited to all or part of the same property or assets (plus improvements, accessions, proceeds or dividends or distributions in respect thereof) that secured (or, under the written arrangements under which the original Lien arose, could secure) the Indebtedness being refinanced or is in respect of property that is or could be the security for or subject to a Permitted Lien hereunder;

(17) any interest or title of a lessor under any Capitalized Lease Obligation or operating lease;

(18) (a) mortgages, liens, security interest, restrictions, encumbrances or any other matters of record that have been placed by any government, statutory or regulatory authority, developer, landlord or other third party on property over which the Issuer or any Restricted Subsidiary has easement rights or on any leased property and subordination or similar arrangements relating thereto and (b) any condemnation or eminent domain proceedings affecting any real property;

(19) any encumbrance or restriction (including put and call arrangements) with respect to Capital Stock of, or assets owned by, any joint venture or similar arrangement pursuant to any joint venture or similar agreement;

(20) Liens on property or assets under construction (and related rights) in favor of a contractor or developer or arising from progress or partial payments by a third party relating to such property or assets;

(21) Liens on and in relation to receivables, account receivables, and related assets (including proceeds therefor being sold in factoring arrangements entered into in the ordinary course of business) or pursuant to any factoring, securitization or receivables financing arrangement permitted to be incurred by the Indenture;

(22) Liens arising under general business conditions in the ordinary course of business, including without limitation the general business conditions of any bank or financial institution with whom the Issuer or any of its Restricted Subsidiaries maintains a banking relationship in the ordinary course of business (including arising by reason of any treasury and/or cash management, cash pooling, netting or set-off arrangement or other trading activities);

(23) Liens arising out of conditional sale, title retention, hire purchase, consignment or similar arrangements for the sale of goods entered into in the ordinary course of business;

(24) Liens on Capital Stock or other securities or assets of any Unrestricted Subsidiary that secure Indebtedness of such Unrestricted Subsidiary;

(25) any security granted over the marketable securities portfolio described in clause (9) of the definition of "Cash Equivalents" in connection with the disposal thereof to a third party;

(26) (a) Liens created for the benefit of or to secure, directly or indirectly, the Notes and (b) Liens securing obligations under Confirming Lines;

(27) Liens; *provided that* the maximum amount of Indebtedness secured in the aggregate at any one time pursuant to this clause (27) does not exceed the greater of 2.75% of Total Assets and €500.0 million; and

(28) limited recourse Liens in respect of the ownership interests in, or assets owned by, any joint ventures which are not Restricted Subsidiaries securing obligations of such joint ventures.

"**Person**" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company, government or any agency or political subdivision thereof or any other entity.

"**Preferred Stock**," as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"**Public Debt**" means any Indebtedness consisting of bonds, debentures, notes or other similar debt securities issued in (1) a public offering registered under the Securities Act or (2) a private placement to institutional investors that is underwritten for resale in accordance with Rule 144A or Regulation S under the Securities Act, whether or not it includes registration rights entitling the holders of such debt securities to registration thereof with the SEC for public resale.

"**Public Market**" means any time after:

(1) an Equity Offering has been consummated; and

(2) shares of common stock or other common equity interests of the IPO Entity having a market value in excess of €100.0 million on the date of such Equity Offering have been distributed pursuant to such Equity Offering.

"**Public Offering**" means any offering, including an Initial Public Offering, of shares of common stock or other common equity interests that are listed on an exchange or publicly offered (which shall include an offering pursuant to Rule 144A or Regulation S under the Securities Act to professional market investors or similar persons).

"**Purchase Money Obligations**" means any Indebtedness Incurred to finance or refinance the acquisition, leasing, construction or improvement of property (real or personal) or assets (including Capital Stock), and whether acquired through the direct acquisition of such property or assets or the acquisition of the Capital Stock of any Person owning such property or assets, or otherwise.

"**Rating Agencies**" means Moody's and S&P or, in the event Moody's or S&P no longer assigns a rating to the Notes, any other "nationally recognized statistical rating organization" within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act selected by the Issuer as a replacement agency.

"**refinance**" means refinance, refund, replace, renew, repay, modify, restate, defer, substitute, supplement, reissue, resell, extend or increase (including pursuant to any defeasance or discharge mechanism) and the terms "refinances," "refinanced" and "refinancing" as used for any purpose in the Indenture shall have a correlative meaning.

"**Refinancing Indebtedness**" means Indebtedness that is Incurred to refund, refinance, replace, exchange, renew, repay or extend (including pursuant to any defeasance or discharge mechanism) any Indebtedness existing on the date of the Indenture or Incurred in compliance with the Indenture (including Indebtedness of the Issuer that refinances Indebtedness of any Restricted Subsidiary and Indebtedness of any Restricted Subsidiary that refinances Indebtedness of the Issuer or another Restricted Subsidiary) including Indebtedness that refinances Refinancing Indebtedness; *provided*, *however*, that:

(1) if the Indebtedness being refinanced constitutes Subordinated Indebtedness, the Refinancing Indebtedness has a final stated maturity at the time such Refinancing Indebtedness is Incurred that is the same as or later than the final stated maturity of the Indebtedness being refinanced or, if shorter, the Notes;

(2) such Refinancing Indebtedness is Incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the sum of the aggregate principal amount (or if issued with original issue discount, the aggregate accreted value) then outstanding of the Indebtedness being refinanced (plus, without duplication, any additional Indebtedness Incurred to pay interest or premiums required by the instruments governing such existing Indebtedness and costs, expenses and fees Incurred in connection therewith);

(3) if the Indebtedness being refinanced is expressly subordinated to the Notes, such Refinancing Indebtedness is subordinated to the Notes on terms at least as favorable to the Holders as those contained in the documentation governing the Indebtedness being refinanced,

provided, *however*, that Refinancing Indebtedness shall not include Indebtedness of the Issuer or a Restricted Subsidiary that refinances Indebtedness of an Unrestricted Subsidiary.

"**Related Person**" with respect to any Permitted Holder, means:

(1) any controlling equity holder, majority (or more) owned Subsidiary or partner or member of such Person; or

(2) in the case of an individual, any spouse, family member or relative of such individual, any trust or partnership for the benefit of one or more of such individual and any such spouse, family member or relative, or the estate, executor, administrator, committee or beneficiaries of any thereof; or

(3) any trust, corporation, partnership or other Person for which one or more of the Permitted Holders and other Related Persons of any thereof constitute the beneficiaries, stockholders, partners or owners thereof, or Persons beneficially holding in the aggregate a majority (or more) controlling interest therein; or

(4) any investment fund or vehicle managed, sponsored or advised by such Person or any successor thereto, or by any Affiliate of such Person or any such successor.

"**Replacement Assets**" means non-current properties and assets that replace the properties and assets that were the subject of an Asset Disposition or non-current properties and assets that will be used in the Issuer's business or in that of the Restricted Subsidiaries or any and all businesses that in the good faith judgment of the Board of Directors or any Officer of the Issuer are reasonably related.

"**Representative**" means any trustee, agent or representative (if any) for an issue of Indebtedness or the provider of Indebtedness (if provided on a bilateral basis), as the case may be.

"**Restricted Investment**" means any Investment other than a Permitted Investment.

"**Restricted Subsidiary**" means any Subsidiary of the Issuer other than an Unrestricted Subsidiary.

"**Revolving Credit Facility**" has the meaning assigned such term in the definition of Syndicated Loan Facilities.

"**S&P**" means Standard & Poor's Investors Ratings Services or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

"**SEC**" means the U.S. Securities and Exchange Commission.

"**Securities Act**" means the U.S. Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder, as amended.

"**Significant Subsidiary**" means any Restricted Subsidiary that meets any of the following conditions:

(1) the Issuer's and its Restricted Subsidiaries' investments in and advances to the Restricted Subsidiary exceed 10% of the total assets of the Issuer and its Restricted Subsidiaries on a consolidated basis as of the end of the most recently completed fiscal year;

(2) the Issuer's and its Restricted Subsidiaries' proportionate share of the total assets (after intercompany eliminations) of the Restricted Subsidiary exceeds 10% of the total assets of the Issuer and its Restricted Subsidiaries on a consolidated basis as of the end of the most recently completed fiscal year; or

(3) the Issuer's and its Restricted Subsidiaries' proportionate share of the Consolidated EBITDA of the Restricted Subsidiary exceeds 10% of the Consolidated EBITDA of the Issuer and its Restricted Subsidiaries on a consolidated basis for the most recently completed fiscal year.

"**Similar Business**" means (a) any businesses, services or activities engaged in by the Issuer or any of its Subsidiaries or any Associates on the Issue Date and (b) any businesses, services and activities that are related, complementary, incidental, ancillary or similar to any of the foregoing or are extensions or developments of any thereof.

"**Stated Maturity**" means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision, but shall not include any contingent obligations, including those described in "*—Change of Control*" and the covenant under "*—Limitation on Sales of Assets and Subsidiary Stock*," to repay, redeem or repurchase any such principal prior to the date originally scheduled for the payment thereof.

"**Subordinated Indebtedness**" means, with respect to any person, any Indebtedness (whether outstanding on the Issue Date or thereafter Incurred) which is expressly subordinated in right of payment to the Notes or any Guarantee of the Notes pursuant to a written agreement.

"**Subordinated Shareholder Funding**" means, collectively, any funds provided to the Issuer by any Parent, any Affiliate of any Parent or any Permitted Holder or any Affiliate thereof, in exchange for or pursuant to any security, instrument or agreement other than Capital Stock, in each case issued to and held by any of the foregoing Persons, together with any such security, instrument or agreement and any other security or instrument other than Capital Stock issued in payment of any obligation under any Subordinated Shareholder Funding; *provided*, *however*, that such Subordinated Shareholder Funding:

(1) does not mature or require any amortization, redemption or other repayment of principal or any sinking fund payment prior to the first anniversary of the Stated Maturity of the Notes (other than through conversion or exchange of such funding into Capital Stock (other than Disqualified Stock) of the Issuer or any funding meeting the requirements of this definition) or the making of any such payment prior to the first anniversary of the Stated Maturity of the Notes is restricted;

(2) does not require, prior to the first anniversary of the Stated Maturity of the Notes, payment of cash interest, cash withholding amounts or other cash gross-ups, or any similar cash amounts or the making of any such payment prior to the first anniversary of the Stated Maturity of the Notes;

(3) contains no change of control or similar provisions and does not accelerate and has no right to declare a default or event of default or take any enforcement action or otherwise require any cash payment, in each case, prior to the first anniversary of the Stated Maturity of the Notes or the payment of any amount as a result of any such action or provision or the exercise of any rights or enforcement action, in each case, prior to the first anniversary of the Stated Maturity of the Notes;

(4) does not provide for or require any security interest or encumbrance over any asset of the Issuer or any of its Subsidiaries; and

(5) is fully subordinated and junior in right of payment to the Notes pursuant to subordination, payment blockage and enforcement limitation terms which are customary in all material respects for similar funding.

"**Subsidiary**" means, with respect to any Person:

(1) any corporation, association, or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time of determination owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof; or

(2) any partnership, joint venture, limited liability company or similar entity of which:

(a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof whether in the form of membership, general, special or limited partnership interests or otherwise; and

(b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

"**Successor Parent**" with respect to any Person means any other Person with more than 50% of the total voting power of the Voting Stock of which is, at the time the first Person becomes a Subsidiary of such other Person, "beneficially owned" (as defined below) by one or more Persons that "beneficially owned" (as defined below) more than 50% of the total voting power of the Voting Stock of the first Person immediately prior to the first Person becoming a Subsidiary of such other Person. For purposes hereof, "beneficially own" has the meaning correlative to the term "beneficial owner," as such term is defined in Rules 13d-3 and 13d-5 under the Exchange Act (as in effect on the Issue Date).

"**Syndicated Loan Facilities**" refers to the originally € 3,650 million syndicated loan facilities comprised, as of the date of this offering memorandum, of a €765 million term loan (the "**Term Loan A1**"), a €1,450 million five-year term loan (the "**Term Loan B1**") and a €1,150 million five-year revolving credit facility (the "**Revolving Credit Facility**"), each established under the Syndicated Loan Facilities Agreement.

"**Syndicated Loan Facilities Agreement**" refers to the syndicated loan facilities agreement dated 24 January 2018, as amended from time to time, including on February 14, 2018, February 15, 2018 and March 8, 2018, by and among, *inter alios*, Banco Santander, S.A., Bank of America Merrill Lynch International Limited and Goldman Sachs Bank USA as Global Co-ordinators and Banco Santander, S.A. as agent and the lenders named therein.

"**Taxes**" means all present and future taxes, levies, imposts, deductions, charges, duties and withholdings and any charges of a similar nature (including interest and penalties with respect thereto) that are imposed by any government or other taxing authority.

"**Temporary Cash Investments**" means any of the following:

(1) any investment in:

(a) direct obligations of, or obligations Guaranteed by, (i) the United States of America or Canada, (ii) a Permissible Jurisdiction, (iii) Switzerland or Norway, (iv) any country in whose currency funds are being held specifically pending application in the making of an investment or capital expenditure by the Issuer or a Restricted Subsidiary in that country with such funds or (v) any agency or instrumentality of any such country or member state; or

(b) direct obligations of any country recognized by the United States of America rated at least "A" by S&P or "A-2" by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(2) overnight bank deposits, and investments in time deposit accounts, certificates of deposit, bankers' acceptances and money market deposits (or, with respect to foreign banks, similar instruments) maturing not more than one year after the date of acquisition thereof issued by:

(a) any lender under the Syndicated Loan Facilities;

(b) any institution authorized to operate as a bank in any of the countries or member states referred to in subclause (1)(a) above; or

(c) any bank or trust company organized under the laws of any such country or member state or any political subdivision thereof,

in each case, having capital and surplus aggregating in excess of €250 million (or the foreign currency equivalent thereof) and whose long-term debt is rated at least "A" by S&P or "A-2" by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization) at the time such Investment is made;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) or (2) above entered into with a Person meeting the qualifications described in clause (2) above;

(4) Investments in commercial paper, maturing not more than 270 days after the date of acquisition, issued by a Person (other than the Issuer or any of its Subsidiaries), with a rating at the time as of which any Investment therein is made of "P-2" (or higher) according to Moody's or "A-2" (or higher) according to S&P (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(5) Investments in securities maturing not more than one year after the date of acquisition issued or fully Guaranteed by any state, commonwealth or territory of the United States of America, Canada, a Permissible Jurisdiction or Switzerland, Norway or by any political subdivision or taxing authority of any such state, commonwealth, territory, country or member state, and rated at least "BBB−" by S&P or "Baa3" by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(6) bills of exchange issued in the United States, Canada, a Permissible Jurisdiction, Switzerland, Norway or Japan eligible for rediscount at the relevant central bank and accepted by a bank (or any dematerialized equivalent);

(7) any money market deposit accounts issued or offered by a commercial bank organized under the laws of a country that is a member of the Organization for Economic Co-operation and Development, in each case, having capital and surplus in excess of €250.0 million (or the foreign currency equivalent thereof) or whose long term debt is rated at least "A" by S&P or "A2" by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization) at the time such Investment is made;

(8) investment funds investing 95% of their assets in securities of the type described in clauses (1) through (7) above (which funds may also hold reasonable amounts of cash pending investment or distribution); and

(9) investments in money market funds complying with the risk limiting conditions of Rule 2a-7 (or any successor rule) of the SEC under the U.S. Investment Company Act of 1940, as amended.

"**Total Assets**" means the consolidated total assets of the Issuer and its Restricted Subsidiaries in accordance with IFRS as shown on the most recent balance sheet of such Person.

"**Transactions**" shall have the meaning assigned to such term in this Offering Memorandum under the caption "*Certain Definitions*."

"**U.S. GAAP**" means generally accepted accounting principles in the United States of America as in effect from time to time.

"**Unrestricted Subsidiary**" initially means each of the Initial Unrestricted Subsidiaries and:

(1) any Subsidiary of the Issuer that at the time of determination is an Unrestricted Subsidiary (as designated by the Board of Directors of the Issuer in the manner provided below); and

(2) any Subsidiary of an Unrestricted Subsidiary.

The Board of Directors of the Issuer may designate any Subsidiary of the Issuer (including any newly acquired or newly formed Subsidiary or a Person becoming a Subsidiary through merger, consolidation or other business combination transaction, or Investment therein) to be an Unrestricted Subsidiary only if:

(1) such Subsidiary or any of its Subsidiaries does not own any Capital Stock or Indebtedness of, or own or hold any Lien on any property of, the Issuer or any other Subsidiary of the Issuer which is not a Subsidiary of the Subsidiary to be so designated or otherwise an Unrestricted Subsidiary; and

(2) such designation and the Investment of the Issuer in such Subsidiary complies with "*—Certain Covenants—Limitation on Restricted Payments*."

Any such designation by the Board of Directors of the Issuer shall be evidenced to the Trustee by filing with the Trustee a copy of the resolution of the Board of Directors of the Issuer giving effect to such designation and an Officer's Certificate certifying that such designation complies with the foregoing conditions.

The Board of Directors of the Issuer may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided that* immediately after giving effect to such designation (1) no Default or Event of Default would result therefrom and (2)(x) the Issuer could Incur at least €1.00 of additional Indebtedness under clause (1) of the first paragraph of the covenant described under "—*Certain Covenants—Limitation on Indebtedness*" or (y) the Fixed Charge Coverage Ratio would not be less than it was immediately prior to giving effect to such designation, in each case, on a *pro forma* basis taking into account such designation. Any such designation by the Board of Directors shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the resolution of the Board of Directors giving effect to such designation or an Officer's Certificate certifying that such designation complied with the foregoing provisions.

"**Uniform Commercial Code**" means the New York Uniform Commercial Code.

"**Voting Stock**" of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled to vote in the election of directors.

BOOK-ENTRY, DELIVERY AND FORM

General

The Notes sold to qualified institutional buyers ("**QIBs**") in reliance on Rule 144A under the Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the "**Rule 144A Global Note**"). The Notes sold outside the United States in reliance on Regulation S under the Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the "**Regulation S Global Note**" and, together with the Rule 144A Global Note, the "**Global Notes**"). The Global Notes will be deposited, on the Issue Date, with a common depositary and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream.

The Notes may only be offered or sold within the United States pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Ownership of interests in the Rule 144A Global Note ("**Rule 144A Book-Entry Interests**") and ownership of interests in the Regulation S Global Note (the "**Regulation S Book-Entry Interests**" and, together with the Rule 144A Book-Entry Interests, the "**Book-Entry Interests**") will be limited to persons that have accounts with Euroclear and/or Clearstream, or persons who hold interests through such participants. Euroclear and Clearstream will hold interests in the Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries. Except under the limited circumstances described below, the Notes will not be issued in definitive certificated form.

Book-Entry Interests will be shown on, and transfers thereof will be done only through, records maintained in the book-entry form by Euroclear and Clearstream and their participants. The Book-Entry Interests in the Global Notes will be issued only in denominations of €100,000 and in integral multiples of €1,000. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive certificated form. The foregoing limitations may impair the ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, holders of Book-Entry Interests will not have the Notes registered in their name, will not have received physical delivery of the Notes in certificated form and will not be considered the registered owners or "Holders" of Notes for any purpose.

So long as the Notes are held in global form, the common depositary for Euroclear and/or Clearstream (or the common depositary's nominee), will be considered the sole holders of the Global Notes for all purposes under the Indenture governing the Notes. In addition, participants must rely on the procedures of Euroclear and Clearstream, and indirect participants must rely on the procedures of Euroclear and Clearstream and the participants through which they own Book-Entry Interests, to transfer their interests or to exercise any rights of holders of Notes under the Indenture.

Neither we, the Trustee, any of the Paying Agent, the Transfer Agent, and the Registrar (collectively, the "**Agents**"), nor any of our or their agents will have any responsibility, or be liable, for any aspect of the records, or for payments made, relating to the Book-Entry Interests.

Redemption of the Global Notes

In the event that any Global Note (or any portion thereof) is redeemed, Euroclear and/or Clearstream, as applicable, will distribute the amount received by it in respect of the Global Note so redeemed to the holders of the Book-Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by Euroclear and Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). We understand that, under the existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate unless otherwise required by law or applicable stock exchange or depositary requirements; *provided, however*, that no Book-Entry Interest of less than €100,000 principal amount may be redeemed in part.

Payments on Global Notes

We will make payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, interest and additional amounts, if any) to the Paying Agent. The Paying Agent will, in turn, make such payments to the common depositary or its nominee for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their customary procedures. We will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under "*Description of the Notes—Withholding Taxes*." If any such deduction or withholding is required to be made, then, to the extent described under "*Description of the Notes—Withholding Taxes*" above, we will pay additional amounts as may be necessary in order for the net amounts received by any holder of the Global Notes or owner of Book-Entry Interests after such deduction or withholding to equal the net amounts that such holder or owner would have otherwise received in respect of such Global Note or Book-Entry Interest, as the case may be, absent such withholding or deduction. We expect that standing customer instructions and customary practices will govern payments by participants to owners of Book-Entry Interests held through such participants.

Under the terms of the Indenture, the Issuer, the Trustee, the Agents or any of their respective agents will treat the registered holders of the Global Notes (i.e., the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Issuer, the Trustee, the Agents or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest or for maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest, or Euroclear, Clearstream or any participant or indirect participant;

- payments made by Euroclear, Clearstream or any participant or indirect participant, or for maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to payments made on account of a Book-Entry Interest; or

- Euroclear, Clearstream, or any participant or indirect participant.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants as is now the case with securities held for the accounts of subscribers registered in "stock name."

Currency of Payment for the Global Notes

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid through Euroclear and/or Clearstream in euro.

Payments will be subject in all cases to any fiscal or other laws and regulations (including any regulations of the applicable clearing system) applicable thereto. None of the Issuer, the Initial Purchasers, the Trustee, the Agents or any of their respective agents will be liable to any holder of a Global Note or any other person for any commissions, costs, losses or expenses in relation to or resulting from any currency conversion or rounding effected in connection with such payment.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised us that they will take any action permitted to be taken by a holder of Notes only at the direction of one or more participants to whose account the Book-Entry Interests are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream rules and will be settled in immediately available funds. If a holder of Notes requires physical delivery of Definitive Registered Notes for any reason, including to sell Notes to persons in jurisdictions that require physical delivery of securities or to pledge such Notes, such holder of Notes must transfer its interests in the Global Notes in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the procedures set out in the Indenture.

The Global Notes will have a legend to the effect set out under "*Transfer Restrictions*." Book-Entry Interests in the Global Notes will be subject to the restrictions on transfers and certification requirements discussed under "*Transfer Restrictions*."

Rule 144A Book-Entry Interests may be transferred to a person who takes delivery in the form of a Regulation S Book-Entry Interest only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 under the Securities Act or any other exemption (if available under the Securities Act).

Regulation S Book-Entry Interests may be transferred to a person who takes delivery in the form of Rule 144A Book-Entry Interests denominated in the same currency only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a QIB within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "*Transfer Restrictions*" and in accordance with any applicable securities laws of any other jurisdiction.

In connection with transfers involving an exchange of a Regulation S Book-Entry Interest for a Rule 144A Book-Entry Interest, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note.

Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first mentioned Global Note and become a Book-Entry Interest in such other Global Note, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it remains such a Book-Entry Interest.

Definitive Registered Notes

Under the terms of the Indenture, owners of the Book-Entry Interests will receive Definitive Registered Notes:

- if Euroclear or Clearstream notifies the Issuer that it is unwilling or unable to continue to act as depositary and a successor depositary is not appointed by us within 120 days;

- if the owner of a Book-Entry Interest requests such an exchange in writing delivered through either Euroclear or Clearstream following an Event of Default under the Indenture and enforcement action is being taken in respect thereof; or

- in whole, but not in part, if the Issuer so requests.

In the case of the issuance of Definitive Registered Notes, the holder of a Definitive Registered Note may transfer such Note by surrendering it to the registrar or transfer agent. In the event of a partial transfer or a partial redemption of a holding of Definitive Registered Notes represented by one Definitive Registered Note, a Definitive Registered Note will be issued to the transferee in respect of the part transferred and a new Definitive Registered Note in respect of the balance of the holding not transferred or redeemed will be issued to the transferor or the holder, as applicable; *provided that* no Definitive Registered Note in a denomination less than €100,000 will be issued. We will bear the cost of preparing, printing, packaging and delivering the Definitive Registered Notes.

We will not be required to register the transfer or exchange of Definitive Registered Notes for a period of 15 calendar days preceding (i) the record date for any payment of interest on the Notes, (ii) any date fixed for redemption of the Notes or (iii) the date fixed for selection of the Notes to be redeemed in part. Also, we are not required to register the transfer or exchange of any Notes selected for redemption or which the holder has tendered (and not withdrawn) for repurchase in connection with a change of control offer. In the event of the transfer of any Definitive Registered Note, the Trustee, the Agents and any of their agents may require a holder, among other things, to furnish appropriate endorsements and transfer documents as described in the Indenture. We may require a holder to pay any taxes and fees required by law and permitted by the Indenture and the Notes.

If Definitive Registered Notes are issued and a holder thereof claims that such Definitive Registered Note has been lost, destroyed or wrongfully taken, or if such Definitive Registered Note is mutilated and is surrendered to the Registrar or at the office of the Transfer Agent, we will issue and the Trustee (or an authentication agent appointed by it) will authenticate a replacement Definitive Registered Note if the Trustee's and our requirements are met. The Issuer or the Trustee may require a holder requesting replacement of a Definitive Registered Note to furnish an indemnity bond sufficient in the judgment of both to protect themselves, the Trustee or the Agents from any loss which any of them may suffer if a Definitive Registered Note is replaced. The Issuer may charge for any expenses incurred by it in replacing a Definitive Registered Note.

In case any such mutilated, destroyed, lost or stolen Definitive Registered Note has become or is about to become due and payable, or is about to be redeemed or purchased by the Issuer, pursuant to the provisions of the Indenture, the Issuer in its discretion, may, instead of issuing a new Definitive Registered Note, pay, redeem or purchase such Definitive Registered Note, as the case may be.

Definitive Registered Notes may be transferred and exchanged for Book-Entry Interests in the Global Notes only after the transferor first delivers to the Trustee a written certification (in the form provided in the Indenture) to the effect that such transfer will comply with the transfer restrictions applicable to such notes. See "*Transfer Restrictions*."

Payment of principal, any repurchase price, premium and interest on Definitive Registered Notes will be payable at the office of the Issuer's Paying Agent in London.

To the extent permitted by law, the Issuer, the Trustee, the Agents and any of their respective agents shall be entitled to treat the registered holder of any Global Note as the absolute owner thereof and no person will be liable for treating the registered holder as such. Ownership of the Global Notes will be evidenced through registration from time to time at the registered office of the Registrar, and such registration is a means of evidencing title to the Notes.

The Issuer will not impose any fees or other charges in respect of the Notes; however, owners of the Book-Entry Interests may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream.

Information Concerning Euroclear and Clearstream

All Book-Entry Interests will be subject to the operations and procedures of Euroclear and Clearstream, as applicable. We provide the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. None of the Issuer, the Trustee, the Agents, the Initial Purchasers or any of their respective agents is responsible for those operations or procedures.

We understand as follows with respect to Euroclear and Clearstream. Euroclear and Clearstream hold securities for participating organizations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear or Clearstream systems, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such persons may be limited. In addition, owners of beneficial interests through the Euroclear or Clearstream systems will receive distributions attributable to the 144A Global Notes only through Euroclear or Clearstream participants.

Global Clearance and Settlement Under the Book-Entry System

The Notes represented by the Global Notes are expected to be listed on the Exchange and admitted for trading on the Global Exchange Market. Transfers of interests in the Global Notes between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Although Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in Euroclear or Clearstream, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. None of us, the Trustee, the Agents, or any of their respective agents will have any responsibility for the performance by Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Initial Settlement

Initial settlement for the Notes will be made in euro. Book-Entry Interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional bonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

The Book-Entry Interests will trade through participants of Euroclear or Clearstream and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any

Book-Entry Interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

TAX CONSIDERATIONS

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, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this offering memorandum and is subject to any change in law that may take effect after such date whether or not such change in law has retroactive effect.

Investors should also 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

Payments made by the Issuer

The following is a general description of certain Spanish tax considerations. The information provided below does not purport to be a complete overview of tax law and practice currently applicable 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 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*). Where in this summary English terms and expressions are used to refer to Spanish concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Spanish concepts under Spanish tax laws. This summary assumes that each transaction with respect to the Notes is at arm's length.

This overview is based on the law as in effect on the date of this offering memorandum 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.

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

(i) **Introduction**

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

- of general application, (i) Additional Provision One of Law 10/2014, of 26 June, on supervision and solvency of credit entities ("**Law 10/2014**") and (ii) Royal Decree 1065/2007, of 27 July, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes, as amended by Royal Decree 1145/2011, of 29 July ("**Royal Decree 1065/2007**");

- for individuals resident for tax purposes in Spain which are subject to the Personal Income Tax ("**PIT**"), (i) Law 35/2006, of 28 November, on the PIT and on the Partial Amendment of the Corporate Income Tax Law, the Non-Residents Income Tax Law and the Net Wealth Tax Law, as amended by Law 26/2014, of 27 November ("**PIT Law**"), and (ii) Royal Decree 439/2007, of 30 March passing the PIT regulations, as amended by Royal Decree 633/2015, of 10 July, along with (iii) Law 19/1991, of 6 June, on Net Wealth Tax ("**Net Wealth Tax Law**"), along with (iv) Law 29/1987, of 18 December on the Inheritance and Gift Tax ("**IGT Law**");

- for legal entities resident for tax purposes in Spain which are subject to the Corporate Income Tax ("**CIT**"), (i) Law 27/2014, of 27 November governing the CIT ("**CIT Law**"), and (ii) Royal Decree 634/2015, of 10 July passing the CIT regulations ("**CIT Regulation**"); and

- for individuals and entities who are not resident for tax purposes in Spain which are subject to the Non-Resident Income Tax ("**NRIT**"), (i) Royal Legislative Decree 5/2004, of 5 March promulgating the

NRIT, as amended, and (ii) Royal Decree 1776/2004, of 30 July promulgating the NRIT regulations, along with (iii) the Net Wealth Tax Law, along with (iv) the IGT Law.

Whatever the nature and residence of the Noteholder, the acquisition and transfer of Notes will be exempt from indirect taxes in Spain, i.e., exempt from Transfer Tax and Stamp Duty, in accordance with the Consolidated Text of such tax passed 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.

(ii) **Individuals with Tax Residency in Spain**

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

Spanish individuals with tax residency in Spain are subject to PIT on a worldwide basis. Accordingly, income obtained from the Notes will be taxed in Spain when obtained by individuals that are considered resident in Spain for tax purposes. The fact that a Spanish company pays interest or guarantee payments under a Note will not lead an individual or entity being considered tax-resident in Spain.

Both interest payments periodically received and income derived from the transfer, redemption or exchange of the Notes constitute a return on investment obtained from the transfer of a person's own capital to third parties in accordance with the provisions of Section 25.2 of the PIT Law, and therefore must be included in the investor's PIT savings taxable base and taxed at a flat rate of 19% on the first €6,000, 21% for taxable income between €6,001 and €50,000, and 23% for taxable income exceeding €50,000. As a general rule, both types of income are subject to a withholding tax on account at the rate of 19%.

However, it should be noted that Royal Decree 1065/2007 established certain procedures for the provision of information which are explained under section "*Tax Considerations—Spanish Tax Considerations—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 recognized under Spanish regulations or under those of another OECD member state, as the Notes:

- it would not be necessary to provide the relevant 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

- 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, no withholding on account of PIT will be imposed on interest as well as on income derived from the redemption or repayment of the notes, by individual investors subject to PIT; *provided that* certain requirements are met (including that the paying agent provides the Issuer, in a timely manner, with a duly executed and completed payment statement as established under Royal Decree 1065/2007). If those requirements are not met, such interest and income will be subject to withholding on account of PIT at the applicable rate 19%. See "*Tax Considerations—Spanish Tax Considerations—Disclosure of Information in connection with the Notes*."

Nevertheless, Spanish withholding tax at the applicable rate (currently 19%) 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. The amounts withheld, if any, may be credited by the relevant investors against its final PIT liability.

However, regarding the interpretation of Royal Decree 1065/2007 and the information procedures, refer to section "*Tax Considerations—Spanish Tax Considerations—Disclosure of Information in connection with the Notes*" below.

On the other hand, income derived from the transfer of the Notes may be subject, under certain circumstances, to withholding on account of PIT at the applicable rate (19%). In any event, the individual holder may credit taxes withheld against his or her final PIT liability for the relevant tax year.

Net Wealth Tax (*Impuesto sobre el Patrimonio*)

Individuals with tax residency in Spain are subject to Net Wealth Tax to the extent that their net wealth exceeds €700,000. Therefore, they should consider the corresponding value of the Notes which they hold as at 31 December each year, the applicable rates ranging between 0.2% and 2.5% of the average market value of the notes during the last quarter of such year. However, this may vary depending on the legislation of the autonomous region of residency of the taxpayer. Accordingly, prospective Noteholders should consult their tax advisers.

Furthermore, in accordance with article 73 of the General Budgets Act 6/2018, of July 3, as from year 2019, the full relief (*bonificación del 100%*) on Spanish Wealth Tax would apply, and therefore from year 2019 Spanish individual Holders will be released from formal and filing obligations in relation to this Spanish Wealth Tax, unless the derogation of the exemptions is extended again (which cannot be ruled out).

Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)

Individuals resident in Spain for tax purposes who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and State rules.

The applicable tax rates currently range between 0% and 81.6% for 2018 depending on relevant factors and the applicable regional tax rules.

It is necessary to take into account that the IGT is a tax, in some relevant aspects (including certain tax benefits), which has been transferred to the Spanish regions and, following this power, some territories have, in practice, eliminated the taxation.

Then, a particular analysis should be made in each specific case since there might be relevant differences *vis-a-vis* the tax treatment above summarized. Thus, Noteholders should consult their tax advisers according to the particulars of their situation.

(iii) **Legal Entities with Tax Residency in Spain**

Corporate Income Tax (*Impuesto sobre Sociedades*)

Legal entities with tax residency in Spain are subject to CIT 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 CIT purposes in accordance with the CIT rules. The current general tax rate according to CIT Law is 25%. However, such a tax rate will not be generally applicable to all CIT taxpayers and, for instance, it will not apply to banking institutions which will be taxable at a 30% rate.

According to Royal Decree 1065/2007, in the case of listed debt instruments issued under Law 10/2014 by an entity recognized under Spanish regulations or under those of another OECD member state (such as the Notes), interest and income from the redemption or repayment of the Notes 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 "*Tax Considerations—Spanish Tax Considerations—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 CIT payers; *provided that* the information procedures are complied with.

Nevertheless, Spanish withholding tax at the applicable rate (currently 19%) 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. The amounts withheld, if any, may be credited by the relevant investors against its final PIT liability.

With regard to income derived from the transfer of the Notes, pursuant to Section 61(s) of the CIT Regulation, there is no obligation to deduct withholding tax on income obtained subject to Spanish CIT (which, for the avoidance of doubt, include Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets traded on organized markets in OECD countries.

In addition, the Spanish Directorate General for Taxation (*Dirección General de Tributos*) on July 27, 2004 issued a ruling indicating that, in the case of debt issuances made by entities resident in Spain, as in the case of the Issuer, application of the withholding tax exemption requires that, in addition to being traded on an organized market in an OECD country, the Notes be placed outside Spain in another OECD country.

However, regarding the interpretation of Royal Decree 1065/2007 and the information procedures, refer to section "*Risk Factors—Risks Related to our Indebtedness—There are risks related to Spanish withholding tax, including in conjunction with the collection of certain documentation from the Paying Agent*" above.

Net Wealth Tax (*Impuesto sobre el Patrimonio*)

Legal entities resident in Spain for tax purposes are not subject to Net Wealth Tax.

Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)

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

(iv) **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 a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Notes are, generally, the same as those previously set out for Spanish CIT taxpayers. See "*—Spanish Tax Considerations—Legal Entities with Tax Residency in Spain—Corporate Income Tax (Impuesto sobre Sociedades)*."

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 on the same terms laid down for income from Public Debt.

In order for such exemption to apply, it is necessary to comply with the information procedures (including that the Paying Agent provides the Issuer, in a timely manner, with a duly executed and completed Payment Statement), see "*Tax Considerations—Spanish Tax Considerations—Disclosure of Information in connection with the Notes*" as set out in Article 44 of Royal Decree 1065/2007.

If the Paying Agent fails or for any reason is unable to deliver a duly executed and completed Payment Statement to the Issuer in a timely manner in respect of a payment of income under the Notes, the Issuer will withhold Spanish withholding tax at the then-applicable rate (currently 19%) on such payment of income on the Notes and the Issuer will not pay Additional Amounts with respect to any such withholding tax.

Noteholders that are not resident in Spain for tax purposes and entitled to exemption from NRIT, but the payment to whom was not exempt from Spanish withholding tax due to the failure by the Paying Agent to deliver a duly executed and completed payment statement, may apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the Direct Refund from Spanish Tax Authorities Procedures set out below. See "*—Procedures for Direct Refund from the Spanish Tax Authorities*" below.

Ownership of the Notes by investors who are not resident for tax purposes in Spain will not in itself render such investors resident for tax purposes in Spain. The Spanish CIT law, however, provides for certain rules whereby entities based in no-tax or tax haven jurisdictions pursuant to Spanish laws may be deemed to have their tax residency in Spain where such entities' main assets, directly or indirectly, are properties or rights located in Spain, or that can be exercised within the Spanish territory, or where their main activity is carried on in Spain (subject to certain exceptions).

Net Wealth Tax (*Impuesto sobre el Patrimonio*)

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to Net 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 Net Wealth

Tax, the applicable rates ranging between 0.2% and 2.5% of the average market value of the Notes during the last quarter of such year.

Noteholders tax resident in a State of the European Union or of the European Economic Area may be entitled to apply the specific regulation of the autonomous community where their most valuable assets are located and which trigger this Spanish Net Wealth Tax due to the fact that they are located or are to be exercised within the Spanish territory.

Furthermore, in accordance with article 73 of the General Budgets Act 6/2018, of July 3, as from year 2019, the full relief (*bonificación del 100%*) on Spanish Wealth Tax would apply, and therefore from year 2019 Spanish individual Holders will be released from formal and filing obligations in relation to this Spanish Wealth Tax, unless the derogation of the exemptions is extended again.

However, to the extent that income derived from the Notes is exempt from NRIT, individual Noteholders not resident in Spain for tax purposes who hold Notes on the last day of any calendar year will be exempt from Net Wealth Tax.

Non-Spanish tax resident legal entities that acquire ownership or other rights over the notes by inheritance, gift or legacy are not subject to Net Wealth Tax.

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.

Generally, non-Spanish tax resident individuals are subject to Spanish Inheritance and Gift Tax according to the rules set forth in the state legislation. However, if the deceased or the donee are resident in an EU or European Economic Area Member State, the applicable rules will be those corresponding to the relevant autonomous regions according to the law. As such, prospective investors should consult their tax advisors.

The tax rate, after applying all relevant factors, ranges between 0% and 81.6% for 2018, depending on various factors, such as the amount of the gift or inheritance, the net wealth of the heir or beneficiary of the gift, the kinship with the deceased or the donor and the qualification for tax benefits. These factors may vary depending on the application of the state's or the autonomous region's IGT laws. Generally, non-Spanish tax resident individuals are subject to Spanish state rules.

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 NRIT. 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.

Payments made by each Guarantor

In the opinion of the Guarantors, any payments of principal and interest made by the Guarantor under a Notes Guarantee may be characterized as an indemnity and, accordingly, be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the Kingdom of Spain or any political subdivision or authority thereof or therein having power to tax.

However, although no clear precedent, statement of law or regulation exists in relation thereto, in the event that the Spanish Tax Authorities take the view that the Guarantors have validly, legally and effectively assumed all the obligations of the relevant Issuer under the Notes subject to and in accordance with the Notes Guarantee, they may attempt to impose withholding tax in the Kingdom of Spain on any payments made by the Guarantor in respect of interest. In this case, should Law 10/2014 be applicable, the Guarantors, in accordance with Law 10/2014 and Royal Decree 1065/2007, would not be obliged to withhold taxes in Spain on any interest paid under the Notes Guarantee to the Noteholders, 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 recognized under Spanish regulations or under those of another OCDE member state; *provided that* the Paying Agent fulfills with the information procedures described in "*Tax Considerations—Spanish Tax Considerations—Disclosure of Information in connection with the Notes*" below.

Obligation to inform the Spanish Tax Authorities of the Ownership of the Notes

With effect as from January 1, 2013, Law 7/2012, of 29 October, as implemented by Royal Decree 1558/2012, of 15 November, introduced annual reporting obligations applicable to Spanish residents (i.e. individuals, legal entities, permanent establishments in Spain of non-resident entities) in relation to certain foreign assets or rights.

Consequently, if the Notes are deposited with or placed in the custody of a non-Spanish entity, Noteholders resident in Spain will be obliged, if certain thresholds are met as described below, to declare before the Spanish Tax Authorities, between January 1 and March 31 every year, the ownership of the Notes held on December 31 of the immediately preceding year (e.g. to declare between January 1, 2018 and March 31, 2018 the Notes held on December 31, 2017).

This obligation would only need to be complied with if certain thresholds are met: specifically, if the only rights/assets held abroad are the Notes, this obligation would only apply if the value of the Notes together with other qualifying assets held on December 31 exceeds €50,000 (with the corresponding valuation to be made in accordance with Wealth Tax rules). If this threshold is met, a declaration would only be required in subsequent years if the value of the Notes together with other qualifying assets increases by more than €20,000 as against the declaration made previously. Similarly, cancellation or extinguishment of the ownership of the Notes before 31 December should be declared if such ownership was reported in previous declarations.

Tax Rules for Notes not Listed on a Regulated Market, Multilateral Trading Facility or Other Organized Market

Withholding on Account of IIT, NRIT and CIT

If the Notes are not listed on a regulated market, multilateral trading facility or other organized market on any date on which income in respect of the Notes will be paid, payments of income to Noteholders in respect of the Notes will be subject to Spanish withholding tax at the then-applicable rate (currently 19%). Noteholders which are: (A) residents of a European Union member state other than Spain and obtain such income either directly or through a permanent establishment located in another European Union member state; *provided that* such Noteholder (i) do not obtain such income on the Notes through a permanent establishment in Spain and (ii) are not resident of, are not located in, nor obtain income through, a tax haven (as defined by Royal Decree 1080/1991 of July 5 as amended); or (B) residents for tax purposes in a country which has entered into a convention for the avoidance of double taxation with Spain which provides for an exemption from Spanish tax or a reduced withholding tax rate with respect to income payable to any Noteholder may be entitled to an exemption from, or reduction of, such tax. Individuals and entities that may benefit from such exemptions or reduced tax rates should apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the "*—Procedures for direct refund from the Spanish tax authorities*."

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 are initially registered for clearance and settlement in Euroclear and Clearstream, the Paying Agent designated by the Issuer would be obliged to provide the Issuer (or the Guarantor in relation to the payments made under the Deed of Guarantee) with a declaration (or payment statement), which should include the following information (in accordance with the form attached as Annex to Royal Decree 1065/2007):

- description of the Notes (and date of payment of the interest income derived from such Notes);
- total amount of income derived from the Notes; and
- total amount of income allocated to each non-Spanish clearing and settlement entity involved (such as Euroclear and Clearstream).

In particular, the Paying Agent must certify the information above relating to the Notes by means of a certificate, the form of which is attached to the Indenture.

In light of the above, the Issuer and the Paying Agent have entered into an agreement whereby, amongst other things, the Paying Agent agrees to implement certain procedures for the timely provision by the Paying Agent to the Issuer of a duly executed and completed declaration or Payment Statement in connection with each income payment under the Notes and set out certain procedures which aim to facilitate such process, along with a form of a Payment Statement to be used by the Paying Agent.

According to section 6 of Article 44 of Royal Decree 1065/2007, the relevant declaration (or payment statement) will have to be provided to the Issuer (or the Guarantors, as the case may be) on the business day immediately preceding each Interest Payment Date. If this requirement is complied with, the Issuer (or the Guarantor) 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).

Prospective investors should note that none of the Issuer, the Trustee, the Paying Agent, the Registrar, the Transfer Agent and the Initial Purchasers accepts any responsibility relating to the procedures established for the timely provision by the Paying Agent of a duly executed and completed Payment Statement in connection with each payment of income under the Notes. Accordingly, none of the Issuer, the Trustee, the Paying Agent, the Registrar, the Transfer Agent and the Initial Purchasers will be liable for any damage or loss suffered by any holder of the Notes who would otherwise be entitled to an exemption from Spanish withholding tax but whose income payments are nonetheless paid net of Spanish withholding tax because these procedures prove ineffective. Moreover, the Issuer will not pay any Additional Amounts with respect to any such withholding tax. In that case, the holders of the Notes may apply directly to the Spanish tax authorities for any refund to which they may be entitled. See "*Risk Factors—Risks Related to the Notes and the Notes Guarantees—There are risks related to Spanish withholding tax, including in conjunction with the collection of certain documentation from the Paying Agent*."

If the Paying Agent fails or for any reason is unable to deliver a duly executed and completed Payment Statement to the Issuer in a timely manner in respect of a payment of income under the Notes, such payment will be made net of Spanish withholding tax, currently at the rate of 19%. If this were to occur, affected holders of the Notes will receive a refund of the amount withheld, with no need for action on their part, if the Paying Agent submits a duly executed and completed Payment Statement to the Issuer no later than the 10th calendar day of the month immediately following the relevant payment date. In addition, following the 10th calendar day of the month immediately following the relevant Interest Payment Date, holders of the Notes may apply directly to the Spanish tax authorities for any refund to which they may be entitled. See "*Tax Considerations—Procedures for direct refund from the Spanish tax authorities*" below.

In addition to the timely provision of a duly executed and completed Payment Statement, the Notes must be admitted to listing on a regulated market, on a multi-lateral trading facility or on any other organized market in order to allow payments on Notes to be made free and clear of Spanish withholding tax.

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 (or the Guarantors, as the case may be) may be required to apply withholding tax on interest payments under the Notes if the Noteholders were not to comply with such information procedures.

Procedures for direct refund from the Spanish tax authorities

Noteholders entitled to receive income payments in respect of the Notes free of any Spanish withholding taxes may claim amounts withheld from the Spanish Treasury no earlier than February 1 of the year immediately following the year in which the relevant payment was made.

Noteholders may claim the amount withheld from the Spanish Treasury within the first four years following the last day on which the Issuer may pay any amount so withheld to the Spanish Treasury (which is generally the 20th calendar day of the month immediately following the relevant payment date), by filing with the Spanish tax authorities (i) the relevant Spanish tax form (currently, Form 210), (ii) proof of ownership and (iii) a certificate of residency issued by the tax authorities of the country of tax residence of such Noteholders, amongst other documents.

Further details of the direct refund process may be found through the Spanish Tax Administration, at the webpage as of the date hereof at http://www.agenciatributaria.es/AEAT.internet/en_gb/Inicio.shtml.

Certain United States Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary deals only with U.S. Holders who purchase Notes in this offering at their "issue price" (*i.e.*, the first price at which a substantial amount of Notes are sold for money to investors, excluding sales to underwriters, placement agents or wholesalers) and that will hold the Notes as "capital assets" (generally, property held for investment). This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended (the "**Code**"), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors (including consequences under the alternative minimum tax or Medicare tax on net investment income), and does not address state, local, non-U.S. or other tax laws. This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, traders in securities or commodities that elect mark-to-mark treatment, entities or arrangements taxed as partnerships for U.S. federal income tax purposes or partners therein, investors that will hold the Notes as part of straddles, hedging transactions, conversion transactions or other integrated transactions for U.S. federal income tax purposes, persons that use an accrual method of accounting for U.S. federal income tax purposes and prepare an "applicable financial statement" (within the meaning of Section 451 of the Code), persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, investors holding the Notes in connection with a trade or business conducted outside of the United States, U.S. citizens or lawful permanent residents living abroad or investors whose functional currency is not the U.S. dollar).

As used herein, the term "U.S. Holder" means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organized under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for U.S. federal income tax purposes should consult their tax advisors concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Notes by the partnership.

THIS DISCUSSION DOES NOT ADDRESS ANY U.S. STATE, LOCAL, OR NON-U.S. TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP OR DISPOSITION OF THE NOTES. IN ADDITION, THIS DISCUSSION DOES NOT ADDRESS ANY U.S. FEDERAL TAX CONSEQUENCES OTHER THAN U.S. FEDERAL INCOME TAX CONSEQUENCES, SUCH AS THE ESTATE AND GIFT TAX. U.S. HOLDERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE SPECIFIC U.S. FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF PURCHASING, OWNING AND DISPOSING OF NOTES IN LIGHT OF THEIR PARTICULAR CIRCUMSTANCES AS WELL AS ANY CONSEQUENCES ARISING UNDER THE LAWS OF ANY OTHER RELEVANT TAXING JURISDICTION.

Payments of Stated Interest

Stated interest on a Note (including any amounts withheld and any Additional Amounts paid in respect of withholding taxes imposed on payments on a Note) will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on such holder's method of accounting for U.S. federal income tax purposes. Interest paid by the Issuer on the Notes constitutes income from sources outside the United States and generally will be considered "passive category income" for purposes of computing the foreign tax credit. The rules governing foreign tax credits are complex, and U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits in their particular circumstances.

A U.S. Holder who uses the cash method of accounting and who receives a payment of stated interest in euros (including a payment attributable to accrued but unpaid stated interest upon the sale, exchange, redemption, retirement or other taxable disposition of a Note) will be required to include in income the U.S. dollar value of the interest payment, based on the spot rate of exchange in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. A cash basis U.S. Holder will not realize foreign currency gain or loss on the receipt of stated interest income but may recognize foreign currency gain or loss attributable to the actual disposition of the euro received.

A U.S. Holder who uses the accrual method of accounting may determine the amount of income recognized with respect to an interest payment denominated in euros in accordance with either of two methods. Under the first method, a U.S. Holder will accrue stated interest income in euros and translate that amount into U.S. dollars based on the average spot rate of exchange in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within each taxable year).

Under the second method, an accrual basis U.S. Holder may elect to determine the amount of stated interest income accrued on the basis of the spot rate of exchange in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the spot rate of exchange in effect on the last day of the part of the period within each taxable year) or, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the spot rate of exchange in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and cannot be revoked without the consent of the U.S. Internal Revenue Service (the "**IRS**").

Upon receipt of the interest payment (including a payment attributable to accrued but unpaid stated interest upon the sale or other taxable disposition of a Note, and including any amounts withheld and any Additional Amounts paid in respect of withholding taxes imposed on payments on a Note) denominated in euros, the accrual basis U.S. Holder may recognize U.S. source exchange gain or loss (taxable as U.S.-source ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate of exchange on the date of receipt) and the amount previously accrued (as determined above), regardless of whether the payment is in fact converted into U.S. dollars. Foreign currency gain or loss generally will be treated, for U.S. foreign tax credit purposes, as U.S. source ordinary income or loss, and generally will not be treated as an adjustment to interest income or expense.

Taxable Disposition of the Notes

A U.S. Holder generally will recognize gain or loss on the sale, exchange, redemption, retirement, or other taxable disposition of a Note equal to the difference between the amount realized on such disposition and the U.S. Holder's adjusted tax basis of the Note. A U.S. Holder's adjusted tax basis in a Note generally will be its U.S. dollar cost (as defined below). The U.S. dollar cost of a Note purchased with euros generally will be the U.S. dollar value of the purchase price on the date of purchase. If the Notes are treated as traded on an established securities market, within the meaning of the applicable regulations, a cash basis U.S. Holder (and if it elects, an accrual basis U.S. Holder) will determine the U.S. dollar value of the cost of the Note at the spot rate of exchange on the settlement date of the purchase. The amount realized does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. The amount realized on a sale, exchange, redemption, retirement, or other taxable disposition of a Note for an amount in euros generally will be the U.S. dollar value of this amount based on the spot rate of exchange on the date the note is disposed of, or the settlement date for the sale or retirement in the case of a cash basis U.S. Holder or, if the Notes are treated as traded on an established securities market, within the meaning of the applicable regulations, an accrual basis U.S. Holder that so elects. If an accrual method taxpayer makes the election described above, such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the IRS.

Gain or loss recognized by a U.S. Holder on the sale, exchange, redemption, retirement, or other taxable disposition of a Note generally will be U.S. source capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year. Long-term capital gains of non-corporate U.S. Holders are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

A U.S. Holder will recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) on the disposition of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Note (i) on the date of disposition and (ii) the date on which the U.S. Holder acquired the Note (or, in each case, determined on the settlement date if the Notes are traded on an established securities market and the U.S. Holder is either a cash basis or an electing accrual basis holder). Any such exchange gain or loss (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest) will be realized only to the extent of total gain or loss realized on the taxable disposition.

Exchange of Euro for U.S. dollars

A U.S. Holder's tax basis in any euro received as interest or on the sale or other taxable disposition of a Note will be the U.S. dollar value of such euro at the spot rate of exchange in effect on the date of receipt of the euro. Any gain or loss recognized by a U.S. Holder on a sale, exchange or other taxable disposition of the euro will be ordinary income or loss and generally will be U.S. source income or loss for U.S. foreign tax credit purposes.

Reportable Transactions

A U.S. Holder that recognizes exchange loss with respect to the Notes would be required to report the loss on IRS Form 8886 (Reportable Transaction Disclosure Statement) if the loss exceeds the thresholds set forth in the applicable regulations. For individuals and trusts, this loss threshold is $50,000 in any single year. For other types of taxpayers and other types of losses, the thresholds are higher. U.S. Holders are urged to consult their own tax advisors regarding the application of these rules to the acquisition, holding or disposition of the Notes.

Backup Withholding and Information Reporting

Payments of principal and interest on, and the proceeds of sale or other taxable disposition of, Notes paid by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or otherwise fails to comply with applicable certification requirements. Certain U.S. Holders are not subject to backup withholding but may be required to provide certification of exempt status. Backup withholding is not an additional tax. The amount of any backup withholding will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle such holder to a refund; *provided that* the required information is timely furnished to the IRS.

Foreign Financial Asset Reporting

Certain U.S. Holders are required to report information to the IRS with respect to their ownership of "specified foreign financial assets," which generally will include the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by certain financial institutions). U.S. Holders who fail to report required information could become subject to substantial penalties. Prospective purchasers are encouraged to consult their tax advisors regarding the possible implications of these rules to their ownership of the Notes.

LIMITATIONS ON VALIDITY AND ENFORCEABILITY OF THE NOTES GUARANTEES AND CERTAIN INSOLVENCY LAW CONSIDERATIONS

The validity and enforceability of the Notes Guarantees will be subject to certain limitations on enforcement and may be limited under applicable law or subject to certain defenses that may limit its validity and enforceability. The following is a brief description of limitations on the validity and enforceability of the Notes Guarantees and of certain insolvency law considerations in the jurisdictions in which Notes Guarantees are being provided. The descriptions below do not purport to be complete or discuss all of the limitations or considerations that may affect the Notes Guarantees. Proceedings of bankruptcy, insolvency or similar events could be initiated in any of these jurisdictions as well as in any jurisdiction of organization of a future guarantor of the Notes or others where guarantors have assets or sufficient connection. The application of these various laws in multiple jurisdictions could trigger disputes over jurisdiction and the law that should apply and could adversely affect your ability to enforce your rights and to collect payment in full under the Notes and the Notes Guarantees. Prospective investors in the Notes should consult their own legal advisors with respect to such limitations and considerations.

European Union

The Guarantors are organized under the laws of Member States of the European Union.

Pursuant to Regulation (EU) No. 2015/848 of the European Parliament and of the Council of May 20, 2015 on insolvency proceedings (which entered into force on June 26, 2017 and applies to insolvency proceedings opened on or after that date) replacing Regulation (EC) 1346/2000 of May 29, 2000, (the "**E.U. Insolvency Regulation**"), which applies within the European Union, other than Denmark, the courts of the Member State in which a company's "centre of main interests" (which according to article 3(1) of the E.U. Insolvency Regulation is "the place where the debtor conducts the administration of its interests on a regular basis and which is ascertainable by third parties") is situated have jurisdiction to open main insolvency proceedings. The determination of where a company has its "centre of main interests" is a question of fact on which the courts of the different Member States may have differing and even conflicting views. Under article 4 of the E.U. Insolvency Regulation, a court that is requested to open insolvency proceedings shall examine, of its own motion, whether it has jurisdiction pursuant to article 3.

Pursuant to article 3(1) of the E.U. Insolvency Regulation the "centre of main interests" of a company is presumed to be in the Member State in which it has its registered office in the absence of proof to the contrary. This presumption only applies if the registered office has not been moved to another Member State within the three-month period prior to the request for the opening of insolvency proceedings. Furthermore, preamble 30 of the E.U. Insolvency Regulation states that "it should be possible to rebut this presumption where the company's central administration is located in a Member State other than that of its registered office, and where a comprehensive assessment of all the relevant factors establishes, in a manner that is ascertainable by third parties, that the company's actual centre of management and supervision and of the management of its interests is located in that other Member State." Prior to June 26, 2017, the courts have taken into consideration a number of factors in determining the "centre of main interests" of a company, including in particular where board meetings are held, the location where the company conducts the majority of its business or has its head office, where it has its central administration, law governing the main contracts, corporate identity and branding and the location where the majority of the company's creditors are established. It is necessary to consider objective factors that are ascertainable by third parties. A company's "centre of main interests" may change from time to time but is determined for the purposes of deciding which courts have competent jurisdiction to open main insolvency proceedings at the time of the filing of the insolvency petition unless (as set forth above) the registered office has been moved within the three-month period prior to the filing of the insolvency petition.

The E.U. Insolvency Regulation applies to insolvency proceedings which are collective insolvency proceedings of the types referred to in Annex A to the E.U. Insolvency Regulation.

If the "centre of main interests" of a company is in one Member State (other than Denmark), under article 3(2) of the E.U. Insolvency Regulation the courts of another Member State (other than Denmark) have jurisdiction to open insolvency proceedings against that company only if such company has an "establishment" in the territory of such other Member State (these proceedings shall be referred to as "secondary insolvency proceedings" within the meaning of article 3(3) of the E.U. Insolvency Regulation or "territorial insolvency proceedings"). An "establishment" is defined in article 2(10) of the E.U. Insolvency Regulation as "any place of operations where the company carries out or has carried out in the three-month period prior to the request to open main insolvency proceedings a non-transitory economic activity with human means and assets." The effects of those insolvency proceedings opened in that other Member State are restricted to the assets of the company situated in such other Member State.

Where main proceedings in the Member State in which the company has its centre of main interests have not yet been opened, territorial insolvency proceedings can be opened subsequently in another Member State where the company has an establishment only where either (a) insolvency proceedings cannot be opened in the Member State in which the company's centre of main interests is situated because of the conditions laid down by the law of that Member State; or (b) the territorial insolvency proceedings are opened at the request of (i) a creditor whose claim arises from or is in connection with the operation of the establishment situated within the territory of the Member State where the opening of territorial proceedings is requested or (ii) a public authority which, under the law of the Member State within the territory of which the establishment is situated, has the right to request the opening of insolvency proceedings.

The courts of all Member States (other than Denmark) must recognize the judgment of the court opening the main proceedings and, subject to any exceptions provided for in the E.U. Insolvency Regulation, will be given the same effect in the other Member States so long as no secondary proceedings have been opened there. The insolvency practitioner appointed by a court in a Member State which has jurisdiction to open main proceedings (because the company's centre of main interests is there) may exercise the powers conferred on him by the law of that Member State in another Member State (such as to remove assets of the company from that other Member State) subject to certain limitations so long as no insolvency proceedings have been opened in that other Member State or any preservation measure taken to the contrary further to a request to open insolvency proceedings in that other Member State where the company has assets.

Article 36 of the E.U. Insolvency Regulation provides for the right to give an undertaking in order to avoid the opening of secondary insolvency proceedings. The insolvency practitioner in the main insolvency proceedings may give a unilateral undertaking to local creditors in respect of the assets located in the Member State in which secondary insolvency proceedings could be opened, that when distributing those assets or the proceeds received as a result of their realization, it will comply with the distribution and priority rights under national law that creditors would have if secondary insolvency proceedings were opened in that Member State. This undertaking shall be approved by the known local creditors. If approved, the undertaking is binding on the estate and a court shall at the request of the insolvency practitioner refuse to open secondary insolvency proceedings if the court is satisfied that the protection of the general interests of the local creditors via the undertaking is sufficient.

The E.U. Insolvency Regulation also provides for rules to coordinate main and secondary territorial proceedings (articles 41 et seq.), as well as to coordinate cross-border group insolvencies within the EU (articles 56 et seq.). In the event that insolvency proceedings concerning two or more members of a group are opened, insolvency practitioners and courts shall cooperate and communicate with any other insolvency practitioner and any other court involved in insolvency proceedings of another member of the group (articles 56 and 57). Moreover, an insolvency practitioner appointed in insolvency proceedings opened in relation to a member of the group may request group coordination proceedings before any court having jurisdiction over the insolvency proceedings of any member of such group. Such request shall be accompanied notably by, among other things, a proposal as to the person to be nominated as the group coordinator (article 61).

Spain

Trust under Spanish law

There is no concept of a security agent, trustee or security trustee under Spanish law and, therefore, trust structures may not be recognized by Spanish courts. If Spanish law security documents are entered into only by a security agent (i.e., and not by the creditors on account of whom it would be acting), the security agent will be the only party entitled to enforce the Notes Guarantees or the security interest in respect of those obligations and to have allowed a secured claim in an insolvency proceeding (only with respect to its share, if any, in the secured obligation). Under Spanish law there is uncertainty (a) if the beneficial owners of the Notes that are not identified as registered holders in the security agreement will be deemed to have a valid and perfected security interest under such security as well as a secured claim in insolvency proceedings; and (b) with respect to the validity of any security interest created in favor of the security trustee under the Notes on behalf of the holders of the Notes. Therefore, there is a risk that a security agent would only be able to enforce against the debt it individually holds, and not for the full amount owed to creditors for whom it is acting as security agent. This limitation may be overcome if such creditors grant formal powers of attorney in favor of the security agent in order for the latter to represent them in the enforcement proceedings (yet, this may not work in judicial enforcement proceedings, where one party cannot represent another by virtue of a power of attorney).

In the absence of the abovementioned power of attorney, the Security Agent may not be able to enforce the relevant Spanish security interest on behalf of all of the secured creditors (including the holders of the Notes). Further, those beneficial holders of the security who have not accepted the security or duly empowered (by means of notarial and apostilled powers of attorney) the Security Agent to do so may be treated, from a Spanish law perspective including without limitation in an insolvency scenario, as unsecured creditors.

Further, it is worth noting that there is a risk that the relevant court or notary public before whom any Spanish security interest may eventually be enforced might request both the notarization of the documents from which the relevant obligations arise, and the notarization of each and every one of the transfer certificates regarding each and every transfer of the Notes.

First demand guarantee

The figure of a first demand guarantee is not specifically regulated in the Spanish Civil Code but its validity and effectiveness has been admitted in several judgments and regulated by the Spanish Supreme Court (Tribunal Supremo) as an autonomous guarantee, detached from the underlying agreement whose obligations are being guaranteed, acknowledging therefore the validity of the provision pursuant to which the guarantor has renounced to call on exceptions different to those arising from the guarantee. Notwithstanding this, case law has also admitted the possibility that, with certain limitations, the guarantor objects to the beneficiary of the guarantee the exception of fraud, bad faith or abuse of right (abuso de derecho) in the events where the beneficiary enforces the guarantee in a fraudulent manner or with bad faith. Besides, case law has also admitted that the guarantor can stay the enforcement by showing that there has been no event of default (the guarantor bearing the burden of proof), usually through declaratory relief started by guarantor.

Concept and petition for insolvency

The Issuer and the Guarantors are incorporated under the laws of Spain. As a general rule, in the event of an insolvency of any of the Issuer and/or the Guarantors, insolvency proceedings may be initiated in Spain and governed by Spanish law. The Spanish Insolvency Act, as further amended, regulates court insolvency proceedings.

The insolvency laws of Spain may not be as favorable to your interests as creditors as the laws of the United States, the United Kingdom or other jurisdictions to which you may be familiar. The following is a brief description of certain aspects of the insolvency laws of Spain.

In Spain, insolvency proceedings are only triggered upon debtor's current insolvency (insolvencia actual) or imminent insolvency (insolvencia inminente). Under the Spanish Insolvency Act, a debtor is insolvent when it becomes unable to regularly meet its obligations as they become due and payable (current insolvency) or when it expects that it will shortly be unable to do so (imminent insolvency). A petition for current insolvency may be initiated by the debtor ("Voluntary Insolvency"), by any of its creditors (*provided that* it has not acquired the credit within the six months prior to the filing of the petition for insolvency, for inter vivos acts, on a singular basis and once the credit was mature) or by certain other interested third parties ("Necessary Insolvency"). Notwithstanding, only the debtor is entitled to file a petition for insolvency on the basis of its imminent insolvency.

The Spanish Insolvency Act provides that insolvency proceedings conclude following either the court confirmation of the implementation of an agreement between the creditors and the debtor (the "Company Voluntary Agreement" or the "CVA") or the liquidation of the debtor. An insolvency proceeding can also conclude: (i) at any moment when it is verified that there are insufficient assets to pay post-insolvency debt; (ii) at any moment when it is verified that all of the credits have been paid, or the situation of insolvency does no longer exist; or (iii) when it is verified that all of the creditors have waived their credit rights.

Voluntary insolvency

Insolvency is generally considered voluntary (*concurso voluntario*) if filed by the debtor. The debtor must file a petition for insolvency within two months after it becomes aware, or should have become aware, of its state of insolvency. It is presumed that the debtor becomes aware of its insolvency, unless otherwise proved, if any of the circumstances that qualify as the basis for a petition for Mandatory Insolvency occur. Failure to file a petition for insolvency within the statutory two-month period may prevent the debtor to propose a pre-arranged CVA (*propuesta de convenio anticipado*) and directors might be held liable in the event of liquidation for the unpaid claims.

Yet, the general duty to file for insolvency within the referred two-month period does not apply if the debtor notifies the relevant court initiation of negotiations with its creditors, to obtain support to reach a pre-arranged CVA; an out-of-court workout (a refinancing agreement) set out in Section 71 bis.1 or in the Fourth Additional Provision of the Spanish Insolvency Act; or an out-of-court repayment agreement under article 231 et seq. of the Spanish Insolvency Act.

Effectively, by means of the 5 bis Communication, on the top of those two months, the debtor gains an additional three-month period to (i) obtain accessions to a pre-arranged CVA, (ii) achieve a refinancing agreement with its creditors or achieve an out-of-court repayment agreement, and one further month to file for the declaration of insolvency, unless it is no longer insolvent. During this three-month period, creditors' petitions for Mandatory Insolvency will not be accepted. During the fourth-month period, the mandatory petitions could be filed but would not be accepted except the debtor has filed a voluntary insolvency petition. Likewise, the 5 bis communication prevents the commencement of court or out-of-court enforcement actions, and/or suspends (as applicable) existing enforcement actions, over assets or rights which are necessary for the company's business operations (other than those arising from public law claims), until any of the following circumstances occur: (i) a refinancing agreement set out in Section 71 bis.1 of the Spanish Insolvency Act is formalized; (ii) a court order is issued (providencia) accepting for processing the court's confirmation (homologación judicial) of admission of the refinancing agreement set out in the Fourth Additional Provision of the Spanish Insolvency

Act; (iii) an out-of-court repayment agreement under article 231 et seq. of the Spanish Insolvency Act is entered into; (iv) the necessary accessions for the admission of a pre-arranged CVA are obtained; or (v) the declaration of insolvency takes place. In addition, enforcement proceedings that have been brought by creditors holding financial liabilities (*pasivos financieros*), as defined in the Fourth Additional Provision of the Spanish Insolvency Act, shall be prohibited or suspended (as applicable); *provided that* it is evidenced that at least 51% of the creditors holding financial liabilities (by value) have supported the initiation of negotiations to enter into a refinancing agreement and have agreed to suspend or not initiate enforcement proceedings against the debtor while creditors holding financial liabilities are still negotiating. Nevertheless, secured creditors shall be entitled to bring enforcement proceedings against the corresponding secured assets although once proceedings have been initiated they shall be immediately suspended. Financial securities and security interests over collateral located outside of Spain should not be affected by the 5 bis communication automatic stay.

Mandatory Insolvency

Insolvency is considered necessary (*concurso necesario*) if filed by a third-party creditor. Under Section 2.4 of the Spanish Insolvency Act, a creditor can seek a debtor's declaration of insolvency if the creditor can prove that the debtor has failed to attach any assets, or sufficient assets, to pay the amount owed. A creditor may also apply for a declaration of insolvency if: (i) there is a generalized default on payments by the debtor; (ii) there is a seizure of assets affecting or comprising the generality of the debtor's assets; (iii) there is a misplacement, "fire sale" or ruinous liquidation of the debtor's assets; or (iv) there is a generalized default on certain tax, social security and employment obligations during the applicable statutory period (three months) prior to the filing of the relevant insolvency request. Upon receipt of an insolvency petition by a creditor, the court may issue provisional interim measures to protect the assets of a debtor and may request a guarantee from the petitioning creditor asking for the adoption of such measures to cover damages caused by the preliminary protective measures.

The debtor may oppose to the necessary insolvency petition, and will have to prove that it is not insolvent. The court will then summon the parties to a hearing, and will finally render a court ruling either dismissing the application filed by the creditor, or declaring the insolvency of the debtor.

Request of coordinated insolvency

The insolvency of a company forming part of a group of companies, including the parent company, does not automatically lead to the insolvency of the remaining companies of the group. As stated above, a company is insolvent when it cannot regularly meet its payment obligations as they fall due.

Notwithstanding the above, creditors may apply for a coordinated insolvency declaration of two or more of its debtors if either (a) the assets are commingled, or (b) they form part of the same group of companies. Therefore, the request for the coordinated insolvency of two or more legal entities may only be filed by a common creditor of the relevant companies and each of the affected companies must in fact be separately insolvent. Coordinated insolvency may also be requested by the companies themselves; *provided that* they form part of the same group.

Any of the insolvent debtors, or the insolvency administrator, as the case may be, may apply for the procedural coordination of insolvency proceedings already declared under certain circumstances (and, in particular, if the insolvent debtors form part of the same group of companies). In addition, creditors may apply for the procedural coordination of the insolvency proceedings of two or more of its debtors already declared if either (a) the assets are commingled, or (b) they pertain to the same group of companies; *provided that* a petition has not been submitted by any of the insolvent debtors or by the insolvency administrator pursuant to article 25 bis of the Spanish Insolvency Act.

Coordinated insolvency proceedings do not entail substantive consolidation of the estate of the debtors declared insolvent. As a result, and as a general rule, a "group insolvency" does not lead to a commingling of the debtors' assets and creditors of such group. This means that the creditors of one company of the group will not have recourse against other companies of the same group (except where cross-guarantees exist, in which case such a financial liability will be subordinated). The current system is basically a procedural one, aimed at making the insolvency proceedings as time and cost-efficient as possible. However, exceptionally, for the purpose of drafting the insolvency report, by the insolvency administrator only, assets and liabilities amongst the companies declared insolvent may be consolidated where the estates and liabilities are commingled, in order to avert unjustified cost and delay.

Enforcement and termination in a pre-insolvency scenario

It is uncertain that the obligations under the Notes and/or the Notes Guarantees will be enforced in accordance with their respective terms in every circumstance, such enforcement being subject to, *inter alia*, the nature of the remedies available in the Spanish courts, the acceptance by such court of jurisdiction, the discretion of the courts, the power of such courts to stay proceedings, the provisions of the Spanish law on civil procedure (*Ley 1/2000, de 7 de enero, de Enjuiciamento Civil*, the "**Spanish Law on Civil Procedure**") regarding remedies and enforcement measures available under Spanish law, the provisions of the Spanish Insolvency Act and other principles of law of general application. In this regard:

- Spanish law does not expressly recognize the concept of an indemnity. Article 1,152 of the Spanish Civil Code (*Código Civil*) establishes that any penalty (*cláusula penal*) agreed by the parties in an agreement will substitute damages (*indemnización de daños*) and the payment of interest (*abono de intereses*) in an event of breach, unless otherwise agreed. Spanish courts may modify the penalty agreed between the relevant parties on an equitable basis if the debtor has partially or irregularly performed its obligations, unless the penalty (liquidated damages) was aimed at such partial performance (and the liquidated damages clause is not disproportionate under fairness standards). There is doubt as to the enforceability in Spain of punitive damages.

- Where obligations are to be performed in a jurisdiction outside Spain, they may not be enforceable in Spain to the extent that performance would be illegal under the laws of the applicable jurisdiction.

- Spanish law precludes the validity and performance of contractual obligations to be left at the discretion of one of the contracting parties. Therefore, Spanish courts may refuse to uphold and enforce terms and conditions of an agreement giving discretionary authority to one of the contracting parties.

- Spanish law, as applied by the Spanish Supreme Court, precludes an agreement being terminated on the basis of a breach of obligations, undertakings or covenants that are merely ancillary or complementary to the main payment undertakings of the relevant agreement, and allows Spanish courts not to enforce any such termination. Under Spanish law, acts carried out in accordance with the terms of a legal provision whenever said acts seek a result which is forbidden by or contrary to law, shall be deemed to have been executed in circumvention of law (*fraude de ley*) and the provisions whose application was intended to be avoided shall apply.

Certain effects of insolvency

For the debtor

As a general rule and subject to certain exceptions, the debtor in a voluntary insolvency retains its powers to manage and dispose of its business, but is subject to the supervision of the insolvency administrator (*administración concursal*) appointed by the court. In the case of involuntary cases, as a general rule and subject to certain exceptions, the debtor no longer has power over its assets, and management powers (including the power to dispose of assets) are conferred solely upon the insolvency administrator. However, the court has the power to modify this general regime subject to the specific circumstances of the case. In addition, upon the insolvency administrator request, the court has the power to swap the intervention regime for a suspension regime or vice versa.

Actions carried out by the debtor in breach of any required supervision of the insolvency authorities may be declared null and void unless ratified by the insolvency administrators.

On contracts

Under Section 61 of the Spanish Insolvency Act, all clauses in contracts with reciprocal obligations that allow any party to terminate an agreement based solely on the other party's declaration of insolvency are deemed as not included in the agreement and, therefore, unenforceable, except if expressly permitted by specific laws (*i.e.*, agency laws or Royal Decree Law 5/2005, applicable to financial collateral, as defined therein ("**RDL 5/2005**")).

A declaration of insolvency does not affect the effectiveness of contracts with reciprocal obligations pending on performance by both the insolvent party and the counterparty, which remain in full force and effect, and the obligations of the insolvent debtor will be fulfilled against the insolvent estate (*con cargo a la masa)*. However, if there has been a breach of such an agreement by either party after it has been declared insolvent, the court can terminate any such contracts at the request of the non-breaching party of the agreement or declare that the agreement remains in force because it is beneficial for the insolvency proceedings (*mantenimiento del contrato en interés del concurso*), in which case the non-insolvent party is entitled to seek specific performance against the insolvent estate.

Likewise, even in the event of non-breach by the counterparty of its obligations under such an agreement after the declaration of insolvency of the debtor, the insolvency administrator (together with the insolvent debtor or by its sole discretion if the insolvent debtor's powers to manage and dispose of its business have been conferred to the insolvency administrator, as provided above) may request the insolvency court to resolve the termination of the agreement (on the grounds of convenience for the insolvency proceedings (*resolución del contrato en interés del concurso*)). The termination of such contracts may result in the insolvent debtor having to return, and indemnify damages to, its counterpart against the insolvent estate. In the event that the insolvent debtor, the insolvency administrator and the counterparty agree on the termination of the agreement and its effects, the insolvency court will approve the parties' agreement; otherwise, if the insolvency court upholds termination, it will also fix the damages claim to be received by the non-breaching party due to the termination of the agreement.

Additionally, the declaration of insolvency determines that interest accrual is suspended, except (i) credit rights secured with an *in rem* right, in which case interest accrues up to the value of the security and (ii) any wage credits in favor of employees, which will accrue the legal interest set forth in the corresponding Law of the State Budget (*Ley de Presupuestos del Estado*).

On enforcement proceedings

As a general rule, the enforcement rights of unsecured creditors are suspended upon the court declaration of insolvency. Additionally, once the insolvency proceeding is declared open, singular, judicial or extrajudicial enforcements may not be initiated, nor may administrative or tax demands for payment to be collected coercively against the assets of the debtor be continued.

The enforcement of any security over certain assets or rights that are necessary for the continuation of the commercial or professional activity of the debtor may not be commenced and the procedures already initiated before the declaration of insolvency shall be suspended. Enforcement will be suspended even if at the time of declaration of insolvency the notices announcing the public auction have been published. The applicable regime is different depending on whether or not the creditor has begun enforcement:

i. If the creditor has not begun enforcement, it may not institute a separate enforcement within the insolvency proceedings if a creditors' agreement has been approved affecting its claim or if the liquidation has been opened before the one-year moratorium has elapsed.

ii. If the creditor has begun enforcement, it may resume enforcement after 1 year except if a creditors' agreement has been approved affecting its claim.

The above regime does not affect financial collateral foreseen under RDL 5/2005, which shall be still enforceable.

Enforcement will be suspended even if at the time of declaration of insolvency the notices announcing the public auction have been published. The stay will only be lifted when the insolvency court determines that the assets or rights are not considered necessary for the debtor to continue its professional or business activities. When it comes to determining which assets or rights of the debtor are used for its professional or business activities, courts have generally embraced a broad interpretation and will likely include most of the debtor's assets and rights.

Pursuant to articles 8 and 55 et seq. of the Spanish Insolvency Law, in order to protect the interests of the debtor and creditors, the jurisdiction of the court dealing with insolvency proceedings is extended to handle any enforcement proceedings or interim measures affecting the debtor's assets (whether based upon civil, labor or administrative law).

Finally, enforcement of the security will be subject to the provisions of Spanish Law on Civil Procedure Law and Spanish Insolvency Act (where applicable) and this may entail delays in the enforcement.

Ranking of claims (priority rules)

Creditors are generally required to report their claims to the insolvency administrator within one month from the day following the last official publication of the court order declaring insolvency, providing documentation to justify such claims. Based on the documentation provided by the creditors and documentation held by the debtor, the court insolvency administrator draws up a list of acknowledged creditors/claims and classifies them according to the categories established in the Spanish Insolvency Act.

Under the Spanish Insolvency Act, claims are classified in two groups:

- Post-insolvency credits/Estate claims (*créditos contra la masa*): Section 84 of the Spanish Insolvency Act sets out the so-called "estate claims," which are pre-deductible (when they become due) claims from the estate (excluding those assets of the insolvent debtor subject to *in rem* security). Debt against the insolvent estate includes, among others: (i) certain amounts of the employee payroll; (ii) costs and expenses of the insolvency proceedings; (iii) certain amounts arising from services provided by the insolvent debtor under reciprocal contracts and outstanding obligations that remain in force after insolvency proceedings are declared and deriving from obligations to return and indemnity in cases of voluntary termination or breach by the insolvent debtor; (iv) those that derive from the exercise of a claw back action within the insolvency proceeding concerning bilateral contracts (except in cases of bad faith), (v) certain amounts arising from obligations created by law or tort liability of the insolvent debtor after the declaration of insolvency and until its conclusion; (vi) certain debts incurred by the debtor following the declaration of insolvency; (vii) in case of liquidation, the financing granted to the debtor under a CVA in accordance with Section 100.5 of the Spanish Insolvency Act; and (viii) 50% of the new funds lent under a refinancing agreement entered into in compliance with the requirements set forth in Section 71.bis or the Fourth Additional Provision of the Spanish Insolvency Act, excluding the new funds lent by persons being in a special relationship with the debtor through a share capital increase, loan or analogous transaction. These claims are preferred to all others except for proceeds from collateral subject to specially privileged claims. Estate claims are not subject to ranking or acknowledgement and, in principle, must be paid as and when they fall due.

- Insolvency claims (*créditos concursales*): Insolvency claims are classified as follows:

- Specially Privileged Claims (*créditos con privilegio especial*): Creditors benefiting from special privileges, representing security over certain assets (in rem securities) up to the amount of the value of their security calculated in accordance with the rules set out in article 94.5 of the Spanish Insolvency Act; *provided that* such security is listed in the creditors' list. The part of the claim exceeding the value of their security will be classified according to the nature of the claim. These claims benefiting from special privileges may entail separate proceedings, though subject to certain restrictions derived from a waiting period that may last up to one year and certain additional limitations set forth in the Spanish Insolvency Act. As a general rule, privileged creditors are not subject to the CVA, except if they give their express support by voting in favor of the CVA and if certain majorities have been reached among privileged creditors (see "*Conclusion of insolvency—Settlement*"). In the event of liquidation, they are the first to collect payment against the assets on which they are secured up to the value of the security. However, the insolvency administrator has the option to halt any enforcement of the securities and pay these claims as administrative expenses under specific payment rules.

- Generally Privileged Claims (*créditos con privilegio general*): Creditors benefiting from a general privilege, including, among others, (i) specific labor claims and specific claims brought by public entities or authorities; (ii) 50% of the claims held by the creditor who filed for the insolvency of the debtor (*provided that* it is not a subordinated creditor); and (iii) 50% of the new funds under a refinancing agreement entered into in compliance with the requirements set forth in article 71.bis or the Fourth Additional Section of the Spanish Insolvency Act. As a general rule and except as set forth below (see "*—Conclusion of insolvency—Settlement*"), the holders of general privileges are not to be affected by the CVA if they do not agree to the said CVA and, in the event of liquidation, they are the first to collect payment against assets other than those secured by a specially privileged claim after specially privileged creditors, in accordance with the ranking established under the Spanish Insolvency Act.

- Ordinary Claims (*créditos ordinarios*): Ordinary creditors (non-subordinated and non-privileged claims) are paid *pro rata* once the estate claims and both generally and specially privileged claims have been paid.

- Subordinated Claims (*créditos subordinados*): Subordinated creditors is a category of claims which includes, among others: credits communicated late (outside the specific one-month period mentioned above); credits which are contractually subordinated vis-à-vis all other credits of the debtor; credits relating to unpaid interest claims (including default interest), except for those credits secured with an in rem right up to the value of the security interest; fines; and claims of creditors which are "specially related parties" to the insolvent debtor.

  In the case of a legal entity, the following shall be deemed as "specially related parties": (i) shareholders with unlimited liability (in case such shareholders are natural persons it would include any special related party to these shareholders, as described herein); (ii) limited liability shareholders holding directly or indirectly 10% or more of the insolvent company's share capital (or 5% if the company is listed or has securities listed in a secondary official market) at the time the credit is generated; (iii) directors, insolvency liquidators, shadow directors and those holding general powers of attorney from the insolvent company (including those people that have held these positions during the two years prior to the declaration of insolvency); and (iv) companies pertaining to the same group as the debtor and their respective shareholders provided such shareholders meet the minimum shareholding requirements set forth in (ii) above. Furthermore, in the absence of evidence to the contrary, assignees or awardees of claims belonging to any of the persons mentioned in this paragraph are presumed to be persons specially related to the insolvent debtor as long as the acquisition has taken place within two years prior to the insolvency proceedings being declared open.

  Notwithstanding the above, creditors who have directly or indirectly capitalized their credit rights pursuant to a refinancing agreement entered into in compliance with the requirements set forth in Section 71.bis or the Fourth Additional Provision of the Spanish Insolvency Act (and who have even been appointed as directors) shall not be considered as being in a special relationship with the debtor, in respect of credits against the debtor, as a result of the financing granted under such refinancing agreement. Claims related to accrued and unpaid interest, unless and to the extent they are secured by an *in rem*, right are also subordinated.

Subordinated creditors are second-level creditors. They do not have voting rights on the CVA but are subject to its terms, being paid once ordinary claims are satisfied pursuant to the terms of the CVA. Thus, subordinated creditors have limited chances of collecting payment according to the ranking established in the Spanish Insolvency Act.

As an exception to the subordination regime, new financing granted to the debtor pursuant to a refinancing agreement regulated under Section 71.bis or the Fourth Additional Disposition of the Spanish Insolvency Act, which also contemplates a capitalization of credit rights before the granting of new financing, shall not be classified as subordinated claim under Section 92.5 of the Spanish Insolvency Act; *provided that* the requirements set out in Section 93.2.2º of the Spanish Insolvency Act are met. This is an incentive to promote refinancing and capitalization of credit rights.

As a general rule, insolvency proceedings are not compatible with other enforcement proceedings which can have an effect on the insolvent estate (excluding enforcement proceedings with regard to financial collateral (as defined in RDL 5/2005)). When compatible, in order to protect the interests of the debtor and creditors, the Spanish Insolvency Act extends the jurisdiction of the court dealing with insolvency proceedings, which is then legally authorized to handle any enforcement proceedings or interim measures affecting the debtor's assets (whether based upon civil, labor, or administrative law).

No termination effect

The general principle of "no termination effect" is established such that all agreements remain effective at the time of the insolvency. Therefore, the declaration of insolvency does not impair the existence of the contracts entered into by the debtor, which would remain in force. Any contractual arrangements establishing the termination of a contract with reciprocal obligations and/or entitling the relevant creditor to terminate it in the event of the declaration of insolvency of the debtor will be unenforceable.

As a general rule, the declaration of insolvency does not alter the general contractual rules on termination, but under the Spanish Insolvency Act, the judge may decide to remedy an eventual default of the insolvent party by reinstating an agreement, with the effect that any outstanding amounts and further payments under the agreement will be post-insolvency claims. If the court deems it appropriate for the interests of the insolvent party, it is also entitled to terminate an agreement, with compensation for damages if it deems it is best for the insolvency proceeding. There are specific rules for employment agreements, mainly affecting collective dismissals, which are dealt with by the insolvency judge.

Hardening periods

There is no claw back date by operation of law. Therefore, there are no prior transactions that automatically become void as a result of the initiation of insolvency proceedings, but instead the insolvency administrator (or creditors that have asked the insolvency administrator to do so in the absence of action by the insolvency administrator) must expressly challenge those transactions that are considered detrimental to the insolvent debtor's estate. Under the Spanish Insolvency Act, upon the declaration of insolvency, only transactions that could be deemed as having damaged (*perjudiciales*) the insolvent debtor's estate (*i.e*., causing a so-called "patrimonial damage") during the two years prior to the date the insolvency is declared, may be challenged, even if there was no fraudulent intention. Transactions taking place earlier than two years prior to the declaration of insolvency may be rescinded subject to ordinary Spanish Civil Code based actions.

The Spanish Insolvency Act does not define the meaning of "patrimonial damage." Damage does not refer to the intention of the parties, but to the consequences of the transaction on the debtor's interest resulting in the damage to the insolvent debtor's estate or the prejudice to the equality of the treatment among creditors which drives insolvency proceedings (*par condition creditorum*). There are several "irrebuttable presumptions" expressly set forth by the Spanish Insolvency Act (*i.e*., free disposals and prepayment or cancellation of the company's claims or obligations prior to them being due and where the due dates of the relevant claims or payment obligations fall after the date of declaration of insolvency), except if such obligations were secured by an *in rem* security, in which case such transactions are subject to a rebuttable presumption of "patrimonial change" as set forth below. In addition to the above, the Spanish Insolvency Act sets forth certain actions which are deemed to cause a "patrimonial damage" to the insolvent company, but which are "rebuttable presumptions" and therefore subject to being contested by the other party (*i.e*., disposals in favor of "specially related parties" (as described above), the provision of security in respect of previously existing obligations or in respect of new obligations replacing existing ones and the payment or other acts to terminate obligations being secured by an in rem security and which mature after the date of declaration of insolvency). Ordinary transactions carried out within the debtor's ordinary course of business cannot be rescinded; *provided that* they are carried out at arm's length.

Guarantees granted by a Spanish company in favor of a third party, to secure other group companies' debt may be subject to claw back, on the basis that such guarantees may be considered as detrimental to the guarantor's estate, if the guarantor is not able to show that there was a tangible and identifiable corporate interest benefit for the guarantor to grant such guarantee (beyond an abstract group interest or general mentions to pertinence to the same group of companies or the so-called "group interest"). Whether or not the granting of any upstream guarantee by the guarantor is detrimental to the guarantor's estate is a factual matter that will need to be proven on a case by case basis (the beneficiary of the guarantee bearing the burden of such proof). Notwithstanding the foregoing, Spanish case law recognizes the interest of the group and, hence, the validity of upstream guarantees. In any event, fraudulent acts that have been entered into by creditors may always be rescinded and also those payments made by the insolvent company during the insolvency in respect of obligations which the debtor, at the time of payment, could not be compelled to pay (because it was already unable to regularly pay debts as they did come due). The consequence of the court resolution rescinding a prejudicial act is that the parties involved are required to return their reciprocal consideration with any accrued rents or interest (concerning bilateral contracts, otherwise, the only party obliged to return is the non-insolvent one). Such claims are generally regarded as estate claims unless in case of bad faith of the relevant creditor in which case its claims will be subordinated.

Notwithstanding the foregoing, pursuant to article 16 of the E.U. Insolvency Regulation, and 208 of the Spanish Insolvency Act, acts and transactions governed by laws other than Spanish law will not be subject to claw back actions if such act or transaction cannot be rescinded or challenged by any means and under any grounds whatsoever (i.e., not only in insolvency scenarios) under the relevant non-Spanish applicable laws. Procedurally, there is no safe harbor against a lawsuit being filed and lenders being served to appear before Spanish courts, but the lawsuit should be dismissed on the merits if lenders prove (i) that the act or transaction at issue is subject to foreign law and (ii) that such act or transaction is unavoidable under the circumstances pursuant to that foreign law.

Conclusion of insolvency

Settlement

Once the debtor's assets and liabilities have been identified, the Spanish Insolvency Act encourages creditors to reach a CVA regarding payment of the insolvency debts. The CVA may be proposed either by the debtor or by the creditors, and it shall set forth how, when and up to what amount creditors are to be paid. Once executed, the CVA must be honored by the debtor and respected by the creditors.

The CVA must contain proposals for write-offs and stays. Article 100 of Spanish Insolvency Act provides that it may also contain alternative or additional proposals for all creditors or for certain classes of creditors (except for public entities), including conversion of debt into shares, into profit-sharing credits, convertible bonds or subordinated debt, or any financial instrument different from the original debt. It may also include proposals for allocation of all assets or of certain assets to a specific person with a commitment from the acquirer to continue the activity and to pay off the debt as determined in the CVA.

The proposals in the CVA shall include a payment schedule.

In order for a CVA to be deemed approved by the creditors, the following majorities shall be met at the creditors' meeting:

(a) In case the CVA contains write-offs equal to or less than 50% of the amount of the claims; to stays on the payment of principal, interest or any other outstanding amount, for a period not exceeding five years; or, in the case of creditors other than those related to the public administration or employment matters, the conversion of debt into profit participating loans (*préstamos participativos*) over the same period, at least 50% of the unsecured liabilities (ordinary claims) have voted in favor of such CVA. Notwithstanding the above, a simple majority will suffice when the CVA consists of (i) full payment of ordinary or unsecured claims within a period not exceeding three years or (ii) immediate repayment of outstanding ordinary unsecured claims applying a write off of less than 20%.

(b) In case the CVA contains stays of between five and ten years; write-offs of more than 50% of the amount of the claims and, in the case of creditors other than those related to the public administration or employment matters, the conversion of debt into profit-participating loans over the same period and any other proposal under article 100 of the Spanish Insolvency Act, 65% of the unsecured liabilities (ordinary credits) should have voted for the CVA.

The holders of subordinated credits and those creditors considered as especially related to the debtor are not entitled to vote.

Although in principle privileged creditors are not subject to an approved CVA (unless they have expressly voted in its favor) the effects of an approved CVA can be extended to privileged creditors; *provided that* the relevant CVA has been approved by the following majorities of creditors within its category of creditors (labor creditors, public law creditors, financial creditors or others):

(a) In case the CVA contains a write-off (or debt discharges) equal to or less than 50% of the amount of the claims, stays for a period no longer than 5 years or conversion of debt into profit participating loans, also for a period no longer than 5 years, at least 60% of privileged creditors have voted in favor; and

(b) In case the CVA contains a write-off of more than 50% of the claim; stays (for a period between 5 and 10 years), conversion of debt into profit participating loans also for a period between 5 and 10 years, and any other proposal under article 100 of the Insolvency Act, at least 75% of privileged creditors have voted in favor.

Cramdown effects of certain refinancing agreements

In order to seek protection against claw back, refinancing agreements (out-of-court workouts) may be judicially sanctioned (*homologados*) by the commercial court that will be competent to conduct an eventual insolvency proceeding of the debtor, upon request by the debtor or by any creditor having entered into such refinancing agreements, if: (i) they entail a significant enlargement of debtor's credit or a change in the financial structure by either granting a longer term or replacing previous claims with new ones; *provided that* they meet a viability plan that allows the continuity of the debtor's business in the short and medium term; (ii) they have been subscribed by creditors holding financial liabilities representing, at least, 51% of the debtor's financial liabilities whether or not subject to financial supervision (excluding from the calculation of such thresholds public creditors, labor creditors and those of commercial transactions) at the date of the refinancing agreement; (iii) the debtor's auditor issues a certificate acknowledging that the required thresholds have been reached (in the case of a group of companies, certain courts have held that the majority refers both individually to each company and to the group as a whole, without the intercompany claims being taken into account); and (iv) the refinancing agreement and the documents substantiating performance of conditions (ii) to (iii) above are formalized in a public instrument. Such judicially sanctioned refinancing agreements may not be subject to a claw back action (save in case of fraud under general fraudulent conveyance actions).

As to the rules to calculate whether the required thresholds have been reached, all creditors holding an interest in a syndicated loan will be deemed to have adhered to the refinancing agreement if it is favorably voted upon by at least 75% of the liabilities represented by the loan, or a lower majority if so established in the syndicated loan agreement (for the purposes of petitioning protection against claw back). Whether dissident financial creditors have standing to object to homologation and whether the crammed down content may fall beyond the statutory one is not clear among Spanish scholars or courts and therefore it is not possible yet to ascertain what its practical effects will be.

The following effects of homologated refinancing agreements may be imposed on (i) dissenting or non-participating unsecured financial creditors or (ii) on secured financial creditors to the extent of that part of their secured claim not covered by their security interest, as such security interest is to be valued in accordance with the rules set out in the Spanish Insolvency Act:

(a) If the judicially sanctioned refinancing agreement is supported by creditors representing at least 60% of the debtor's financial liabilities:

   i. stays of payments either of principal, interest or any other owed amount may be granted for up to five years; or

   ii. the debt converted into so-called profit participation loans (*préstamos participativos*) profit-participating loans of duration up to 5 years.

   Further, these effects may be extended to the amount of secured claims of non-participating or dissenting financial creditors in the amount covered by their security interest (valued in accordance with the rules set out in the Fourth Additional Provision of the Spanish Insolvency Act), when the agreement has been entered into by financial creditors holding secured claims which represent at least 65% of the value of all secured claims of the debtor.

(b) If the homologated refinancing agreement is supported by creditors representing at least 75% of the debtor's aggregate financial liabilities:

   i. a deferral either of principal, interest or any other owed amount for a period of 5 or more years (but not more than 10 years);

   ii. haircuts (note that a cap has not been established);

iii. capitalization of debt. Nevertheless, those creditors that have not supported such refinancing agreement (either because they did not sign the agreement or because they oppose it) may choose between (i) the debt for equity swap contemplated by the agreement; or (ii) a discharge of their claims equal to the nominal amount (including any share premium) of the shares/quota shares that would have corresponded to that creditor as a consequence of the relevant debt for equity swap;

iv. conversion of debt into profit participating loans of up to 10 years, convertible bonds, subordinated loans, payment in kind facilities, or in any other financial instrument with a ranking, maturity and features different to the original debt; and

v. assignment of assets or rights as assignment in kind for total or partial payment of the debt (*datio pro soluto*).

Further, these effects may be extended to the amount of secured claims of non-participating or dissenting financial creditors in the amount covered by their security interest (valued in accordance with the rules set out in the Fourth Additional Provision of the Spanish Insolvency Act), when the agreement has been entered into by financial creditors holding secured claims which represent at least 80% of the value of all secured claims of the debtor.

Liquidation

Failure to obtain the approval of a CVA or upon debtor's petition at any time leads to liquidation. The debtor must file a petition for liquidation if, after a CVA has been approved, it becomes aware of no longer being able to meet the payment commitments and obligations undertaken after the approval of such CVA. In such a case, the company will be aimed at dissolution and the directors and liquidators will be removed. Deferred credits will compulsorily fall due and credits consisting of other benefits are converted into cash credits.

The insolvency administrator will be required to prepare a liquidation plan that must be approved by the insolvency court. The insolvency administrator is required to report quarterly on the liquidation and has one year to complete it. If the liquidation is not completed within one year, the court may appoint a different insolvency administrator.

Termination of the insolvency proceedings

Article 176.4 of the Spanish Insolvency Act also foresees the termination of the insolvency proceeding at any stage when it is proven that all credits have been paid, or that all creditors have been entirely satisfied by other means, or that the situation of insolvency (i.e. the impossibility to face payment obligations regularly) has been overcome.

Finally, it must be noted that article 176 bis of the Spanish Insolvency Act foresees the termination of the insolvency proceeding at any time when assets are not enough to pay post-insolvency debt, as long as no future claw back actions are envisaged, nor actions claiming liability to third parties, nor the assessment of the proceeding as guilty.

Fraudulent Conveyance Laws

Under Spanish law, in addition to insolvency claw back action, the insolvency administrator and any creditor may bring an action to rescind a contract or agreement (*acción rescisoria pauliana*) against the debtor and the third-party which is a party to such contract or agreement; *provided that* the same is performed or entered into fraudulently and the creditor cannot obtain payment of the amounts owed in any other way. Although case law is not entirely consistent, it is broadly accepted that the following requirements must be met in order for a creditor to bring such action:

- the debtor owes the creditor an amount under a valid contract and the fraudulent action took place after such debt was created;

- the debtor has carried out an act that is detrimental to the creditor and beneficial to the third-party;

- such act was fraudulent;

- there is no other legal remedy available to the creditor to obtain compensation for the damages suffered; and

- debtor's insolvency, construed as the situation where there has been a relevant decrease in the debtor's estate making it impossible or more difficult to collect the claim.

The existence of fraud (which must be evidenced by the creditor) is one of the essential requirements under Spanish law for the action to rescind to succeed (as opposed to claw back actions where the subjective component or fraud does not have to be proven). Pursuant to article 1,297 of the Spanish Civil Code: (i) agreements by virtue of which the debtor transfers assets for no consideration, and (ii) transfers for consideration carried out by parties who have been held liable by a court (*sentencia condenatoria*) or whose assets have been subject to a writ of attachment (*mandamiento de embargo*) will be considered fraudulent. The presumption referred to in (i) above is a *iuris et de iure* presumption (*i.e.,* it cannot be rebutted by evidence), unlike the presumption indicated in (ii) above, which is a *iuris tantum* presumption (*i.e.,* it is a rebuttable presumption).

If the rescission action were to be upheld, the third-party would be liable to return to the debtor the consideration received under the contract in order to satisfy the debt owed to the creditor. Following that, the creditor would need to carry out the actions necessary to obtain the amount owed by the debtor. If the consideration received by the third-party under the contract cannot be returned to the debtor, the third-party must indemnify the creditor for such damages.

Limitation on validity and enforcement of guarantees granted by any Spanish subsidiary.

Under Spanish law, claims may become time-barred (5 years since the obligation becomes enforceable being the general term established for obligations *in personam* under article 1,964 of the Spanish Civil Code) or may be or become subject to the defense of setoff or counterclaim. In addition, article 1,851 of the Spanish Civil Code establishes that an extension granted to a debtor by a creditor without the consent of the guarantor extinguishes the guarantee (in the sense that it is limited to the original term, although case law has established exceptions where the extension benefits both the debtor and the guarantor).

A guarantee such as the guarantee granted by the Guarantor will be null if the obligations it secures are declared null. The enforcement of guarantees may be limited since the guarantor may not be required to pay any amount in excess of the amount owed by the principal debtor or under conditions that are less favorable than those applying to the principal debtor.

The terms "enforceable," "enforceability," "valid," "legal," "binding" and "effective" (or any combination thereof) mean that all the obligations assumed by the relevant party under the relevant documents are of a type enforced by Spanish courts; the terms do not mean that these obligations will necessarily be enforced in all circumstances in accordance with their terms. In particular, enforcement before the courts will in any event be subject to:

- the nature of the remedies available in the courts;

- Spanish public policy (overriding mandatory provisions);

- the availability of defenses such as (without limitation), setoff (unless validly waived), circumvention of law (*fraude de ley*), abuse in the exercise of rights (*abuso de derecho*), misrepresentation, force majeure, unforeseen circumstances, statute of limitations, undue influence, fraud, duress, abatement and counter-claim; and

- the obligations under guarantees granted by the Guarantor in the form of a *sociedad anónima* shall (i) not extend to any obligation incurred by any company of the group for the purposes of (a) acquiring shares representing the share capital of such Guarantor or shares representing the share capital of the holding company of such Guarantor (or, in case of private limited liability companies (*sociedades de responsabilidad limitada*), also shares representing the share capital of any entity of its group); or (b) refinancing a previous debt incurred by any company of the group for the acquisition of shares representing the share capital of such Guarantor or shares representing the share capital of the holding company of such Guarantor (or, in case of private limited liability companies (*sociedades de responsabilidad limitada*), also shares representing the share capital of any entity of its group), and shall (ii) be deemed not to be undertaken or incurred by a Guarantor to the extent that the same would constitute unlawful financial assistance within the meaning of article 150 (for Spanish public limited companies (*sociedades anónimas*)) or article 143 (for the Spanish private limited liability companies (*sociedades de responsabilidad limitada*) of the Spanish Companies Royal Decree-Law 1/2010, 2 July (*Ley de Sociedades de Capital*) (the "**Spanish Capital Companies Act**"), and, in no case, can any of the Notes Guarantees or security interests given by a Guarantor secure repayment of the above- mentioned funds.

For the purposes of the paragraph above, a reference to a "holding company" of a Guarantor shall mean the company which, directly or indirectly, owns the majority of the voting rights of such Guarantor or that may have a dominant influence on such Guarantor. It shall be presumed that one company has a dominant influence on another company when any of the scenarios set out in section 1 of article 42 of the Spanish Commercial Code (*Código de Comercio*) are met.

Additionally, the obligations under guarantees granted by the Guarantor in the form of a *sociedad de responsabilidad limitada* shall not include any obligations or liabilities which, if incurred, would constitute a breach of article 401 of the Spanish Capital Companies Act, as interpreted by Spanish courts.

- Where payments under the Notes Guarantees cause the amount of such Spanish subsidiary's net assets (*patrimonio neto*) to fall below half the amount of its stated share capital, the Spanish subsidiary will need to be wound up (*disolverse*), unless its share capital is increased or decreased in the required amount, and provided it is not required to declare its insolvency.

- Guarantees given or created by a Spanish subsidiary may be deemed null and void under Spanish law in the event that all or part of the Issuers' obligations under the Notes which are guaranteed or secured by virtue of such guarantees are null or void, and may be affected by any amendment, supplement, waiver, repayment, novation or extinction of the Issuers' obligations under the Notes.

- If the beneficiary of a guarantee adhered to or votes in favor of a debtor's refinancing agreement or CVA (which contains haircuts), the guarantor shall be able to reduce its liability to the same extent, unless otherwise expressly agreed.

Setoff

The Spanish Insolvency Act generally prohibits setoff of the credits and debts of the insolvent company once it has been declared insolvent, but such setoff whose operating requirements were met before the declaration of insolvency can still apply. However, setoff may be exercised by a determined creditor vis-à-vis the insolvent company if the governing law of the reciprocal credit right of the insolvent company permits it under insolvency scenarios.

Applicable jurisdiction

Under both European and Spanish law, the applicable jurisdiction to conduct an insolvency proceeding is the one in which the insolvent party has its centre of main interest ("**COMI**"). This COMI is deemed to be where the insolvent party conducts the administration of its interests on a regular basis and which may be recognized as such by third-parties (although under European Union and Spanish law there is a presumption that a debtor's COMI is located where its registered address is). Insolvency proceedings conducted by the court of the COMI are considered "the principal insolvency proceedings" and have universal reach affecting all the assets of the insolvent party worldwide. If the COMI is not in Spain, but the insolvent party has a permanent establishment in Spain, Spanish courts will only have jurisdiction over the assets located in Spain (the "territorial insolvency proceedings").

Please note that other jurisdictions outside the European Union do not require a COMI shift in order for a Spanish company to make a filing in those jurisdictions (similarly as the UK concerning schemes of arrangements). Yet, recognition of foreign insolvency proceedings not based on COMI in Spain should not be possible and, in addition, any creditor could file for a non-main insolvency proceeding in Spain.

Limited history

Finally, please note that, although the current Spanish Insolvency Act came into effect in September 2004, it has been subject to several recent reforms and, as such, there is only a relatively limited history of its application by Spanish courts and with limited Spanish Supreme Court's resolutions about it.

PLAN OF DISTRIBUTION

Merrill Lynch International and Goldman Sachs International are acting as representatives of each of the Initial Purchasers. Subject to the terms and conditions set forth in a purchase agreement among us, the Guarantors and the Initial Purchasers, we have agreed to sell to the Initial Purchasers, and each of the Initial Purchasers has agreed, severally and not jointly, to purchase from the Issuer, the entire principal amount of Notes.

Subject to the terms and conditions set forth in the purchase agreement, the Initial Purchasers have agreed, severally and not jointly, to purchase all of the notes sold under the purchase agreement if any of these notes are purchased. If an Initial Purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting Initial Purchasers may be increased or the purchase agreement may be terminated.

We have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

The Purchase Agreement provides that the obligations of the Initial Purchasers to pay for and accept delivery of the Notes are subject to, among other conditions, the delivery of certain legal opinions by counsel.

The Initial Purchasers propose to offer the Notes initially at the price indicated on the cover page hereof. After the initial offering, the offering price and other selling terms of the Notes may from time to time be varied by the Initial Purchasers without notice. The Initial Purchasers may offer and sell the Notes through certain of their affiliates who are qualified broker-dealers under applicable law, including in respect of sales into the United States, CaixaBank, S.A. is only participating in the Offering outside United States under Regulation S of the Securities Act. CaixaBank, S.A. is not a broker-dealer registered with the SEC and will not be offering or selling securities in the United States or to U.S. nationals or residents.

Persons who purchase Notes from the Initial Purchasers may be required to pay stamp duty, taxes and other Charges in accordance with the laws and practice of the country of purchase in addition to the Offering price set forth on the cover page hereof.

The lssuer has agreed to pay the Initial Purchasers certain customary fees for their services in connection with the Offering and to reimburse them for certain out-of-pocket expenses.

Notes Are Not Being Registered

The Notes have not been registered under the Securities Act or any state securities laws. The Initial Purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulation S. The Initial Purchasers will not offer or sell the Notes except to persons they reasonably believe to be qualified institutional buyers or pursuant to offers and sales to non-U.S. persons that occur outside of the United States within the meaning of Regulation S. In addition, until 40 days following the commencement of this 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 unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act. Each purchaser of the notes will be deemed to have made acknowledgments, representations and agreements as described under "*Notice to Investors*."

New Issue of Notes

The Notes are a new issue of securities with no established trading market. We do not intend to apply for listing of the Notes on any national securities exchange or for inclusion of the Notes on any automated dealer quotation system, except that application has been made, through the listing agent, to the Exchange for the Notes to be admitted to the Official List and to trading on the Global Exchange Market thereof. We cannot assure you that this application will be approved or that, if approved, such listing will be maintained. The Initial Purchasers may make a market in the Notes after completion of the offering, but will not be obligated to do so and may discontinue any market-making activities at any time without notice. We cannot assure the liquidity of the trading market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

Settlement

We expect that delivery of the Notes will be made to investors on or about October 8, 2018, which will be the sixth business day following the date of this offering memorandum (such settlement being referred to as "T+6"). Under

Rule 15c6-1 under the Securities Exchange Act of 1934, trades in the secondary market are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes prior to the delivery of the Notes hereunder will be required, by virtue of the fact that the Notes initially settle in T+6, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the notes prior to their date of delivery hereunder should consult their advisors.

No Sales of Similar Securities

We have agreed that we will not, for a period of 60 days after the Issue Date, without first obtaining the prior written consent of Merrill Lynch International and Goldman Sachs International, offer, sell, contract to sell or otherwise dispose of, except as otherwise provided in the purchase agreement, any debt securities of, or guaranteed by, the Issuer or the Guarantors or any of their subsidiaries that are substantially similar to the Notes.

Short Positions

In connection with the offering, the Initial Purchasers may purchase and sell the Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the Initial Purchasers of a greater principal amount of Notes than they are required to purchase in the offering. The Initial Purchasers must close out any short position by purchasing Notes in the open market. A short position is more likely to be created if the Initial Purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, the Initial Purchasers' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

Neither we nor any of the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor any of the Initial Purchasers make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Other Relationships

The Initial Purchasers or their respective affiliates are arrangers and/or lenders under the Syndicated Loan Facilities Agreement. Banco Santander, S.A. acts as agent under the Syndicated Loan Facilities Agreement. Some of the Initial Purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Initial Purchasers or their 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 ours or our affiliates. Certain of the underwriters or their affiliates that have a lending relationship with us routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, such underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The Initial Purchasers and their 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.

Notice to Prospective Investors in the European Economic Area

MiFID II Product Governance / Professional Investors and ECPs Only Target Market. Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PRIIPs Regulation / Prospectus Directive / Prohibition of Sales to EEA Retail Investors. The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of MiFID II; or (ii) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation. This offering memorandum has been prepared on the basis that any offer of Notes in any Member State of the EEA will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. This offering memorandum is not a prospectus for the purposes of the Prospectus Directive.

Notice to Prospective Investors in the United Kingdom

In the United Kingdom, this offering memorandum is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are “qualified investors” (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Order and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). This offering memorandum must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this offering memorandum relates is only available to, and will be engaged in with, relevant persons.

TRANSFER RESTRICTIONS

The following restrictions will apply to the Notes. You are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any of the Notes offered hereby.

The Notes have not been, and will not be, registered under the U.S. Securities Act or any state securities laws and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. Accordingly, the Notes offered hereby are being offered and sold only to qualified institutional buyers (as defined in Rule 144A under the U.S. Securities Act) in reliance on Rule 144A under the U.S. Securities Act and to non-U.S. persons outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act. As used in this section, the terms "United States," "U.S. person" and "offshore transaction" have the meanings given to them in Regulation S. Accordingly, we are offering and selling the Notes to the Initial Purchasers for re-offer and resale only:

- in the United States to "qualified institutional buyers," commonly referred to as "QIBs," as defined in Rule 144A in compliance with Rule 144A; and
- outside the United States in an offshore transaction in accordance with Regulation S (and, in this case, only to investors who, if resident in a Member State of the European Economic Area, are not retail investors, each defined as a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investors as defined in the Prospectus Directive.

In addition, until 40 days after the later of the commencement of the offering and the closing date, an offer or sale of the Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

Each purchaser of the Notes, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with us and the Initial Purchasers as follows:

(1) It understands and acknowledges that the Notes and the Notes Guarantees have not been and will not be registered under the U.S. Securities Act or any other applicable state securities law, and that the Notes are being offered for resale in transactions not requiring registration under the U.S. Securities Act or any state securities law, including sales pursuant to Rule 144A and Regulation S, and may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the U.S. Securities Act or any applicable state securities law, pursuant to an exemption therefrom or in any transaction not subject thereto and in each case in compliance with the conditions for transfer set forth in paragraphs (4) and (5) below.

(2) It is not an "affiliate" (as defined in Rule 144 under the U.S. Securities Act) of the Issuer or acting on behalf of the Issuer and it is either:

(a) a qualified institutional buyer and is aware that any sale of the Notes to it will be made in reliance on Rule 144A under the U.S. Securities Act and the acquisition of the Notes will be for its own account or for the account of another qualified institutional buyer; or

(b) not a U.S. person, nor is it purchasing for the account of or benefit of a U.S. person, other than a distributor, and is purchasing the Notes outside the United States in an offshore transaction in accordance with Regulation S under the U.S. Securities Act.

(3) It acknowledges that neither we nor the Initial Purchasers, nor any person representing us or the Initial Purchasers, has made any representation to it with respect to the Issuer and its subsidiaries or the offer or sale of any of the Notes, other than the information contained in this offering memorandum, which offering memorandum has been delivered to it and upon which it is relying in making its investment decision with respect to the Notes. It acknowledges that neither the Initial Purchasers nor any person representing the Initial Purchasers makes any representation or warranty as to the accuracy or completeness of the information contained in this offering memorandum. It also acknowledges that it has had access to such financial and other information concerning us and the Notes as it has deemed necessary in connection with its decision to purchase any of the Notes, including an opportunity to ask questions of and request information from us and the Initial Purchasers.

(4) It is purchasing the Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the U.S. Securities Act or any state securities laws, subject to any requirement

of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell such Notes pursuant to Rule 144A, Regulation S or any other exemption from registration available under the U.S. Securities Act.

(5) Each holder of the Notes agrees on its own behalf and on behalf of any investor account for which it is purchasing the Notes, and each subsequent holder of the Notes by its acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such Notes prior to the date (the "Resale Restriction Termination Date") that is, in the case of Notes sold in reliance on Rule 144A, one year after the later of the date of the Issue Date, the issue date of any additional Notes and the last date on which the Issuer or any of its affiliates was the owner of such Notes (or any predecessor thereto), in the case of Notes sold in reliance on Regulation S, 40 days after the later of the Issue Date, the issue date of any additional Notes, and the date on which such Notes (or any predecessor thereto) were first offered to persons other than distributors, only (i) to the Issuer, the Guarantors or any subsidiaries thereof; (ii) pursuant to a registration statement that has been declared effective under the U.S. Securities Act; (iii) for so long as the Notes are eligible pursuant to Rule 144A under the U.S. Securities Act, to a person it reasonably believes is a qualified institutional buyer that purchases for its own account or for the account of a qualified institutional buyer to whom notice is given that the transfer is being made in reliance on Rule 144A under the U.S. Securities Act; (iv) pursuant to offshore transactions to non-U.S. persons occurring outside the United States within the meaning of Regulation S under the U.S. Securities Act and in reliance on Regulation S under the U.S. Securities Act or (v) pursuant to any other available exemption from the registration requirements of the U.S. Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and to compliance with any applicable state securities laws and any applicable local laws and regulations, and further subject to the Issuer's and the Trustee's rights prior to any such offer, sale or transfer (I) pursuant to clauses (iv) or (v) prior to the Resale Restriction Termination Date to require the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them, (II) in each of the foregoing cases, to require that a certificate of transfer in the form appearing on the other side of the security is completed and delivered by the transferor to the Trustee and (III) agrees that it will give to each person to whom this security is transferred a notice substantially to the effect of this legend.

(6) Each purchaser acknowledges that each Global Note and each Definitive Registered Note issued in exchange for 144A Book-Entry Interests will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND, ACCORDINGLY, NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT ("RULE 144A")) OR (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION PURSUANT TO RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT AND (2) AGREES NOT TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") THAT IS [IN THE CASE OF RULE 144A NOTES: ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUE DATE OF THIS SECURITY, THE ORIGINAL ISSUE DATE OF THE ISSUANCE OF ANY ADDITIONAL NOTES, AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF THIS SECURITY)] [IN THE CASE OF REGULATION S NOTES: 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE OF THIS SECURITY, THE ORIGINAL ISSUE DATE OF THE ISSUANCE OF ANY ADDITIONAL NOTES, AND THE DATE ON WHICH THIS SECURITY (OR ANY PREDECESSOR THERETO) WAS FIRST OFFERED TO PERSONS OTHER THAN DISTRIBUTORS] ONLY (A) TO THE ISSUER, THE GUARANTORS OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT, OR ANY PERSON ACTING ON ITS BEHALF, REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFSHORE TRANSACTIONS TO NON-U.S. PERSONS OCCURRING OUTSIDE THE UNITED STATES WITHIN THE

MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT AND IN RELIANCE ON REGULATION S UNDER THE U.S. SECURITIES ACT OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND TO COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER’S AND THE TRUSTEE’S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSES (D) OR (E) PRIOR TO THE RESALE RESTRICTION TERMINATION DATE TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE AND (III) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. [IN THE CASE OF REGULATION S NOTES: BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS NOT A U.S. PERSON, NOR IS IT PURCHASING FOR THE ACCOUNT OF A U.S. PERSON, AND IS ACQUIRING THIS SECURITY IN OFFSHORE TRANSACTIONS IN ACCORDANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES,” AND “U.S. PERSON” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE U.S. SECURITIES ACT.]

BY ACCEPTANCE OF THIS SECURITY, EACH ACQUIRER AND SUBSEQUENT TRANSFEREE OF THIS SECURITY WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT EITHER (A) NO PORTION OF THE ASSETS USED BY SUCH ACQUIRER OR TRANSFEREE TO ACQUIRE AND HOLD THE SECURITY CONSTITUTES ASSETS OF ANY (I) EMPLOYEE BENEFIT PLAN SUBJECT TO TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”), (II) PLAN, INDIVIDUAL RETIREMENT ACCOUNT OR OTHER ARRANGEMENT SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”), OR PROVISIONS UNDER ANY FEDERAL, STATE, LOCAL, NON-UNITED STATES OR OTHER LAWS OR REGULATIONS THAT ARE SIMILAR TO THE PROVISIONS OF ERISA OR THE CODE (COLLECTIVELY, “SIMILAR LAWS”), OR (III) ENTITY WHOSE UNDERLYING ASSETS ARE CONSIDERED TO INCLUDE “PLAN ASSETS” OF SUCH PLAN, ACCOUNT AND ARRANGEMENT (EACH, A “PLAN”) OR (B) THE ACQUISITION AND HOLDING OF THE SECURITY WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR ANY SIMILAR VIOLATION UNDER ANY APPLICABLE SIMILAR LAWS. ADDITIONALLY, EACH HOLDER USING THE ASSETS OF A PLAN THAT IS SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE (EACH, AN “ERISA PLAN”) TO ACQUIRE OR HOLD THIS SECURITY OR ANY INTEREST HEREIN WILL BE DEEMED TO REPRESENT THAT (I) NEITHER THE ISSUER OR ANY OF ITS AFFILIATES HAS ACTED AS THE ERISA PLAN’S FIDUCIARY, OR HAS BEEN RELIED UPON FOR ANY ADVICE, WITH RESPECT TO THE ERISA PLAN’S DECISION TO ACQUIRE OR HOLD THIS SECURITY OR ANY INTEREST HEREIN AND NEITHER THE ISSUER OR ANY OF ITS AFFILIATES SHALL AT ANY TIME BE RELIED UPON AS THE ERISA PLAN’S FIDUCIARY WITH RESPECT TO ANY DECISION TO ACQUIRE, CONTINUE TO HOLD OR TRANSFER ITS INTEREST HEREIN, (II) THE ERISA PLAN IS AWARE OF AND ACKNOWLEDGES THAT (A) NONE OF THE ISSUER OR ANY OF ITS AFFILIATES IS UNDERTAKING TO PROVIDE IMPARTIAL INVESTMENT ADVICE, OR TO GIVE ADVICE IN A FIDUCIARY CAPACITY, IN CONNECTION WITH THE ERISA PLAN’S INVESTMENT HEREIN AND (B) THE ISSUER AND ITS AFFILIATES HAVE A FINANCIAL INTEREST IN THE ERISA PLAN’S INVESTMENT IN THIS SECURITY AND (III) THE DECISION TO INVEST IN THIS SECURITY HAS BEEN MADE AT THE RECOMMENDATION OR DIRECTION OF AN “INDEPENDENT FIDUCIARY” (“INDEPENDENT FIDUCIARY”) WITHIN THE MEANING OF THE U.S. CODE OF FEDERAL REGULATIONS 29 C.F.R. SECTION 2510.3-21(C), AS AMENDED FROM TIME TO TIME (THE “FIDUCIARY RULE”) WHO (A) IS INDEPENDENT OF THE ISSUER AND ITS AFFILIATES; (B) IS CAPABLE OF EVALUATING INVESTMENT RISKS INDEPENDENTLY, BOTH IN GENERAL AND WITH RESPECT TO PARTICULAR TRANSACTIONS AND INVESTMENT STRATEGIES (WITHIN THE MEANING OF THE FIDUCIARY RULE); (C) IS A FIDUCIARY (UNDER ERISA AND/OR SECTION 4975 OF THE CODE) WITH RESPECT TO THE ERISA PLAN’S INVESTMENT HEREIN AND IS RESPONSIBLE FOR EXERCISING INDEPENDENT JUDGMENT IN EVALUATING THE INVESTMENT HEREIN; (D) IS EITHER (A) A BANK AS DEFINED IN SECTION 202 OF THE U.S. INVESTMENT ADVISERS ACT OF 1940, AS AMENDED (THE “ADVISERS ACT”) OR SIMILAR INSTITUTION THAT IS REGULATED AND SUPERVISED AND SUBJECT TO PERIODIC EXAMINATION BY A STATE OR FEDERAL AGENCY OF THE UNITED STATES; (B) AN INSURANCE CARRIER WHICH IS QUALIFIED UNDER THE LAWS OF MORE THAN ONE STATE OF THE UNITED STATES TO PERFORM THE

SERVICES OF MANAGING, ACQUIRING OR DISPOSING OF ASSETS OF SUCH AN ERISA PLAN; (C) AN INVESTMENT ADVISER REGISTERED UNDER THE U.S. INVESTMENT ADVISERS ACT OF 1940 (THE "ADVISERS ACT") OR, IF NOT REGISTERED AN AS INVESTMENT ADVISER UNDER THE ADVISERS ACT BY REASON OF PARAGRAPH (1) OF SECTION 203A OF THE ADVISERS ACT, IS REGISTERED AS AN INVESTMENT ADVISER UNDER THE LAWS OF THE STATE (REFERRED TO IN SUCH PARAGRAPH (1)) IN WHICH IT MAINTAINS ITS PRINCIPAL OFFICE AND PLACE OF BUSINESS; (D) A BROKER DEALER REGISTERED UNDER THE U.S. EXCHANGE ACT OF 1934, AS AMENDED; AND/OR (E) AN INDEPENDENT FIDUCIARY (NOT DESCRIBED IN CLAUSES (A), (B), (C) OR (D) ABOVE) THAT HOLDS OR HAS UNDER MANAGEMENT OR CONTROL TOTAL ASSETS OF AT LEAST $50 MILLION, AND WILL AT ALL TIMES THAT SUCH ERISA PLAN HOLDS AN INTEREST HEREIN, HOLDS OR HAS UNDER MANAGEMENT OR CONTROL, TOTAL ASSETS OF AT LEAST $50 MILLION; AND (E) IS AWARE OF AND ACKNOWLEDGES THAT (I) NEITHER THE ISSUER OR ANY OF ITS AFFILIATES IS UNDERTAKING TO PROVIDE IMPARTIAL INVESTMENT ADVICE, OR TO GIVE ADVICE IN A FIDUCIARY CAPACITY, IN CONNECTION WITH ERISA PLAN'S INVESTMENT HEREIN, AND (II) THE ISSUER AND ITS AFFILIATES HAVE A FINANCIAL INTEREST IN THE ERISA PLAN'S INVESTMENT HEREIN. NOTWITHSTANDING THE FOREGOING, ANY ERISA PLAN WHICH IS AN INDIVIDUAL RETIREMENT ACCOUNT THAT IS NOT REPRESENTED BY AN INDEPENDENT FIDUCIARY SHALL NOT BE DEEMED TO HAVE MADE THE REPRESENTATION IN SECTION (III) ABOVE.

(7) It agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on the transfer of such Notes.

(8) It acknowledges that the Registrar will not be required to accept for registration of transfer any Notes acquired by it except upon presentation of evidence satisfactory to us and the Registrar that the restrictions set forth therein have been complied with.

(9) It acknowledges that we, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations, warranties and agreements and agrees that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by its purchase of the Notes are no longer accurate, it will promptly notify the Initial Purchasers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such investor account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such investor account.

(10) It represents and agrees that either (a) no portion of the assets used by such acquirer or transferee to acquire and hold the security constitutes assets of any employee benefit plan subject to Title I of ERISA, any plan, individual retirement account or other arrangements that are subject to Section 4975 of the Code, or provisions under any federal, state, local, non-United States or other laws or regulations that are similar to the provisions of ERISA or the Code (collectively, "similar laws"), or any entity whose underlying assets are considered to include "plan assets" of such plan, account and arrangement (each, a "plan") or (b) the acquisition and holding of the security will not result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or any similar violation under any applicable similar laws.

(11) It understands that no action has been taken in any jurisdiction (including the United States) by us or the Initial Purchasers that would result in a public offering of the Notes or the possession, circulation, or distribution of this offering memorandum or any other material relating to us or the Notes in any jurisdiction where action for such purpose is required. Consequently, any transfer of the notes will be subject to the selling restrictions set forth under "*Plan of Distribution*."

LEGAL MATTERS

Various legal matters will be passed upon for us by Shearman & Sterling (London) LLP, as to matters of U.S. federal, New York state and English law and by Cuatrecasas, Gonçalves Pereira, S.L.P., as to matters of Spanish law. Certain legal matters will be passed upon for the Initial Purchasers by Linklaters LLP, as to matters of U.S. federal and New York state law and by Linklaters S.L.P., as to matters of Spanish law.

INDEPENDENT AUDITORS

The consolidated financial statements of the Issuer and its subsidiaries as of and for the year ended February 28, 2018 included elsewhere in this offering memorandum, have been audited by Ernst & Young, S.L., independent auditors, as stated in the report appearing herein. The consolidated financial statements of the Issuer and its subsidiaries as of and for the years ended February 28, 2017 and February 29, 2016 included elsewhere in this offering memorandum, have been audited by Deloitte, S.L., independent auditors, as stated in the report appearing herein.

ENFORCEABILITY OF JUDGMENTS

The Issuer is organized under the laws of Spain. The Guarantors are entities organized under the laws of Spain. All the respective directors and executive officers of the Issuer and the Guarantors reside outside of the United States. All the assets of the Issuer and the Guarantors and their respective directors and officers are located outside the United States. Although the Issuer and the Guarantors have agreed, in accordance with the terms of the Indenture, to accept service of process in the United States through agents designated for such purpose, it may not be possible for holders of the Notes to (a) effect service of process upon the Issuer, the Guarantors or their respective directors or officers, or (b) enforce judgments of courts of the United States predicated upon the civil liability of such entities or persons under the U.S. securities laws and state securities laws or other laws against any such entities or persons in the courts of a foreign jurisdiction. The Issuer and Guarantors are organized under the laws of Spain with limited liability.

The controlling shareholders of the Issuer, and the directors and the executive officers of the Issuer and the Guarantors are non-residents of the United States and a significant portion of the assets of such persons are located outside the United States. An investor may also experience difficulty in effecting service of process on or enforcing judgments against such persons or the Issuer or the other Guarantors based on civil liability provisions of the U.S. Federal and state securities laws or other laws.

A final and conclusive judgment obtained against the Issuer or any of the Guarantors in any U.S. Courts or any other appellate court in the United States, would be recognized and enforced by the courts of Spain after having obtained the "*exequatur*," in accordance with article 523.2 of the Spanish Law on Civil Procedure and articles 41 to 55 of the Spanish international cooperation in civil matters Act (*Ley 29/2015, de 30 de julio de cooperación jurídica internacional en materia civil*, the "**Spanish International Cooperation in Civil Matters Act**"), both inclusive.

Such provisions set forth that any, in principle, final and conclusive judgment rendered outside Spain may be enforced in Spain:

- In accordance with the provisions of any applicable treaty (there being none currently in existence between Spain and the United States for these purposes);
- In the absence of any treaty, in those cases in which the relevant court from a foreign country which is not a member bound by the provisions of the EU Regulation 1215/2012, if it meets the formal requirements of (i) the relevant law from said foreign country and (ii) Spanish law, to be considered authentic, i.e. enacted by an authorized court (in Spain it would be required, inter alia, that the judgement is duly legalized or apostilled and translated into Spanish) and enforceable, and
- If it does not fall within the circumstances set forth in article 46 of the Spanish International Cooperation in Civil Matters Act, in particular:
- that the judgement breaches Spanish public order ("*orden público*");
- that the judgement is not final (i.e. subject to further appeal) and therefore is not an enforceable nature (*fuerza ejecutiva*) in the foreign jurisdiction;
- that the judgement has been rendered by clearly breaching the rights of defense of any of the parties (if a judgement has been rendered by default ("*en rebeldía*") of the defendant it would be deemed to breach his rights of defense if the defendant has not been regularly and timely notified to enable him to defend himself properly);
- that the subject matter in respect of which the judgement has been rendered falls within the exclusive jurisdiction of the Spanish courts or, in any other matters, if the foreign court jurisdiction does not have a reasonable connection with the dispute;
- that the foreign judgement is incompatible with other Spanish judgements;
- that the foreign judgement is incompatible with another country's judgement which meets the requirements to be enforceable in Spain;
- that there is an ongoing proceeding between the same parties and dealing with the same subject which was opened before a Spanish court prior to the opening of the proceedings before the foreign court; or
- that the Issuer and/or the Guarantors are subject to an insolvency proceeding in Spain and the foreign judgment does not meet the requirements provided for in the Spanish Insolvency Act.

According to Article 3.2 of the Spanish International Cooperation in Civil Matters Act, the Spanish Government may establish that the Spanish authorities will not cooperate with other country's authorities when there has been a reiteration refusal of cooperation or a legal prohibition of providing cooperation by such other country's authorities.

Additionally, and according to article 47 of the Spanish International Cooperation in Civil Matters Act, there is a special provision and a special rule concerning the recognition of foreign judgments rendered in proceedings resulting from collective action, which may be recognized and enforced in Spain insofar as they satisfy the conditions set forth therein.

The United States and Spain are not party to any treaty providing for reciprocal recognition and enforcement of judgments, other than arbitral awards rendered in civil and commercial matters. Accordingly, any party wishing to have a U.S. ruling recognized or enforced in Spain, which would not directly be recognized or enforced in Spain, must file an application seeking declaration of enforceability of the U.S. resolution (*exequatur*) with the relevant Spanish Judge of First Instance (*Juzgado de Primera Instancia*) or Commercial Court (*Juzgado de lo Mercantil*) for which purpose the above-mentioned requirements must be met.

The Spanish courts may express any such order in a currency other than euro in respect of the amount due and payable by the Issuer or a Guarantor, but in case of enforcement in Spain, the court costs and interest will be paid in euros.

A final and conclusive judgment obtained against the Issuer or any of the Guarantors in any country bound by the provisions of the EU Regulation 1215/2012 will be recognized and enforceable by the Spanish courts, without review of its merits.

The enforcement of any judgments in Spain involves, *inter alia*, the following principal actions and costs: (a) documents in a language other than Spanish must be accompanied by a sworn translation into Spanish (translator's fees will be payable); (b) foreign documents may be required to be legalized and apostilled; (c) certain court fees must be paid; and (d) the procedural acts of a party litigating in Spain must be directed by an attorney-at-law and the party must be represented by a court agent (*procurador*). In addition, Spanish civil proceedings rules cannot be amended by agreement of the parties and such rules will therefore prevail notwithstanding any provision to the contrary in the relevant agreement.

WHERE YOU CAN FIND OTHER INFORMATION

Each purchaser of the Notes from the Initial Purchasers will be furnished with a copy of this offering memorandum and any related amendments or supplements to this offering memorandum. Each person receiving this offering memorandum and any related amendments or supplements to the offering memorandum acknowledges that:

- such person has been afforded an opportunity to request from us, and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;
- such person has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of such information or its investment decision; and
- except as provided pursuant to (1) above, no person has been authorized to give any information or to make any representation concerning the Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorized by us or the Initial Purchasers.

For so long as any of the Notes are "restricted securities" within the meaning of the Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to the reporting requirements of Section 13(a) or 15(d) of the Exchange Act, nor exempt from the reporting requirements under Rule 12g3-2(b) of the Exchange Act, provide to the holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, in each case upon the written request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act. Any such request should be directed to the Issuer, Calle Hermosilla, 112, Madrid, 28009, Spain.

We are not currently subject to the periodic reporting and other information requirements of the Exchange Act. However, pursuant to the Indenture governing the Notes and so long as the Notes are outstanding, we will furnish periodic information to holders of the Notes. See "*Description of the Notes—Certain Covenants—Reports*."

LISTING AND GENERAL INFORMATION

Admission to Trading and Listing

Application has been made to the Irish Stock Exchange plc (trading as Euronext Dublin) (the "**Exchange**") for the Notes to be admitted to the Official List and to trading on the Global Exchange Market which is the exchange regulated market of Euronext Dublin. The Notes might also be admitted to trading on any other multilateral trading system or other non-regulated domestic or foreign organized market.

Listing Information

Paper copies of the following documents (or copies thereof, translated into English, where relevant) will be available for physical inspection while the Notes remain outstanding and admitted to the Official List of Euronext Dublin and admitted to trading on the Global Exchange Market at the registered office of the Issuer during normal business hours on any weekday:

(i) the organizational documents of the Issuer;

(ii) the audited consolidated financial statements of El Corte Inglés, S.A. and its subsidiaries for the years ended February 29, 2016, February 28, 2017 and February 28, 2018 prepared in accordance with IFRS as adopted by the European Union;

(iii) the unaudited consolidated financial data of El Corte Inglés, S.A. and its subsidiaries for the three months ended May 31, 2017 and 2018 prepared in accordance with IAS 34; and

(iv) the Indenture (which includes the form of the Notes).

The Issuer has appointed Dillon Eustace as Euronext Dublin listing agent, Deutsche Bank AG, London Branch as paying agent and Deutsche Bank Luxembourg S.A. as registrar and transfer agent to make payments on, when applicable, and transfers of, the Notes. The Issuer reserves the right to vary such appointments and we will provide notice of such change of appointment to holders of the Notes and Euronext Dublin.

Application may be made to the Exchange to have the Notes removed from listing on the Official List of the Irish Exchange and for trading on the Global Exchange Market, including if necessary to avoid any new withholding taxes in connection with the listing.

The Guarantors are certain wholly-owned subsidiaries of the Issuer, namely Viajes El Corte Inglés, S.A. and Supercor, S.A. The Group's audited consolidated financial statements include the Issuer, the Guarantors and non-guarantor companies. The guarantees are full and unconditional, joint and several.

Any information contained in this Offering Memorandum which has been sourced from a third party has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by any third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Save as disclosed herein, there are no potential conflicts of interest between the duties of the director of the Issuer and their private or other duties.

As of and for the financial year ended February 28, 2018, the Issuer had EBITDA of €764 million, representing 72.5% of our consolidated EBITDA (consolidated EBITDA was €1,054 million) and net assets of €5,678 million, representing 66.8% of our consolidated net assets (consolidated net assets were €8,498 million) and the Guarantors had EBITDA of €87 million, representing 8.2% of our consolidated EBITDA and net assets of €457 million, representing 5.1% of the consolidated net assets.

As of and for the financial year ended February 28, 2018, the Issuer, Viajes El Corte Inglés, S.A. and Supercor, S.A. each had EBITDA of €764 million, €54 million and €33 million (excluding any EBITDA in respect of transactions with the Issuer, other Guarantors or non-guarantor companies), respectively, representing 72.5%, 5.1% and 3.1%, respectively, of our consolidated EBITDA, and each had net assets of €5,678 million, €175 million and €262 million, respectively (adjusted to exclude any amounts owed or due to the Issuer, other Guarantors and non-guarantor companies), representing 66.8%, 2.1% and 3.1%, respectively, of our consolidated net assets of €8,498 million. Except as disclosed in this offering memorandum, there are no risks specific to the Guarantors that could impact their guarantees or any encumbrances on their assets that could materially affect their ability to meet their obligations under their guarantees.

Litigation

Except as disclosed elsewhere in this offering memorandum, there has been no material adverse change in our consolidated financial position since February 28, 2018 (being the last day of the period in respect of which the Issuer published its latest annual audited consolidated financial statements) and neither the Issuer nor any of its subsidiaries is involved, or has been involved during the 12 months preceding the date of this offering memorandum, in any legal, arbitration or administrative proceedings which would, individually or in the aggregate, have a material adverse effect on their results of operations, condition (financial or other) or general affairs and, so far as each is aware, having made all reasonable inquiries, there are no such legal, arbitration or administrative proceedings pending or threatened.

No Material Adverse Change

Except as disclosed in this offering memorandum, there has been no material adverse change in our prospects since February 28, 2018 (being the last day of the period in respect of which the Issuer published its latest annual audited consolidated financial statements).

No Significant Change

Except as disclosed in this offering memorandum, there has been no significant change in the Group’s consolidated financial and trading position since May 31, 2018.

Clearing Information

The Notes sold pursuant to Regulation S and the Notes sold pursuant to Rule 144A have been accepted for clearance through the facilities of Euroclear and Clearstream under common codes 188654347 and 188654711, respectively. The ISIN for the Notes sold pursuant to Regulation S is XS1886543476 and the ISIN for the Notes sold pursuant to Rule 144A is XS1886547113.

Legal Information

The Issuer

El Corte Inglés, S.A. is a limited liability company (*sociedad anónima*) organized under the laws of the Kingdom of Spain and incorporated on June 28, 1940 before the Notary public Mr. Eduardo Lopez Palop under number 723 of his records. Its registered office address is Hermosilla 112, Madrid, 28009, Spain. It is registered with the Commercial Registry of Madrid under Volume 319, Sheet M-9880, Page 1. Its tax identification number is A-28017895. As of the date hereof, the share capital (which has been paid in full) of El Corte Inglés, S.A. amounted to €486,864,000 divided into 81,144,000 ordinary shares, each with a par value of €6.00.

The Guarantors

Viajes El Corte Inglés, S.A. is a limited liability company (*sociedad anónima*) organized under the laws of the Kingdom of Spain and incorporated on November 3, 1969, before the Notary public Mr. Antonio Maxo Ruano under number 1,481 of his records. Its registered office address is Hermosilla 112, Madrid, 28009, Spain. It is registered with the Commercial Registry of Madrid under Volume 896, Sheet M-11,385. Its tax identification number is A28229813.

Supercor, S.A. is a limited liability company (*sociedad anónima*) organized under the laws of the Kingdom of Spain and incorporated on April 10, 1987 before the Notary public of Madrid, Mr. Joaquín Madero Valdeolmos under number 524 of his records. Its registered office address is Hermosilla 112, Madrid, 28009, Spain. It is registered with the Commercial Registry of Madrid under Volume 7,729, Sheet M-52,978. Its tax identification number is A-78476397.

The resolutions of each of the Guarantors to guarantee the Notes were adopted on September 17, 2018.

Consents

The Issuer has obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the Notes.

Statement

The Issuer accepts responsibility for the information contained in this Offering Memorandum and to the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) such information is in accordance with the facts and contains no omission likely to affect the import of such information. Notification of any optional redemption or change of control or any change in the rate of interest payable on the Notes will be provided by the Issuer to Euronext Dublin.

Prescription

Claims against the Issuer and the Guarantors for the payment of principal, or premium, if any, on the Notes will be prescribed ten years after the applicable due date for payment thereof. Claims against the Issuer and the Guarantors for the payment of interest on the Notes will be prescribed five years after the applicable due date for payment of interest.

RECONCILIATION TABLES

The following financial information provides reconciliations from operating result to EBITDA for each of our five reporting segments, the Guarantors and the Group's non-guarantor subsidiaries.

	Year ended February 29, 2016	Year ended February 28, 2017	Year ended February 28, 2018	Three months ended May 31, 2017	Three months ended May 31, 2018	Twelve months ended May 31, 2018
			(€ in millions)			
Operating Result	**€152**	**€213**	**€299**	**€(61)**	**€(57)**	**€303**
Obligations for provisions to personnel	86	211	36	10	7	33
Excessive provisions, impairment and gains or losses on disposals of non-current assets and other results	6	(81)	67	15	10	62
Depreciation of fixed assets	497	493	488	132	132	488
EBITDA	**€741**	**€836**	**€890**	**€96**	**€92**	**€886**

Information Technology

	Year ended February 29, 2016	Year ended February 28, 2017	Year ended February 28, 2018	Three months ended May 31, 2017	Three months ended May 31, 2018	Twelve months ended May 31, 2018
			(€ in millions)			
Operating Result	**€9**	**€20**	**€43**	**€1**	**€1**	**€43**
Obligations for provisions to personnel	—	—	—	—	—	—
Excessive provisions, impairment and gains or losses on disposals of non-current assets and other results	—	2	(17)	1	1	(17)
Depreciation of fixed assets	6	6	6	1	1	6
EBITDA	**€15**	**€28**	**€32**	**€3**	**€3**	**€32**

Travel Agency

	Year ended February 29, 2016	Year ended February 28, 2017	Year ended February 28, 2018	Three months ended May 31, 2017	Three months ended May 31, 2018	Twelve months ended May 31, 2018
			(€ in millions)			
Operating Result	**€49**	**€40**	**€40**	**—**	**€2**	**€42**
Obligations for provisions to personnel	—	—	—	—	—	—
Excessive provisions, impairment and gains or losses on disposals of non-current assets and other results	(2)	—	—	1	2	1
Depreciation of fixed assets	13	13	14	3	3	14
EBITDA	**€60**	**€53**	**€54**	**€4**	**€7**	**€57**

Insurance

	Year ended February 29, 2016	Year ended February 28, 2017	Year ended February 28, 2018	Three months ended May 31, 2017	Three months ended May 31, 2018	Twelve months ended May 31, 2018
			(€ in millions)			
Operating Result	**€54**	**€56**	**€63**	**€16**	**€19**	**€66**
Obligations for provisions to personnel	—	—	—	—	—	—
Excessive provisions, impairment and gains or losses on disposals of non-current assets and other results	(1)	—	—	—	—	—
Depreciation of fixed assets	2	2	2	—	1	3
EBITDA	**€55**	**€58**	**€65**	**€16**	**€20**	**€69**

Other Businesses

	Year ended February 29, 2016	Year ended February 28, 2017	Year ended February 28, 2018	Three months ended May 31, 2017	Three months ended May 31, 2018	Twelve months ended May 31, 2018
			(€ in millions)			
Operating Result	**€(4)**	**€(3)**	**€(2)**	**—**	**€1**	**€(1)**
Obligations for provisions to personnel	—	—	—	—	—	—
Excessive provisions, impairment and gains or losses on disposals of non-current assets and other results	—	—	1	—	—	1
Depreciation of fixed assets	7	7	6	2	1	5
EBITDA	**€3**	**€4**	**€5**	**€2**	**€2**	**€5**

Consolidation adjustments

	Year ended February 29, 2016	Year ended February 28, 2017	Year ended February 28, 2018	Three months ended May 31, 2017	Three months ended May 31, 2018	Twelve months ended May 31, 2018
			(€ in millions)			
Operating Result	**€39**	**€(69)**	**€(32)**	**€4**	**€2**	**€(34)**
Obligations for provisions to personnel	—	—	—	—	—	—
Excessive provisions, impairment and gains or losses on disposals of non-current assets and other results	2	72	46	(2)	(1)	47
Depreciation of fixed assets	(2)	(1)	(6)	(1)	(2)	(7)
EBITDA	**€39**	**€2**	**€8**	**€1**	**€(1)**	**€6**

Total Group

	Year ended February 29, 2016	Year ended February 28, 2017	Year ended February 28, 2018	Three months ended May 31, 2017	Three months ended May 31, 2018	Twelve months ended May 31, 2018
			(€ in millions)			

Operating Result	**€299**	**€257**	**€411**	**€(40)**	**€(32)**	**€419**
Obligations for provisions to personnel	86	211	36	10	7	33
Excessive provisions, impairment and gains or losses on disposals of non-current assets and other results	5	(7)	97	15	12	94
Depreciation of fixed assets	523	519	510	137	136	509
EBITDA	**€913**	**€981**	**€1054**	**€122**	**€123**	**€1055**

Guarantors

	Year ended February 28, 2018	Three months ended May 31, 2017	Three months ended May 31, 2018	Twelve months ended May 31, 2018
	(€ in millions)			
Operating Result	**€50**	**—**	**€1**	**€51**
Obligations for provisions to personnel	—	—	—	—
Excessive provisions, impairment and gains or losses on disposals of non-current assets and other results	1	—	—	1
Depreciation of fixed assets	36	9	9	36
EBITDA	**€87**	**€9**	**€10**	**€88**

Non-Guarantors

	Year ended February 28, 2018	Three months ended May 31, 2017	Three months ended May 31, 2018	Twelve months ended May 31, 2018
	(€ in millions)			
Operating Result	**€166**	**€29**	**€30**	**€167**
Obligations for provisions to personnel	—	—	—	—
Excessive provisions, impairment and gains or losses on disposals of non-current assets and other results	(15)	—	2	(13)
Depreciation of fixed assets	52	12	12	52
EBITDA	**€204**	**€41**	**€44**	**€206**

Issuer

	Year ended February 28, 2018	Three months ended May 31, 2017	Three months ended May 31, 2018	Twelve months ended May 31, 2018
	(€ in millions)			
Operating Result	**€195**	**€(69)**	**€(63)**	**€201**
Obligations for provisions to personnel	36	10	7	33
Excessive provisions, impairment and gains or losses on disposals of non-current assets and other results	111	15	10	106
Depreciation of fixed assets	422	116	115	421
EBITDA	**€764**	**€72**	**€69**	**€761**

INDEX TO THE FINANCIAL STATEMENTS

Report on Limited Review

EL CORTE INGLÉS, S.A. AND SUBSIDIARIES

Consolidated Condensed Interim Financial Statements

**for the three-month period ended
May 31, 2018**

[GRAPHIC]

Translation of a report and Consolidated Condensed Interim Financial Statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

REPORT ON LIMITED REVIEW OF CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

To the Management of El Corte Inglés, S.A.

Introduction

We have carried out a limited review of the accompanying consolidated condensed interim financial statements (hereinafter to be referred as the interim financial statements) of El Corte Inglés, S.A., (the Parent) and its subsidiaries (the Group), which consists of the balance sheet at May 31, 2018, the income statement, the statement of changes in equity, the cash flow statement and the explanatory notes thereto (all of them consolidated and condensed) for the three-month period then ended. The members of Management are responsible for the preparation of the Company's interim financial statements in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, for the preparation of interim condensed financial information and for such internal control as they determine is necessary to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error. Our responsibility is to express a conclusion on said interim financial statements based on our limited review.

Scope of the review

We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with prevailing audit regulations in Spain and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

Conclusion

As a result of our limited review, which under no circumstances should be considered an audit of financial statements, nothing came to our attention that would lead us to conclude that the accompanying interim financial statements for the three-month period ended at May 31, 2018 are not prepared, in all material respects, in conformity with International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, for the preparation of interim financial statements.

Emphasis of matter

We draw attention to the matter described in accompanying explanatory note 2, which indicates that the abovementioned interim condensed financial statements do not include all the information that would be required for complete financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union and therefore, the accompanying interim financial statements should be read in conjunction with the financial statements for the year ended February 28, 2018. This matter does not modify our conclusion.

[GRAPHIC]

Restriction on distribution and use

This report has been prepared at the request of El Corte Inglés, S.A. management exclusively for the purpose of the future Senior Notes issuance and, accordingly, it should not be used by third parties or for any other purpose without our prior written consent.

We will not accept any responsibility from any third parties different to the addressees of this report.

ERNST & YOUNG, S.L.
[GRAPHIC]
José Luis Ruiz

September 19, 2018

El Corte Inglés
Consolidated Group
Consolidated Condensed Interim Financial Statements corresponding to the interim period ending on 31 May 2018 (3 months).

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED CONDENSED INTERIM BALANCE SHEET AT 31 MAY 2018 AND 28 FEBRUARY 2018

(Thousands of euros)

ASSETS	Notes	May 2018 (Unaudited)	Financial Year 2017
NON-CURRENT ASSETS			
Property, plant and equipment	5	12,042,411	12,083,645
Investment property	5	201,277	178,280
Goodwill		19,485	19,485
Other intangible assets	6	569,018	566,586
Non-current credits and other financial assets		12,413	22,053
Investments accounted for using the equity method	7	277,250	301,760
Non-current financial assets	8	928,133	962,411
Deferred tax assets		914,154	883,273
Total non-current assets		**14,964,141**	**15,017,493**
CURRENT ASSETS			
Inventories	9	2,233,968	2,085,905
Trade and other receivables	10	860,780	913,500
Receivables from associates and related parties	18.1	37,148	22,501
Current tax assets		2,038	1,588
Investments in associates and related parties	18.1	2,820	2,183
Current financial assets	8	32,822	24,102
Other current assets		62,144	44,644
Cash and cash equivalents	11	136,365	212,558
Total current assets		**3,368,085**	**3,306,981**
TOTAL ASSETS		**18,332,226**	**18,324,474**

The accompanying Notes 1 to 19 are an integral part of the consolidated condensed interim balance sheet at 31 May 2018.

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED CONDENSED INTERIM BALANCE SHEET AT 31 MAY 2018 AND 28 FEBRUARY 2018

(Thousands of euros)

NET EQUITY AND LIABILITIES	Notes	May 2018 (Unaudited)	Financial Year 2017
NET EQUITY	12		
Capital		486,864	486,864
Reserves		8,201,686	8,109,993
—Legal reserve		97,373	97,373
—Other reserves		8,104,313	8,012,620
Profit for the year attributable to the Parent		(49,693)	200,566
Other net equity instruments		1,000,000	1,000,000
Total shareholders' equity		**9,638,857**	**9,797,423**
Translation differences		(8,618)	(9,810)
Treasury shares		(1,335,727)	(1,326,121)
Valuation adjustments		16,502	19,120
—Available-for-sale financial assets		23,621	26,482
—Hedges		(7,119)	(7,362)
Non-controlling interests		17,306	17,447
Total equity		**8,328,320**	**8,498,059**
NON-CURRENT LIABILITIES			
Non-current provisions	13	837,166	801,462
Debt instruments and other non-current marketable securities	14	666,371	595,804
Non-current bank borrowings	14	2,266,972	1,652,302
Non-current payables with associates and related parties	18.1	48,680	48,657
Other financial liabilities	14	113,097	104,930
Payable to non-current fixed asset suppliers		20,974	22,626
Deferred tax liabilities		930,682	929,558
Total non-current liabilities		4,883,942	4,155,339
CURRENT LIABILITIES			
Current provisions	13	10,523	13,941
Debt instruments and other current marketable securities	14	1,430,822	1,631,212
Current bank borrowings	14	128,956	114,408
Current payables with associates and related parties	18.1	40,209	90,503
Other current financial liabilities	14	110,299	115,625
Payables to fixed asset suppliers		144,378	171,377
Trade and other payables	15	3,199,480	3,498,395
Payable to suppliers—associates and related parties	18.1	20,140	15,551
Current tax liabilities		19,478	12,287
Accrued expenses and deferred income		15,679	7,777
Total current liabilities		**5,119,964**	**5,671,076**
TOTAL NET EQUITY AND LIABILITIES		**18,332,226**	**18,324,474**

The accompanying Notes 1 to 19 are an integral part of the consolidated condensed interim balance sheet at 31 May 2018.

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED CONDENSED INTERIM INCOME STATEMENT OF THE 3-MONTH PERIOD ENDING ON 31 MAY 2018 AND 31 MAY 2017

(Thousands of euros)

	Notes	May 2018 (Unaudited)	May 2017 (Unaudited)
Net turnover	17	**3,417,461**	**3,412,993**
—Sales		2,639,957	2,686,024
—Services		777,504	726,969
Supplies		**(2,389,188)**	**(2,385,023)**
Personnel expenses		**(638,714)**	**(629,410)**
Other Operating Income and Expenditure		**(266,171)**	**(277,299)**
Depreciation of fixed assets		**(137,559)**	**(137,951)**
Excessive provisions, impairment and gains or losses on disposals of non-current assets and other results		**(9,973)**	**(14,839)**
Obligations for provisions to personnel		**(7,123)**	**(10,043)**
OPERATING PROFIT	17	**(31,267)**	**(41,572)**
Financial income		**2,057**	**2,209**
Financial expenses		**(42,202)**	**(50,829)**
Variation in fair value of financial instruments		**(6,652)**	**7,464**
Result of companies accounted for using the equity method		**8,807**	**8,949**
Translation differences		**(1,189)**	**(310)**
Impairment and gains or losses on disposals of financial instruments		**—**	**5**
PRE-TAX RESULT		**(70,446)**	**(74,084)**
Income tax		20,508	22,473
RESULT OF THE FINANCIAL YEAR		**(49,938)**	**(51,611)**
Result attributable to non-controlling interests		245	307
RESULT ATTRIBUTABLE TO THE PARENT		**(49,693)**	**(51,304)**

The accompanying Notes 1 to 19 are an integral part of the consolidated condensed interim income statement of the 3-month period ending on 31 May 2018.

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED CONDENSED INTERIM STATEMENT OF INCOME AND EXPENSES ATTRIBUTABLE TO EQUITY CORRESPONDING TO THE 3-MONTH PERIOD ENDING ON 31 MAY 2018 AND 31 MAY 2017

(Thousands of euros)

	Notes	May 2018 (Unaudited)	May 2017 (Unaudited)
RESULT OF THE PROFIT AND LOSS ACCOUNT (I)		**(49,938)**	**(51,611)**
Income and expenses allocated directly to net equity			
—From valuation of financial instruments	8 and 14	1,383	(1,344)
—From cash flow hedges	8 and 14	(3,595)	—
—Translation differences		1,192	2,796
—Tax effect		552	1,286
TOTAL INCOME AND EXPENSES ALLOCATED DIRECTLY TO NET EQUITY (II)		**(468)**	**2,738**
Transfers to the profit and loss account			
—From valuation of financial instruments	8 and 14	(1,702)	(2,013)
—From cash flow hedges	8 and 14	426	2,538
—Tax effect		318	(131)
TOTAL TRANSFERS TO THE PROFIT AND LOSS ACCOUNT (III)		**(958)**	**394**
TOTAL GLOBAL RECOGNISED INCOME AND EXPENSE (I+II+III)		**(51,364)**	**(48,479)**
TOTAL GLOBAL RECOGNISED INCOME AND EXPENSES OF THE PARENT COMPANY		**(51,119)**	**(48.172)**
TOTAL GLOBAL RECOGNISED INCOME AND EXPENSES OF MINORITY INTERESTS		**(245)**	**(307)**

The accompanying Notes 1 to 19 are an integral part of the consolidated condensed interim statement of other comprehensive income corresponding to the 3-month period ending on 31 May 2018.

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN TOTAL EQUITY OF THE 3-MONTH PERIODS ENDING ON 31 MAY 2018 AND 2017

(Thousands of euros)

		Reserves									
	Capital	Legal reserve	Other reserves	Total	Other equity inst.	Treasury shares	Reserves in consolidated companies	Profit attributable to the parent	Valuation adjustments and translation differences	Non-controlling interests	TOTAL
ADJUSTED BALANCE AT THE START OF FINANCIAL YEAR 2017	**486,864**	**97,373**	**6,690,799**	**6,788,172**	**1,000,000**	**(1,241,568)**	**1,302,496**	**121,498**	**46,926**	**15,845**	**8,520,233**
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(51,304)**	**3,132**	**(307)**	**(48,479)**
Operations with shareholders	**—**	**—**	**149,475**	**149,475**	**—**	**(12,127)**	**(27,977)**	**(121,498)**	**—**	**(3)**	**(12,130)**
—Distribution of FY 2016 profit	—	—	149,475	149,475	—	—	(27,977)	(121,498)	—	—	—
To dividends	—	—	—	—	—	—	—	—	—	—	—
To reserves................	—	—	149,475	149,475	—	—	(27,977)	(121,498)	—	—	—
—Operations with treasury shares (net) ...	—	—	—	—	—	(12,127)	—	—	—	(3)	(12,130)
Other changes in equity...	**—**	**—**		**—**	**—**		**1,531**	**—**	**—**		**1,531**
FINAL BALANCE AT 31 MAY 2017....................	**486,864**	**97,373**	**6,840,274**	**6,937,647**	**1,000,000**	**(1,253,695)**	**1,276,050**	**(51,304)**	**50,058**	**15,536**	**8,461,155**
											—
ADJUSTED BALANCE AT THE START OF FINANCIAL YEAR 2018	**486,864**	**97,373**	**6,835,504**	**6,932,877**	**1,000,000**	**(1,326,121)**	**1,177,116**	**200,566**	**9,310**	**17,447**	**8,498,059**
Adjustments of criteria........			**(79,572)**	**(79,572)**			**(28,661)**				**(108,233)**
Total comprehensive income	**—**	**—**	**—**	**—**		**—**	**—**	**(49,693)**	**(1,426)**	**(245)**	**(51,364)**
Operations with shareholders	**—**	**—**	**200,566**	**200,566**	**—**	**(9,606)**	**—**	**(200,566)**	**—**	**—**	**(9,606)**

—Distribution of FY 2017 profit	—	—	200,566	200,566	—	—	—	(200,566)	—	—	—
To dividends	—	—	—	—	—	—	—		—	—	—
To reserves.................	—	—	200,566	200,566	—	—		(200,566)	—	—	—
—Operations with treasury shares (net)...	—	—	—	—	—	(9,606)		—	—	—	(9,606)
Other changes in equity...	**—**	**—**	**—**	**—**	**—**	**—**	**(640)**	**—**	**—**	**104**	**(536)**
FINAL BALANCE AT 31 MAY 2018....................	**486,864**	**97,373**	**6,956,498**	**7,053,871**	**1,000,000**	**(1,335,727)**	**1,147,815**	**(49,693)**	**7,884**	**17,306**	**8,328,320**

The accompanying Notes 1 to 19 are an integral part of the consolidated condensed interim statement of changes in total equity of the 3-month period ending on 31 May 2018.

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED CONDENSED CASH FLOW STATEMENT OF THE 3-MONTH PERIOD ENDING ON 31 MAY 2018 AND 2017

(Thousands of euros)

	Report Notes	May 2018	May 2017
CASH FLOWS OF OPERATING ACTIVITIES (I)		**(436,531)**	**(213,963)**
Pre-tax result of the FY		**(70,446)**	**(74,084)**
Adjustments to the result		**202,218**	**201,564**
—Depreciation of fixed assets	Notes 5, 6 y8	137,559	137,951
—Valuation corrections due to impairment		—	2,468
—Variation in provisions	Note 13	15,482	16,356
—Results due to removals and transfers of fixed assets		1,191	3,328
—Results due to removals and transfers of financial instruments		—	(5)
—Financial income		(2,057)	(2,209)
—Financial expenses		42,202	50,829
—Exchange-rate differences		1,189	310
—Variation in fair value of financial instruments		6,652	(7,464)
Changes in current capital		**(517,017)**	**(282,866)**
—Stocks		(178,703)	(128,579)
—Trade and other receivables		67,381	101,608
—Other current assets		(41,954)	(26,690)
—Trade and other payables		(361,203)	(230,087)
—Other current liabilities		7,902	(2,496)
—Other non-current assets and liabilities		(10,440)	3,378
Other cash flows of operating activities		**(51,286)**	**(58,577)**
—Payment of interest		(42,202)	(50,829)
—Receipt of dividends		86	5
—Receipt of interest		1,971	2,204
—Receipts (payments) for corporation tax		(2,058)	(1,046)
—Other receipts / payments		(9,083)	(8,911)
CASH FLOWS OF INVESTMENT ACTIVITIES (II)		**(112,724)**	**(84,495)**
Payments for investments		**(117,576)**	**(117,420)**
—Group and associated companies		(9,555)	(12,343)
—Intangible fixed assets		(28,085)	(31,746)
—Property, plant and equipment		(76,673)	(72,413)
—Property Investments		(3,263)	—
—Other financial assets		—	(918)
Receipts from divestments		**4,852**	**32,925**
—Group and associated companies		—	—
—Intangible fixed assets, PP&E and Property Investments		2,937	14,556
—Other financial assets		1,915	18,369
CASH FLOWS OF FINANCING ACTIVITIES (III)		**474,251**	**260,982**
Receipts and payments for equity instruments		**(8,414)**	**(9,331)**
—Acquisition of own equity instruments		(9,606)	(12,127)
—Diferences of conversion		1,192	2,796
Receipts and payments for financial liability instruments		**482,665**	**270,313**
—Repayment and amortisation of bonds and other negotiable securities		(200,390)	(1,415,273)
—Repayment and amortisation of bank borrowings		14,548	—
—Repayment and amortisation of debts with group and associated companies		(12,942)	(21,277)
—Repayment and amortisation of other debts		(5,326)	(84,880)
—Issue of bonds and other negotiable securities		70,567	154,786
—Issue of bank borrowings		616,185	1,636,957
—Issue of debt with group and associated companies		23	—
—Issue of other debts		—	—
Payments for dividends and remunerations of other equity instruments			
—Dividends		—	—
—Other net equity instruments		—	—
EFFECT OF VARIATIONS IN EXCHANGE RATES (IV)		**(1,189)**	**(310)**
NET INCREASE/DECREASE IN CASH OR EQUIVALENTS (I+II+III+IV)		**(76,193)**	**(37,786)**
Cash or equivalents at start of the FY		212,558	154,139

Cash or equivalents at end of the FY	136,365	116,353

The accompanying Notes 1 to 19 are an integral part of the consolidated condensed cash flow statement of the 3-month period ending on 31 May 2018.

El Corte Inglés Consolidated Group

Explanatory notes on the consolidated condensed interim financial statements corresponding to the 3-month period ending on 31 May 2018.

1. Group Activities and identification data

The Parent, El Corte Inglés, S.A. (henceforth 'the Parent') is a company incorporated in Spain in accordance with the Public Limited Companies Law. Its registered office is in Madrid, at Calle Hermosilla 112.

The main activity of El Corte Inglés, S.A. and its consolidated subsidiaries is the retailing of consumer goods, as well as the provision of a wide range of services (travel agency, insurance brokerage, insurance, IT consultancy, etc.), for which it has a network of department stores, hypermarkets, supermarkets, convenience stores, offices and digital platforms.

The financial year of El Corte Inglés, S.A. and the majority of the subsidiaries begins on the 1st of March each year and ends on the 28th of February of the following year (29th of February in leap years). However, there are some subsidiaries and associates whose financial years coincide with the calendar year. The most relevant are Seguros El Corte Inglés, Vida, Pensiones y Reaseguros, S.A. and Centro de Seguros y Servicios. Correduría de Seguros, S.A., for which the financial year has been determined in accordance with Royal Legislative Decree 6/2004, which approves the revised text of the Law on the Regulation and Supervision of Private Insurance. In these financial statements, the period of 3 months ending on 31 May 2018 is referred to as the "first quarter of 2018", that ending on 31 May 2017 is referred to as the "first quarter of 2017", and so on.

The information on the companies which comprise the El Corte Inglés Group included in the consolidation (none of which are listed on a stock exchange), at 31 May 2018, is as follows:

					Percentage stake	
Company		**Activity**	**Location**	**Auditor**	**Direct**	**Indirect**
Parent:						
El Corte Inglés, S.A.	(a)	Department Stores	Madrid	EY	—	—
Group Companies:						
Construcción, Promociones e Instalaciones, S.A.	(a)	Constructions and installations	Madrid	EY	100.00	—
Editorial Centro de Estudios Ramón Areces, S.A.	(a)	Publisher	Madrid	EY	100.00	—
Centro de Seguros y Servicios. Correduría de Seguros, S.A., El Corte Inglés Insurance Group	(b)	Insurance broker	Madrid	EY	100.00	—
Seguros El Corte Inglés, Vida, Pensiones y Reaseguros, S.A.	(b)	Insurance	Madrid	EY	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	—
Supercor, S.A.	(a)	Supermarkets	Madrid	EY	100.00	—
Canal Club de Distribución de Ocio y Cultura, S.A.	(a)	Direct sale by catalogue and television	Madrid	—	75.00	—
El Corte Inglés-Grandes Armazéns, S.A.	(a)	Department Stores	Portugal	EY	100.00	—
Bricor, S.A.	(a)	Sale of DIY products	Madrid	EY	100.00	—
Uría Veinte, S.A.U.	(a)	Property leasing	Madrid	—	99.05	—
Confecciones Teruel, S.A.U.	(a)	Garment manufacturing	Madrid	EY	100.00	—
Industrias del Vestido, S.A.U.	(a)	Garment manufacturing	Madrid	EY	100.00	—
Ingondel, S.L.						
Óptica 2000 Subgroup-	(a)	Holding company	Madrid	—	100.00	—
Óptica 2000, S.L.	(a)	Sale of optical products and services	Barcelona	EY	100.00	—
Gallery da Visao—Serviços de Óptica Unipessoal, L.D.A.	(a)	Sale of optical products and services	Portugal	—	—	100.00
Sfera Subgroup-						
Sfera Joven, S.A.	(a)	Sale of clothes and accessories	Madrid	EY	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	EY	—	100.00
Viajes El Corte Inglés Subgroup-						
Viajes El Corte Inglés, S.A.	(a)	Travel agency	Madrid	EY	100.00	—
CDV Senior, S.L	(a)	Travel agency	Madrid	—	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	Other auditors	—	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	Other auditors	—	100.00
Viajes El Corte Inglés R. Dominicana, S.R.L.	(b)	Travel agency	Dominican Rep.	—	—	100.00

Viajes El Corte Inglés Colombia, S.A.	(b)	Travel agency	Colombia	—	—	95.00
Tourmundial Uruguay, S.A.	(b)	Travel agency	Uruguay	—	—	100.00
Viajes El Corte Inglés Panamá, S.A.	(b)	Travel agency	Panama	—	—	100.00
Viajes El Corte Inglés Ecuador, S.A........................	(b)	Travel agency	Ecuador	—	—	100.00
Operadora de Turismo, S.A.	(b)	Travel agency	Chile	—	—	100.00
Promotora Viajes, S.A.	(b)	Travel agency	Mexico	—	—	100.00
Promociones Cono Sur, S.A.	(b)	Travel agency	Argentina	—	—	90.00
Promotora Viajes Colombia, S.A.	(b)	Travel agency	Colombia	—	—	100.00
Viajes Proworld, S.A.	(b)	Travel agency	Mexico	—	—	100.00
Tourmundial, S.A.	(b)	Travel agency	Spain	—	—	98.00
Informática El Corte Inglés Subgroup-..................................	(a)	Travel agency		—	—	100.00
Informática El Corte Inglés, S.A.	(a)	Sale of computer products and services	Madrid		100.00	—
Informática El Corte Inglés México, S.A. de C.V.	(b)	Sale of computer products and services	Mexico	EY	—	100.00
Informática El Corte Inglés República Dominicana, S.A.	(b)	Sale of computer products and services	Dominican Rep.	—	—	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
Informática El Corte Inglés Costa Rica, S.A.S.	(b)	Sale of computer products and services	Costa Rica	—	—	100.00
Informática El Corte Inglés (USA) Corporation	(b)	Sale of computer products and services	USA	—	—	100.00
Informática El Corte Inglés (UK) Limited	(b)	Sale of computer products and services	United Kingdom	—	—	100.00
HIKU Document Services S.A.P.I. DE C.V. ...	(b)	Sale of computer products and services	Mexico	—	—	50.00
KIO Networks España...............	(a)	Sale of computer products and services	Murcia	—	—	50.00
IECISA ZF SAS........................	(b)	Sale of computer products and services	Colombia	—	—	100.00
Investrónica, S.A.	(a)	Sale of computer products and services	Madrid	EY	—	100.00
Telecor, S.A.	(a)	Sale of telecommunications products and services	Madrid	EY	—	100.00
Asón Inmobiliaria de Arriendos Subgroup-						
Asón Inmobiliaria de Arriendos, S.L.	(a)	Letting agency	Madrid	A.B. Auditors	100.00	—
Esgueva, S.A.	(a)	Letting agency and organisation of events	Madrid	—	—	100.00
Ízaro Films, S.A.	(a)	Letting agency	Madrid	—	—	100.00
Associates:						
Gestión de Puntos de Venta, GESPEVESA, S.A.	(b)	Service stations and convenience stores	Madrid	PWC	50.00	—
Sephora Cosméticos España, S.L. ...	(b)	Sale of perfumery products and cosmetics	Madrid	EY	50.00	—
FST Hotels, S.A.	(b)	Hotel management	Palma de Mallorca	Deloitte	—	50.00
Citorel, S.L.	(a)	Sale of jewellery, clocks and watches	Madrid	—	50.00	—
Financiera El Corte Inglés E.F.C., S.A.	(b)	Finance	Madrid	PWC	49.00	—
Tagus Book, S.L.	(b)	Distribution of electronic books	Madrid	—	24.00	—
Lecius, S.L.	(b)	Sale of jewellery, clocks and watches	Barcelona	—	50.00	—
Iberiafon, S.A.	(b)	Real Estate	Madrid	B.D.O.	40.00	—

(a) Financial year ending on 28-02-2019.

(a) Financial year ending on 31-12-2018.

2. Basis of presentation of the Consolidated Condensed Interim Financial Statements and of consolidation

2.1 Basis of presentation

The consolidated condensed interim financial statements corresponding to the 3-month period ending on 31 May 2018 were drawn up in accordance with International Accounting Standards (IAS 34 Interim Financial Reporting), using accounting policies and/or valuation standards consistent with International Financial Reporting Standards, henceforth IFRS, as adopted by the European Union, pursuant to EC Regulation No. 1606/2002 of the European Parliament and of the Council.

As indicated in IAS 34, the consolidated condensed interim financial statements do not include all the information and breakdowns required in the consolidated annual accounts and therefore, for their correct interpretation, they must be read together with the consolidated financial statements of financial year 2017, which ended on 28 February 2018.

Given that the accounting principles and valuation criteria applied in the preparation of the consolidated condensed interim financial statements of the Group for the period ending on 31 May 2018 (International Financial Reporting Standards) differ from those used by the entities integrated into it (local regulations), in the consolidation process the necessary adjustments and reclassifications were made in order to harmonise those principles and criteria and to adapt them to the International Financial Reporting Standards adopted in Europe.

The consolidated condensed interim financial statements are, unless otherwise indicated, presented in thousands of euros, as that is the functional currency of the main economic environment in which the Group operates.

2.2 Adoption of New or Amended International Financial Reporting Standards (IFRS)

During the interim period of 3 months ending on 31 May 2018, the following accounting standards, amendments and interpretations came into effect, and these were therefore taken into account in preparing the consolidated condensed interim financial statements:

Standards, amendments and interpretations	Description	Obligatory application in financial years starting from
IFRS 9—Financial Instruments	It replaces the classification, valuation, recognition and removal requirements in accounts of financial assets and liabilities, the accountancy of hedges and impairment of IAS 39.	1 January 2018
IFRS 15—Revenue from Contracts with Customers	New standard for the recognition of revenue (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31).	1 January 2018
Amendments of IFRS 4—Application of IFRS 9 Financial Instruments to IFRS 4 Insurance Contracts	It gives entities within the scope of IFRS 4 the option of applying IFRS 9 or a temporary exemption.	1 January 2018
Amendments of IFRS 15—Clarifications to the standard	These refer to performance obligations, principal versus agent, the granting of licences and their accrual at a particular moment or over time, as well as clarifications of the transition rules.	1 January 2018

The aforementioned standards were applied from the 1st of March 2018.

2.2.1 New standards applied in the 3-month period ending on 31 May 2018. First application:

IFRS 15—Recognition of Revenue

It is the new standard for the recognition of revenue from customers, which, in financial years starting from the 1st of January 2018, replaces the following standards and interpretations currently in force: IAS 11—Construction contracts, IAS 18—Revenue from ordinary activities, IFRIC 13—Customer loyalty programmes, IFRIC 15—Agreements for the construction of real estate, IFRIC 18—Transfers of assets from customers, and SIC 31—Revenue—Barter transactions involving advertising services. This standard, which may be applied retroactively, in full or in part, establishes a new revenue recognition model based on the concept of control, meaning that revenue must be recognised as and when the obligations contracted with customers are fulfilled through the delivery of goods and services. For this purpose, IFRS 15 introduces a recognition approach based on five steps, as well as broader information disclosure requirements.

As stated in Note 1, the key source of income of the Group for which it recognises income are those corresponding to the sale of goods in its store network.

Sale of goods

The Group's Management does not believe that this standard has any impact on the Group's result for contracts with customers, in which there is generally a single contractual obligation (the delivery of certain goods). The Group expects that the recognition of revenue will occur at the moment when control of the asset is transferred to the customer, normally when the goods are delivered.

Principal and agent

IFRS 15 establishes certain criteria for the distinction between agent and principal based on the concept of control, not determining it directly as the transfer of "risks and benefits" as currently applied (under IAS 18). The Group does not consider any modification in its recognition of revenue as a result of these definitions when it comes to determining whether the Group acts as the principal, selling on its own account, or as the agent, in transactions on behalf of third parties.

Provisions of services

The Group's Management is of the opinion that the IT consultancy projects segment is affected by IFRS 15, given the interpretation of long-term service contracts inherent in that activity and the consequent definition of the Group's policies with regard to the definitions of the performance obligations, the allocation of prices to these, and the handling of possible obligations. At present, the Group records the equipment and services as separate provisions when they are sold jointly and assigns the consideration using relative fair values. The Group recognises service income based on the degree of progress. According to IFRS 15, the allocation will be based on their independent relative sale prices. As a result of this analysis, the allocation of the consideration, and therefore the time of recognition of the income in relation to those sales, are not significantly affected.

IFRS 9—Financial Instruments

IFRS 9 replaces IAS 39. This standard covers the three phases of the financial instruments project: classification and valuation; impairment; and accountancy of hedges. IFRS 9 is applicable to financial years starting on or after the 1st of January 2018.

There are relevant differences compared to the current standard in relation to financial assets, including: the approval of a new classification and valuation model, in accordance with the asset management model and its contractual characteristics, based on only two valuation criteria: amortised cost and fair value; and three classification categories, depending on whether the changes in fair value of the assets valuated in accordance with this criterion are recognised in other comprehensive income or in the income statement, depending on whether the receipt of the contractual flows does or does not form part of its management model. Consequently, the current classifications of "Investments held to expiry" and "Available-for-sale financial assets" disappear.

Loans, as well as trade receivables, are held in order to receive the contractual cash flows. The Group also analysed the characteristics of the cash flows of those instruments and concluded that they represent only payments of principal and interest, and therefore they fulfil the criteria to be valued at amortised cost in accordance with IFRS 9. Consequently, the reclassification of those instruments is not required.

Likewise, a new impairment model is introduced, applicable solely to those assets whose cash flows represent only payments of principal and interest and which are not held mainly for sale, based on the recognition of the expected losses, i.e. estimated at the time of the initial registration of the assets instead of waiting until the losses have been incurred, and also an accountancy of hedges which seeks to align the accountancy with the financial management of the risk. For the time being, the change to the new model for the accountancy of hedges is voluntary and it has not been applied by the Group.

The Group has carried out a detailed evaluation of the impacts of IFRS 9. In general, there are no relevant changes in its financial situation statement nor in its net equity, except for the effect of the application of the requirements to determine the impairment due to expected losses of IFRS 9. The Group recognises the expected losses throughout the lifetime of its commercial accounts, in accordance with the simplified version of the new impairment model, whereas it is obliged to differentiate the loans granted and the fixed return instruments which form part of the investment portfolio of the Insurance division, between those which, on the transition date, have experienced a significant increase in the credit risk since their acquisition and those which have not, reducing the book value of the former by the amount of the expected loss throughout their lifetimes and that of the latter by the amount of the expected loss during the next 12 months.

As a result of this analysis and its first application, 28.66 million euros were recorded against reserves, which reduce the non-current financial assets by 12.68 million euros and trade and other receivables by 15.98 million euros. Likewise, certain non-significant presentation adjustments have been recorded against reserves amounting to 79.5 million euros.

It is expected that the shares of unlisted entities will be maintained in the foreseeable future. No impairment losses have been recognised in the income statement for those investments in previous financial years. The Group applies the option to present the changes in the fair value in other comprehensive income, which are not transferred to profit and loss at the time of the sale of the shares. The application of IFRS 9 has a significant impact on those instruments.

2.2.2 New standards and interpretations issued by the IASB, but which are not yet applicable in this financial year:

Standard, interpretation or amendment	Date of adoption by the EU	Date of application in the EU	Date of application of the IASB
IFRS 16—Leases	October 2017	1 January 2019	1 January 2019
IFRS 17—Insurance Contracts	Pending	Pending	1 January 2021
IFRIC 23—Uncertainty over Income Tax Treatments	Pending	Pending	1 January 2019
Annual improvements of IFRSs—Cycle 2015-2017	Pending	Pending	1 January 2019
Amendments to IAS 19—Accounting of an amendment, curtailment or settlement of a defined benefit plan	Pending	Pending	1 January 2019
Amendments to IAS 28—Investments in Associates and Joint Ventures	Pending	Pending	1 January 2019
Amendments to IFRS 9—Prepayment Features with Negative Compensation	March 2018	1 January 2019	1 January 2019
Revised version of the conceptual framework of the IFRSs	Pending	Pending	1 January 2020

IFRS 16—Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17—Leases, IFRIC 4—Determining when an Arrangement contains a Lease, SIC 15—Operating Leases—Incentives, and SIC 27—Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 establishes the principles for the recognition, valuation, presentation and the information to be disclosed of leases and it requires lessees to record all leases under a single balance sheet model similar to the current accountancy of financial leases in accordance with IAS 17. The standard includes two exemptions from the recognition of leases by lessees: leases of assets of low value (for example, personal computers); and short-term leases (i.e. lease contracts with a leasing period of 12 months or less). On the lease start date, the lessee will recognise a liability for the payments to be made for the lease (i.e. the liability for the lease) and an asset representing the right to use the underlying asset during the term of the lease (i.e. the asset for the right of use). Lessees must record separately the cost of interest corresponding to the liability due to the lease and the cost of the depreciation of the right of use.

Lessees will also be obliged to re-evaluate the liability due to the lease when certain events occur (for example, a change in the term of the lease, or a change in the future lease payments as a result of a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-evaluation of the liability due to the lease as an adjustment to the asset for the right of use.

The lessor's accountancy in accordance with IFRS 16 is not substantially altered compared to the current accountancy of IAS 17. The lessees will continue to classify the leases with the same classification principles as in IAS 17 and will record two types of lease: operating leases and financial leases.

IFRS 16 also requires lessees and lessors to disclose more extensive information than that stipulated in IAS 17.

IFRS 16 is applicable to financial years starting on or after the 1st of January 2019, and its early application is permitted. A lessee may opt to apply the standard retroactively, in full or by means of a modified retroactive transition. The transitory provisions of the standard permit certain exemptions.

In 2018, the Group continues to evaluate the potential effect of IFRS 16 on its consolidated financial statements.

IFRS 17—Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a new, comprehensive accounting standard for insurance contracts which covers recognition, valuation, presentation and itemisation. Once in force, IFRS 17 will replace IFRS 4 Insurance Contracts, which was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life insurance, non-life insurance, direct insurance and reinsurance), independently of the types of entities which issue them, as well as to certain financial instruments and guarantees with specific discretionary participation characteristics. Only certain exceptions are contemplated within its scope. The general aim of IFRS 17 is to provide an accounting model for insurance contracts which is more useful and uniform for insurance entities. Unlike the requirements of IFRS 4, which are based to a great extent on the application of local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts which covers all relevant accounting aspects. The core of IFRS 17 is the general model, complemented by:

- A specific adaptation for contracts with direct participation characteristics (variable fee approach).

- A simplified approach (premium allocation approach), mainly for short-term contracts.

IFRS 17 is applicable to financial years starting on or after the 1st of January 2021, and it requires the inclusion of comparative figures. Early application is permitted, provided that the entity also applies IFRS 9 and IFRS 15 on the date on which it applies IFRS 17 for the first time. This standard is not applicable to the Group.

2.3 Accounting principles applied

The accounting principles and basis of consolidation adopted for the preparation of the consolidated condensed interim financial statements corresponding to the 31st of May 2018 are the same as those applied in the preparation of the consolidated financial statements of financial year 2017.

2.4 Comparison of information

In accordance with that stipulated in IAS 1, the information contained in these consolidated condensed interim financial statements of the three months period ending on 31st of May 2018, is presented for comparative purpose in the consolidated condensed financial situation statement, the corresponding information for the year ended on 28th of February 2018 (fiscal year 2017), presenting, for comparative purposes in the rest of statements the comparative information for the three months period ended on 31st of May 2017.

3. Seasonality of the transactions of the interim accountancy period

As a general rule, the different segments of the Group experience seasonality in their transactions over the course of the annual period, and therefore, at total consolidated level, there is a deviation in the transactions between the interim periods.

The department stores and food segments (the latter to a lesser extent) concentrate a large part of their sales and profits in the last 3 or 4 months of the financial year. That seasonality likewise affects the working capital (through the volume of stocks accumulated), the related accounts payable, and therefore the draw-down of the lines of credit.

4. Main accounting policies

The accounting principles and basis of consolidation adopted for the preparation of the consolidated condensed interim financial statements corresponding to the 31st of May 2018 are the same as those applied in the preparation of the consolidated financial statements of financial year 2017, with the exception of the impacts deriving from the application of the new standards described in Note 2.2.1.

5. Property, plant and equipment and investment property

During the period ending on 31 May 2018, the most significant movements in this section were the following:

The reduction of 18,237 thousand euros corresponds mainly to the provision of the corresponding depreciation at 31 May 2018. The new registrations in the period are mainly due to the expansion and modernisation of different department stores, as well as other formats.

The depreciation of the period is in line with the period ending on 31 May 2017.

In this period, there were no other significant removals or deregistrations.

6. Other intangible assets

During the period ending on 31 May 2018, the most significant movements in this section were the following:

Increase of 2,432 thousand euros due to new assets.

The depreciation of the period is in line with the period ending on 31 May 2017.

In this period, there were no other significant removals or deregistrations.

7. Investments accounted for using the equity method

At 31 May 2018 and 28 February 2018, the most significant stakes in entities associated with the Group were as follows:

May 2018 (Unaudited)

	Thousands of Euros			
	Balance at 1 March 2018	Other Changes	Participation in results of companies under the equity method	Balance at 31 May 2018
Financiera El Corte Inglés E.F.C., S.A.	176,620	(36,750)	7,851	147,721
Gestión de Puntos de Venta, Gespevesa, S.A.	27,067	—	302	27,369
Sephora Cosméticos España, S.L.	6,783	1	(153)	6,631
Citorel, S.L.	1,448	—	114	1,562
FST Hotels, S.L.	87,245	(106)	514	87,653
Tagus Book, S.L.	(196)	(1)	(16)	(213)
Kio Networks Espa	5,504	250	173	5,927
Lecius, S.L.	576	1	23	600
	305,047	**(36,605)**	**8,808**	**277,250**

Financial Year 2017

	Thousands of Euros			
	Balance at 1 March 2017	Other Changes	Participation in results of companies under the equity method	Balance at 28 February 2018
Financiera El Corte Inglés E.F.C., S.A.	169,116	(32,993)	37,210	173,333
Gestión de Puntos de Venta, Gespevesa, S.A.	26,500	(1,351)	1,918	27,067
Sephora Cosméticos España, S.L.	5,977	—	806	6,783
Citorel, S.L.	1,665	(719)	502	1,448
FST Hotels, S.L.	83,095	(515)	4,665	87,245
Tagus Book, S.L.	(106)	—	(90)	(196)
Kio Networks Espa	4,931	2	571	5,504
Lecius, S.L.	480	(1)	97	576
	291,658	**(35,577)**	**45,679**	**301,760**

The investment in Financiera El Corte Inglés E.F.C., S.A., accounted for using the equity method since 2013, includes implicit goodwill of 31.1 million euros. At the start of financial year 2018, the sum of 3.2 million euros of Financiera El Corte Inglés was included following the application of the effect of IFRS 9.

The amounts reflected within "Other Changes" mainly correspond to the dividends paid out by each one of the part-owned companies to the Group during the year.

8. Current and non-current financial assets

The breakdown of the balance of this section of the consolidated condensed interim balance sheet is as follows:

	Thousands of Euros			
	May 2018 (Unaudited)		2017	
	Current	Non- current	Current	Non- current
Loans and items receivable	8,095	203,600	2,847	238,035
Held-to-maturity investments	10,810	—	8,935	—
Assets at fair value with changes in income statement	—	14,985	—	14,917
Assets available for sale	9,450	709,548	12,288	709,459
Derivatives	4,467	—	32	—
	32,822	**928,133**	**24,102**	**962,411**

With regard to the financial assets detailed in the table above, the majority of the investments are related to the business of Seguros El Corte Inglés, Vida, Pensiones y Reaseguros, S.A., as indicated below:

	Thousands of Euros			
	May 2018 (Unaudited)		2017	
	Current	Non-current	Current	Non-current
Loans and items receivable	2,947	133,315	109	148,586
Assets at fair value with changes in income statement	—	14,986	—	14,918
Assets available for sale	9,450	641,679	12,288	641,592
	12,397	**789,980**	**12,397**	**805,096**

As a result of the first application of IFRS 9—Financial Instruments, 15.9 million euros were recorded for expected losses.

The judgements and estimations made in order to determine the fair values of the financial instruments which are recognised in the consolidated financial statements are listed below. The Group classifies its financial instruments in the three levels envisaged in IFRS 7:

	Thousands of Euros			
Recurrent valuations at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
31 May 2018	—	—	—	—
Financial Assets at Fair Value with Changes in Results				
Equity instruments	—	9,645	—	9,645
Financial assets at fair value with changes in net equity				
Equity instruments	15,265	28,808	60,599	104,672
Debt securities	604,876	—	—	604,876
Loans and items receivable:				
Debt securities	131,778	—	—	131,778
Total financial assets	**751,919**	**38,453**	**60,599**	**850,971**

	Thousands of Euros			
Recurrent valuations at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
At 28 February 2018	—	—	—	—
Financial Assets at Fair Value with Changes in Results:				
Equity instruments	—	9,607	—	9,607
Available-for-sale financial assets:				
Equity instruments	16,836	29,640	63,225	109,701
Debt securities	600,888	—	—	600,888
Loans and items receivable:				
Debt securities	136,304	—	—	136,304
Total financial assets	**754,028**	**39,247**	**63,225**	**856,500**

9. Inventories

The details of the "Inventories" section of the attached consolidated condensed interim balance sheet are as follows:

	Thousands of Euros	
	May 2018 (Unaudited)	2017
Commercial inventories	2,206,105	2,057,851
Consumables	27,863	28,054
	2,233,968	**2,085,905**

In accordance with normal practice in the retail sector, El Corte Inglés, S.A. formalises the purchase orders with certain suppliers some months in advance of the delivery date of the merchandise. For that reason, it had firm purchase contracts for the sum of approximately 788.99 and 773.44 million euros at 31 May 2018 and 28 February 2018, respectively. Likewise, the Group had sales commitments with its customers at close of the period ending on 31 May 2018 and financial year 2017 for the sum of 99.67 and 130.92 million euros, respectively.

The Group's policy is to take out insurance policies to cover the risks to which its inventories are exposed. At 31 May 2018 and 28 February 2018, the Parent's directors considered that the coverage of the insurance policies on its inventories was adequate.

10. Trade and other receivables

The composition of the balance at 31 May 2018 and 28 February 2018 is as follows:

	Thousands of Euros	
	May 2018 (Unaudited)	**2017**
Trade receivables	466,877	444,149
Doubtful trade receivables	34,316	35,088
Invoices pending issue	1,472	1,583
Value impairment in commercial credits and provisions	(50,046)	(38,302)
Sub-total, trade receivables for sales and services	452,619	442,518
Sub-total, sundry receivables	411,530	470,982
Value impairment in debtors	(3,369)	—
	860,780	**913,500**

10. Trade and other receivables

At 31 May 2018 and 28 February 2018, there were no balances of “trade and other receivables” that were in arrears and no significant impairments.

In the period ending on 31 May 2018, the net allocation for the provision for trade and other receivables was 866 million euros (3.77 million in FY 2017).

11. Cash and cash equivalents

The breakdown of this section of the consolidated condensed interim balance sheet is as follows:

	Thousands of Euros	
	May 2018 (Unaudited)	2017
Cash balances	49,693	53,385
Bank balances	86,672	159,173
	136,365	**212,558**

The cash and bank balances include cash and sight accounts in credit entities which are remunerated at market rates.

12. Equity

12.1 Subscribed capital

At 31 May 2018 and at close of financial year 2017, the corporate capital of El Corte Inglés, S.A. was represented by 81,144,000 shares with a face value of 6 euros each, all of them registered and fully subscribed and paid out. The Company’s shares are not listed on a Stock Exchange.

The only legal entities with a stake of over 10% in the company’s corporate capital are Fundación Ramón Areces (37.39%) and Cartera de Valores IASA, S.A. (22.18%).

12.2 Treasury shares

At close of the period ending on 31 May 2018 and financial year 2017, the Group had treasury shares in its possession, held only temporarily and intended for disposal in the immediate future, in accordance with the following details:

		Euros
	No. of Shares	Face Value
Type-A treasury shares at close of May 2018	11,648,257	6
Type-A treasury shares at close of financial year 2017	11,520,623	6

In the course of the period ending on 31 May 2018 and financial year 2017, shares of the Parent were acquired for an effective value of 9.61 million euros and 68.40 million euros, and, at 31 May 2017, shares were transferred for the sum of 58.81 million euros.

In addition, deriving from the third tranche of the sale option granted in favour of the investor of the loan convertible into shares, the Company recorded the sum of 75 million euros as a greater amount of its treasury shares, with the total registered figure amounting to 225,000 thousand euros for this item at 31 May 2018.

12.3 Capital management

With respect to capital management, the Group’s objectives are to ensure the capacity to continue as a going concern, so that the group continues to provide a return for shareholders and to benefit other stakeholders, as well as maintaining an optimum financial structure in order to reduce the cost of capital.

With a view to maintaining and adjusting the capital structure, the Group may adjust the amount of the dividends to be paid out to shareholders, it may reimburse capital, issue shares or sell assets to reduce its debt.

The Parent's directors consider the leverage ratio as an indicator of fulfilment of the established capital management objectives. This ratio is calculated as the coefficient of dividing net debt by equity. Net debt is calculated as the sum of the current and non-current bank borrowings, excluding the corresponding held-for-sale assets, minus current financial investments and cash and cash equivalents.

The level of leverage at 31 May 2018 and 31 May 2017 is shown below:

	Thousands of Euros	
	May 2018 (Unaudited)	**May 2017 (Unaudited)**
Net financial debt:		
Debt instruments and other non-current marketable securities	666,371	1,978,766
Debt instruments and other current marketable securities	1,430,822	304,643
Long-term bank borrowings	2,266,972	2,033,335
Short-term bank borrowings	128,956	66,039
Current financial assets, cash and cash equivalents (not including derivatives)	(164,720)	(147,371)
	4,328,401	**4,235,412**
Net equity (discounting dividends):		
Of the Parent	8,311,015	8,598,415
Of non-controlling interests	17,306	15,536
	8,328,321	**8,613,951**
Leverage	**51.97%**	**49.17%**

12.4 Other equity instruments

On the 13th of July 2015, the Parent formalised a loan contract obligatorily convertible into shares with the Luxembourg company PrimeFin, S.A. for the sum of one billion euros; this is recorded in the "Other net equity instruments" section. That loan has a maturity of three years, and it must be repaid in the form of treasury shares of the El Corte Inglés Group. The shares handed over as a result of the repayment of the principal of the loan represent 10% of the corporate capital of El Corte Inglés, S.A. Likewise, the loan accrues interest payable in treasury shares which in total will represent an additional 2.25%.

In addition, the aforementioned contract establishes that, if certain situations occur in relation to the evolution of certain financial figures of the consolidated accounts of the El Corte Inglés Group, or the occurrence of certain operations related to the corporate capital of El Corte Inglés, S.A., the latter must be able to compensate the investor by means of the delivery of additional treasury shares. However, those compensations are conditional upon the General Meeting of Shareholders of El Corte Inglés, S.A. previously agreeing a distribution of dividends charged to freely-disposable reserves within a given time. If the Meeting of Shareholders has not agreed that distribution of dividends, the investor's right to be compensated will cease to exist.

In addition, on that same date, the Parent signed an agreement with PrimeFin, S.A., which granted it an exit sale option on all of the shares held by El Corte Inglés, S.A. That exit sale option will be executable from the tenth year after the signing of the contract and its execution depends on certain conditions whose fulfilment is optional for the Parent.

Likewise, the Parent agreed a sale option with PrimeFin, S.A. on those company shares which are transferred in payment of the interest of the loan, which represent 2.25% of the corporate capital of El Corte Inglés, S.A. As is stipulated in the contract, PrimeFin S.A. may request cash advances from El Corte Inglés, S.A. on account of the aforementioned sale option. The valuation of that sale option is 225 million euros, which is recorded linearly during the lifetime of the loan, as and when the interest accrues.

At close of financial year 2016, the Parent recorded 75 million euros for the sale option, and in financial year 2017 PrimeFin S.A. requested the second advance payment, and that amount was paid out in July 2017. At 28 February 2018, the Company again recorded a liability of 75 million euros for the sale option. Those amounts are classified in the current liabilities of the attached balance sheet, in the "Other Financial Liabilities" section.

At 31 May 2018, it recorded a liability of 75 million euros for the sale option.

13. Provisions and contingent liabilities

The details of the provisions corresponding to this section of the attached consolidated condensed interim balance sheet, as well as the changes registered during the financial year, were the following:

Long-term provisions	Initial balance	Allocations	Reversion, application and others	Final balance
	Thousands of Euros			
May 2018 (Unaudited)				
Obligations for provisions to personnel	19,708	4,101	(2,815)	20,994
Technical provisions	602,513	11,630	—	614,143
Others	179,241	42,843	(20,055)	202,029
Long-term total	**801,462**	**58,574**	**(22,870)**	**837,166**
Financial Year 2017:				
Obligations for provisions to personnel	21,937	32,680	(34,909)	19,708
Technical provisions	679,842	—	(77,329)	602,513
Others	174,373	80,550	(75,682)	179,241
Long-term total	**876,152**	**113,230**	**(187,920)**	**801,462**

Short-term provisions	Initial balance	Allocations	Reversion, application and others	Final balance
	Thousands of Euros			
May 2018 (Unaudited)				
Obligations for provisions to personnel	13,499	—	(3,247)	10,252
Others	442	18	(189)	271
Short-term total	**13,941**	**18**	**(3,436)**	**10,523**
Financial Year 2017:				
Obligations for provisions to personnel	17,650	3,416	(7,567)	13,499
Others	335	195	(88)	442
Short-term total	**17,985**	**3,611**	**(7,655)**	**13,941**

Obligations for provisions to personnel

At 31 May 2018, the company had provisioned, in the "Obligations for provisions to personnel" section, the impacts deriving from those employment termination agreements within the partial retirement plan communicated at the close of this financial year to employees aged 61. The corresponding part to be paid out in the short term is recorded at 31 May 2018 in the "Short-term provisions" section. The total amount of the provision at 31 May 2018 was 4.1 million euros (33.2 million euros at 28 February 2018).

Technical provisions

This heading includes mainly the technical provisions of Insurance business.

Other provisions

The provisions included in "Others" include mainly the charges for the tax on department stores of the stores located in the Autonomous Communities of Catalonia, Asturias and Aragon and onerous contracts.

All of those charges have been appealed before the corresponding judicial bodies, and at the present time we are awaiting a ruling.

14. Current and non-current bank borrowings and debt instruments and other marketable securities

The composition of the balance of these sections of the consolidated condensed interim balance sheet is as follows:

	Thousands of Euros			
	May 2018 (Unaudited)		2017	
	Current	Non-current	Current	Non-current
Bonds and other negotiable securities	1,430,822	666,371	1,631,212	595,804
Debts with credit entities	98,347	2,197,045	84,874	1,583,538
Debts for financial leases	30,609	69,927	29,534	68,764
Derivatives	102,562	93,417	98,142	90,915
Other financial liabilities	7,737	19,680	17,483	14,015

1,670,077	**3,046,440**	**1,861,245**	**2,353,036**

The details of the items forming part of the "Non-current bank borrowings" section, by maturity, are as follows:

May 2018 (Unaudited)

	Thousands of Euros						
	Commissions	**2020**	**2021**	**2022**	**2023**	**Others**	**Total**
Bank loans and credits	(44.952)	305.645	265,785	252,571	1,335,940	82,056	2,197,045
Financial lease	—	20,504	20,965	17,283	9,874	1,301	69,927
	(44,952)	**326,149**	**286,750**	**269,854**	**1,345,814**	**83,357**	**2,266,972**

Financial Year 2017

	Thousands of Euros						
	Commissions	**2019**	**2020**	**2021**	**2022**	**Others**	**Total**
Bank loans and credits	(48,533)	288,857	265,785	252,571	758,571	66,287	1,583,538
Financial lease	—	25,175	19,926	15,367	7,938	358	68,764
	(48,533)	**314,032**	**285,711**	**267,938**	**766,509**	**66,645**	**1,652,302**

Included in the "Short-term debt instruments and other marketable securities" section, the Group classifies the balance of promissory notes issued in the Alternative Bonds Market (MARF), which, at 31 May 2018, stood at the sum of 492,674 thousand euros (379,330 thousand euros in financial year 2017). The aforementioned promissory notes have short-term maturities and they accrue interest at market rates.

Likewise, at 31 May 2018, the Company recorded, in the "Short-term debt instruments and other marketable securities" section, the balance of the debt formalised in promissory notes after they were not renewed during this financial year. The amount of these at 31 May 2018 was 938,148 thousand euros.

Lastly, at May 31, 2018, the Group maintains nominal Interest Rate Swaps agreements amounting to 2,199 million euros (1,699 million euros at February 28, 2018). Out of this amount, contracts totalling 500 million euros are recorded applying hedge accounting (no all Interest Rate Swaps held at February 28, 2018 were accounted for applying hedge accounting).

15. Trade and other payables

At the close of the period ending on 31 May 2018 and financial year 2017, the composition of these sections was as follows:

	Thousands of Euros	
	May 2018 (Unaudited)	2017
Suppliers and creditors	2,522,625	2,763,855
Short-term taxes payable	204,635	256,779
Accounts with personnel	472,220	477,761
	3,199,480	**3,498,395**

16. Public administrations and tax situation

The cost of the income tax of the period ending on 31 May 2018 is quantified based on the best estimation of the rate it is expected will be applicable for the annual accountancy period.

As of the date of issuance of these interim financial statements, the tax inspection procedure for the years 2011/12 to 2014/15 with respect to Corporation Tax, and from 2012 to 2015, for the rest of taxes with annual cadence coinciding with the calendar year has ended without revealing acts in disagreement or significant fiscal liabilities.

17. Segmentation by items

The main activity of the Group consists of the retailing of consumer goods, as well as the provision of a wide range of services—travel agencies, insurance brokerage, insurance etc.—for which the Group has a network of department stores, hypermarkets, supermarkets, convenience stores and offices.

There were no differences in this period compared to the most recent consolidated financial statements of financial year 2017 with regard to the segmentation criteria or the valuation of segments.

The following tables show the information by segments corresponding to the Group by type of activity:

May 2018 (Unaudited)

	Thousands of Euros						
	Retail	Sale of products and information service	Travel agency services	Insurance brokerage service and life insurance	Other activities	Consolidation adjustment	Total
Revenue	2,751,331	142,880	667,144	53,010	26,387	(223,291)	3,417,461
Gross Margin	890,436	42,684	68,000	34,498	11,577	(18,922)	1,028,273
Operating result	(56,628)	1,336	1,684	19,731	1,168	1,442	(31,267)
Profit for the year	(60,054)	(877)	952	17,797	1,208	(8,964)	(49,938)
Inv. in non-current assets	105,832	1,906	4,208	884	37	(4,728)	108,139

May 2017 (Unaudited)

	Thousands of Euros						
	Retail	Sale of products and information service	Travel agency services	Insurance brokerage service and life insurance	Other activities	Consolidation adjustment	Total
Revenue	2,786,943	158,009	627,236	48,644	32,213	(240,052)	3,412,993
Gross Margin	893,430	45,298	63,681	29,057	13,374	(16,870)	1,027,970
Operating result	(60,692)	1,243	232	16,059	64	1,522	(41,572)
Profit for the year	(77,431)	449	(106)	15,349	80	10,048	(51,611)
Inv. in non-current assets	100,254	1,410	4,516	492	610	(3,141)	104,141

May 2018 (Unaudited)

Balance	Thousands of Euros Retail	Sale of products and information service	Travel agency services	Insurance brokerage service and life insurance	Other activities	Consolidation adjustment	Total
Fixed assets	9,198,119	16,400	98,604	32,010	143,656	3,343,402	12,832,191
Financial assets	1,696,476	14,327	149,546	908,247	107,677	(1,658,477)	1,217,796
Deferred tax assets	899,550	4,244	1,553	4,218	2,356	2,233	914,154
Inventories	2,137,626	124,647	276	—	2,108	(49)	2,264,608
Trade and other receivables	1,024,614	264,959	338,667	155,697	76,075	(892,900)	967,112
Cash and others	81,552	12,484	10,052	26,483	5,794	—	136,365
Total Assets	**15,037,937**	**437,061**	**598,698**	**1,126,655**	**337,666**	**794,209**	**18,332,226**
Net equity	6,431,608	119,535	200,672	371,918	184,083	1,020,504	8,328,320
LT provisions and others	234,321	3,479	2	617,704	—	2,634	858,140
LT debt	3,251,609	10,548	3,998	190	3,399	(174,624)	3,095,120
Deferred tax liabilities	70,257	450	—	14,087	554	845,334	930,682
ST debts	2,355,691	79,217	575	92	125,525	(850,814)	1,710,286
Other current liabilities	2,694,451	223,832	393,451	122,664	24,105	(48,825)	3,409,678
Total Liabilities	**15,037,937**	**437,061**	**598,698**	**1,126,655**	**337,666**	**794,209**	**18,332,226**

Financial Year 2017

Balance	Thousands of Euros Retail	Sale of products and information service	Travel agency services	Insurance brokerage service and life insurance	Other activities	Consolidation adjustment	Total
Fixed assets	9,227,234	15,511	89,573	32,492	145,139	3,338,047	12,847,996
Financial assets	1,709,989	14,166	148,912	931,165	107,812	(1,625,820)	1,286,224
Deferred tax assets	869,744	4,310	1,555	3,076	2,356	2,232	883,273
Inventories	1,983,769	100,053	276	—	2,002	(195)	2,085,905
Trade and other receivables	1,073,722	312,587	199,511	87,264	82,202	(746,768)	1,008,518
Cash and others	159,014	17,968	5,918	25,160	4,498	—	212,558
Total Assets	**15,023,472**	**464,595**	**445,745**	**1,079,157**	**344,009**	**967,496**	**18,324,474**
Net equity	6,624,447	120,811	194,725	366,354	183,053	1,008,669	8,498,059
LT provisions and others	211,183	3,479	(3)	606,796	—	2,834	824,289
LT debt	2,553,863	10,627	28	189	3,413	(167,237)	2,400,883
Deferred tax liabilities	70,197	450	—	13,023	554	845,333	929,557
ST debts	2,418,888	72,661	62	45	126,533	(666,441)	1,951,748
Other current liabilities	3,144,894	256,567	250,933	92,750	30,456	(55,662)	3,719,938
Total Liabilities	**15,023,472**	**464,595**	**445,745**	**1,079,157**	**344,009**	**967,496**	**18,324,474**

The figures included within Other activities are mainly those corresponding to the businesses of Telecor and others.

Consolidation adjustments affecting the net result mainly correspond to the dividends received from dependent entities.

The distribution of the consolidated turnover corresponding to the periods ending on 31 May 2018 and 31 May 2017, by geographical areas, is as follows:

Activity	Thousands of Euros May 2018 (Unaudited)	May 2017 (Unaudited)
Spain	3,239,556	3,241,546
European Union	104,773	98,830
Rest of the world	73,132	72,617
	3,417,461	**3,412,993**

18. Operations and balances with related parties

Operations between the Company and its subsidiaries, which are related parties and form part of the regular business traffic in terms of their object and conditions, have been eliminated in the consolidation process, as indicated in these notes to the financial statements, and they are not broken down in this Note. The details of operations between the Group and its associates and other related parties are shown below.

18.1 Balances and operations with associates and related parties

The details of operations carried out with related parties during the periods ending on 31 May 2018 and 31 May 2018 are as follows:

May 2018 (Unaudited)

	Thousands of Euros		
	Associated companies	Other Related Parties	Total
Sales	4,636	333	4,969
Purchases	7,322	10,182	17,504
Acquisitions of fixed assets	—	23	23
Services rendered	1,415	213	1,628
Services received	9,597	310	9,907
Interest paid	38	—	38
Interest charged	—	228	228
Other financial services	3,064	—	3,064

May 2017 (Unaudited)

	Thousands of Euros		
	Associated companies	Other Related Parties	Total
Sales	4,727	339	5,066
Purchases	7,097	16,266	23,363
Acquisitions of fixed assets	—	19	19
Services rendered	1,861	55	1,916
Services received	9,402	4,090	13,492
Interest paid	43	—	43
Interest charged	—	961	961
Other financial services	3,093	—	3,093

In addition, the amount of the balances in the balance sheet with related parties is as follows:

May 2018 (Unaudited)

	Thousands of Euros		
	Associated companies	Other Related Parties	Total
Trade and other receivables	34,404	2,744	37,148
Short-term financial investments	2,616	204	2,820
Long-term debts	—	(48,680)	(48,680)
Short-term debts	(24,953)	(15,256)	(40,209)
Payables to suppliers and trade payables	(17,204)	(2,936)	(20,140)
Current accounts with Administrations	—	(55,941)	(55,941)

Financial Year 2017

	Thousands of Euros		
	Associated companies	Other Related Parties	Total
Trade and other receivables	19,566	2,935	22,501
Short-term financial investments	1,979	204	2,183
Long-term debts	(3)	(48,654)	(48,657)
Short-term debts	(68,862)	(21,641)	(90,503)

Payables to suppliers and trade payables	(13,242)	(2,309)	(15,551)
Current accounts with Administrations	—	(71,096)	(71,096)

The main transactions carried out by the Group with other related parties are due to commercial operations. Those transactions were carried out at market prices.

19. Other information

Events after close

As of August 2, 2018, the Group has reduced the maximum available amount under the Term Loan A1 (originally 1,200,000 thousand euros) in a sum of 435,000 thousand euros pursuant to certain voluntary partial cancellations and disposal of non-material assets (for a total amount of 212,000 thousand euros).

On July 13, 2015, the Group entered into a three-year 1,000,000 thousand euros mandatory convertible loan agreement with PrimeFin, S.A., with the Parent Company as borrower and PrimeFin, S.A. as lender. On July 13, 2018, in accordance with the terms of the loan agreement, the Parent Company transferred 10% of its share capital to PrimeFin, S.A.as payment in kind of the principal amount of the loan. During the term of the loan agreement and as payment in kind of the interest of the loan, PrimeFin, S.A. has received annually 0.75% capital of the Parent Company (2.25% in total) with a put option at an exercise price of 225,000 thousand euros (less any dividends received on such 2.25% stake), which was exercised by PrimeFin, S.A.

In the second quarter of the Group’s 2018 financial year, the Parent Company received an unsolicited bid for IECISA (Group’s IT segment). The Parent Company has allowed the bidder to undertake the relevant due diligence process, which may result in submitting a binding proposal for its acquisition during September or October 2018. If the biding proposal is finally received and accepted by the Parent Company’s board of directors, the transaction could close before year-end.

EL CORTE INGLÉS
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INDEPENDENT AUDITORS' REPORT

Audit report on the Consolidated Financial Statements issued by an Independent Auditor

EL CORTE INGLÉS, S.A. AND SUBSIDIARIES
Consolidated Financial Statements and Management Report for the year ended February 28, 2018 (2017 financial year)

[GRAPHIC]

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

To the Shareholders of EI Corte Inglés, S.A.:

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of EI Corte Inglés, S.A. (the Parent) and its subsidiaries (the Group), which comprise the balance sheet at February 28, 2018, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement, and the notes thereto, all consolidated for the year then ended (2017 financial year).

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of consolidated equity and the consolidated financial position of the Group at February 28, 2018 and of its financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (EU-IFRS), and other provisions in the regulatory framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned regulations.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[GRAPHIC]

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of property, plant and equipment and investment properties

Description.................. As explained in Notes 5 and 6 to the accompanying consolidated financial statements, at February 28, 2018 the Group presents “Property, plant, and equipment” and “Investment properties amounting to “12,083,645 thousand euros and 178,280 thousand euros, respectively. “Property, plant and equipment” includes primarily net investments made in shopping centers, hypermarkets and supermarkets operated by the Group as well as other corporate assets, such as logistics centers, offices, etc. Investment properties correspond in turn to assets held to earn rentals.

In accordance with the applicable financial reporting framework, the Group must perform an impairment test on its properties, including those relating to its core business as well as its “investment properties” (each of them defined as a separate cash-generating unit) when there is indication of potential impairment. The valuation of the Group’s shopping centers is conducted primarily using fair value (based on an appraisal carried out by an independent expert), less cost of sales. In practice, it is the Group’s policy to engage an independent appraiser to carry out a valuation of almost all of its shopping centers at each year-end.

This area is key in the context of our audit given that the valuation process for properties is complex and requires that the independent appraiser and management make significant estimates (primarily, cash flows and rental income estimates, reversal values, discount rate, arithmetical calculations, and sensitivity analysis).

The principal criteria applied in determining the recoverable amount of the assets as well as any impairment included in “Property, plant and equipment” and shopping centers are described in Notes 4.2.5 to the accompanying consolidated financial statements.

Our response .... With regard to this matter, our audit procedures included:

- Reviewing, in collaboration with out valuation experts, the reasonableness of the methodology used by Group management to assess the impairment of each cash-generating unit and reviewing consistency with the applicable financial reporting framework.

- Reviewing, in collaboration with our valuation experts, the consistency and reasonableness of the hypotheses used by the independent appraisers when calculating the fair value of the cash-generating units.

- Selecting a representative sample of cash-generating units and assessing the accuracy of the arithmetical calculations made to determine their recoverable amount.

- Reviewing the disclosures included in the notes to the financial statements in accordance with the regulatory reporting framework applicable to the Group.

Recoverability of deferred tax assets

Description.................. As stated in Note 22.4 to the accompanying consolidated financial statements, at February 28, 2018, the Group presents deferred tax assets amounting to 883,273 thousand euros, after making the corrections described Note 2.6 to the accompanying consolidated financial statements.

As explained in Notes 2.3 and 4.2.10 to the accompanying consolidated financial statements, the assessment made by Group management to determine the recoverable amount of deferred tax assets depends on the amounts and dates on which future taxable profits will be obtained and the reversion period of taxable temporary differences.

This is a key audit matter due to the fact that the valuation process is complex and requires that Parent management make significant estimates and judgments, specifically, on future economic and market conditions that could affect the Group.

Our response .... In this regard, our audit procedures included:

- Analyzing the recoverability of deferred tax assets as well as how they were accounted for in the accompanying consolidated financial statements, based on the evaluation of the reasonableness of the hypotheses assumed by management to estimate the recovery period. Focusing our analysis specifically on economic and financial hypotheses used to estimate future taxable profit, in collaboration with our valuation specialists.

- Assessing, in collaboration with our tax specialists, the principal corporate income tax law considerations supporting the Parent management's analysis.

- Reviewing the disclosures included in the notes to the accompanying consolidated financial statements in accordance with the applicable regulatory reporting framework.

Valuation of inventories

Description.................. As stated in Note 12 to the accompanying consolidated financial statements, at February 28, 2018, the Group's consolidated balance sheet reflects inventories amounting to 2,085,905 thousand euros, which represents 11.4% of its total assets valued as described in Note 4.2.7 to the consolidated financial statements.

These inventories mainly correspond to a high number of items from different categories (fashion, beauty, technology, decoration, household items, sport, etc.) which are sold in the various types of commercial establishments offered by the Group. The items are stored primarily in the Group's points of sale and in its three main logistics centers. Given the nature of the Group's business, inventory reflects high rotation and for a significant percentage, sale prices can vary significantly depending on the time of year (decreasing during sales seasons).

We have determined this to be a key audit matter in view of the quantitative significance of inventory amounts, the relevance of judgments and hypotheses applied by Group management in determining both the cost and recoverable amount of inventories, as well as the complexity of the technological environment supporting inventory valuation.

Our response .... In this regard, our audit procedures included:

- Understanding the inventory management and valuation process as well as identifying and analyzing the design and related tests for key associated controls.

- Involving our IT specialists in the verification of the application controls implemented for the key IT applications supporting the inventories valuation process.

- Reviewing the correct valuation of inventories via substantive tests performed on representative samples.
  Analyzing the rotation of inventories bases on selected samples.

IT systems related to revenue recognition for the Group's retail and travel business

Description..................	The majority of the sales recorded by the Group (approximately 94%) correspond to a high volume of independent transactions related to its retail and travel business, generally for relatively insignificant amounts, carried out in its network of department stores, hypermarkets, nearby stores, and other establishments, as well as via its online sales platform. Sales related to retail and travel business both in traditional stores as well as online can be characterized as highly automated and are supported through interaction between a number of highly complex IT applications. As a result, the recognition of this type of revenue is heavily dependent upon the correct functioning of IT systems. In this context, maintenance of an adequate internal control environment for IT systems is essential to guarantee proper functioning and thus, the correct processing of this revenue. We have determined this area to be a key audit matter due to the effort required of us during the course of our work to analyze the high volume of transactions carried out, the complexity, and high automation of the IT systems supporting revenue recognition for the retail and travel business.
Our response	In this regard, our audit procedures included:

- Identifying and understanding key IT systems supporting the revenue recognition process for the retail and travel business and assessing the degree of related internal control. Our procedures consisted in reviewing the existence of IT security policies, reading and analyzing the Group's IT procedures as well as its structure, governance, and organization. In addition, we carried out a tax inspection of the main data processing center that houses the technological infrastructure supporting revenue recognition for the retail and travel business.

- Evaluating the design, implementation, and operational effectiveness of overall controls applied to access management, program changes, and other controls, in addition to the key application involved in the revenue recognition process for the retail and travel business.

- Evaluating the design, implementation, and operational effectiveness of key automated controls applied to the revenue recognition process for the retail and travel business.

- Conducting tests of the daily ledger of the Group's main subsidiaries to identify manual and unusual entries impacting revenue not recorded via key IT applications supporting the automated revenue recognition process for the retail and travel business.

Other issues

On June 23, 2017, other auditors issued their audit report on the 2016 consolidated financial statements at February 28, 2017, in which they expressed an unqualified opinion.

Other information: Consolidated management report

Other information refers exclusively to the consolidated management report for the year ended February 28, 2018, the preparation of which is the responsibility of the Parent's directors and is not an integral part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility for the information contained in the consolidated management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

a. A specific level applicable to non-financial information, which solely requires that we verify whether said information has been included in the management report, or if applicable, that the management report includes the corresponding reference to the separate report on non-financial information as required by regulations, and if not, disclose this fact.

b. A general level applicable to the remaining information included in the consolidated management report, which requires us to evaluate and report on the consistency of said information in the consolidated financial statements, based on knowledge of the Group obtained during the audit, excluding information not obtained from evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the consolidated management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described above, we have verified that the non-financial information referred to in paragraph a) above is provided in the separate report on non-financial information which is referred to in the consolidated management report, and that the remaining information contained therein is consistent with that provided in the consolidated financial statements for the year ended February 28, 2018 and their content and presentation are in conformity with applicable regulations.

Responsibilities of the Parent's directors and the audit and control committee for the consolidated financial statements

The Parent's directors are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the equity, financial position and results of the Group, in accordance with EU-IFRS, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Parent's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Parent's audit and control committee is responsible for supervising the process for preparing and presenting the Group's consolidated financial statements.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. In addition:

- We identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- We conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We are solely responsible for our audit opinion.

Among other issues, we communicate with the Parent's audit and control committee regarding the planned scope and time of production of the audit, and the significant findings of the audit, as well as any significant faults in the internal control which we identify during the audit.

We also provide the audit and control committee of the Parent with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Parent's audit and control committee, we determine those that were of most significance in the audit of the consolidated financial statements for the current period, and that are therefore considered the key audit issues.

We describe these matters in our auditor's report unless legal or regulatory provisions preclude public disclosure about the matter.

Report on other legal and regulatory requirements

Additional report for the Parent's audit and control committee

The opinion given in this report is coherent with what is set out in our additional report for the Parent's audit and control committee dated 23 of July of 2018.

Term of engagement

During the Ordinary General Shareholders' Meeting held on August 28, 2016, we were appointed auditors for a period of three years, commencing the year ended February 28, 2018.

ERNST & YOUNG, S.L.
[GRAPHIC]
(Signed on the original in Spanish)
José Luis Ruiz

July 23, 2018

El Corte Inglés
Consolidated Group
Consolidated Financial Statement for FY 2017 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 2018.

(Thousands of euros)

ASSETS	Notes in the report	28/02/2018	28/02/2017(*)
NON-CURRENT ASSETS			
Property, plant and equipment	Note 5	12,083,645	12,254,258
Investment property	Note 6	178,280	177,384
Goodwill	Note 7	19,485	19,485
Other intangible assets	Note 8	566,586	552,610
Non-current credits and other financial assets		22,053	21,669
Investments accounted for using the equity method	Note 10	301,760	291,658
Non-current financial assets	Note 11	962,411	1,023,246
Deferred tax assets	Note 22	883,273	914,400
Total non-current assets		**15,017,493**	**15,254,710**
CURRENT ASSETS			
Inventories	Note 12	2,085,905	1,860,880
Trade and other receivables	Note 13	913,500	957,684
Receivable from associates and related parties	Note 24.1	22,501	25,444
Current tax assets		1,588	1,477
Investments in associates and related parties	Note 24.1	2,183	234
Current financial assets	Note 11	24,102	66,941
Other current assets		44,644	26,649
Cash and cash equivalents	Note 14	212,558	154,139
Total current assets		**3,306,981**	**3,093,448**
TOTAL ASSETS		**18,324,474**	**18,348,158**

(*) Re-stated figures. See Note 2.6

The accompanying Notes 1 to 26 are an integral part of the consolidated balance sheet at 28 February 2018

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED BALANCE SHEET AT 28 FEBRUARY 2018.

(Thousands of euros)

NET EQUITY AND LIABILITIES	Notes in the Report	28/02/2018	28/02/2017(*)
NET EQUITY	Note 15		
Capital		486,864	486,864
Reserves		8,109,993	8,090,668
—Legal reserve		97,373	97,373
—Other reserves		8,012,620	7,993,295
Profit for the year attributable to the Parent		200,566	121,498
Other net equity instruments		1,000,000	1,000,000
Total shareholders' equity		**9,797,423**	**9,699,030**
Translation differences		(9,810)	(1,361)
Treasury Shares		(1,326,121)	(1,241,568)
Valuation adjustments		19,120	48,288
—Available-for-sale financial assets		26,482	31,732
—Hedges		(7,362)	16,556
Non-controlling interests		17,447	15,845
Total equity		**8,498,059**	**8,520,234**
NON-CURRENT LIABILITIES			
Non-current provisions	Note 16	801,462	876,152
Debt instruments and other non-current marketable securities	Note 17	595,804	2,010,273
Non-current bank borrowings	Note 17	1,652,302	1,877,937
Non-current payables with associates and related parties	Note 24.1	48,657	48,657
Other financial liabilities	Note 17	104,930	153,874
Payable to non-current fixed asset suppliers		22,626	93,665
Deferred tax liabilities	Note 22	929,558	936,168
Total non-current liabilities		**4,155,339**	**5,996,726**
CURRENT LIABILITIES			
Current provisions	Note 16	13,941	17,985
Debt instruments and other current marketable securities	Note 17	1,631,212	149,857
Current bank borrowings	Note 17	114,408	56,959
Current payables with associates and related parties	Note 24.1	90,503	64,426
Other current financial liabilities	Note 17	115,625	95,241
Payable to fixed asset suppliers		171,377	125,024
Trade and other payables	Note 21	3,498,395	3,277,941
Payable to suppliers—associates and related parties	Note 24.1	15,551	23,210
Current tax liabilities		12,287	8,841
Accrued expenses and deferred income		7,777	11,714
Total current liabilities		**5,671,076**	**3,831,198**
TOTAL NET EQUITY AND LIABILITIES		**18,324,474**	**18,348,158**

(*) Re-stated figures. See Note 2.6

The accompanying Notes 1 to 26 are an integral part of the consolidated balance sheet at 28 February 2018.

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED INCOME STATEMENT FOR 2017.

(Thousands of euros)

	Notes in the report	FY 2017	FY 2016(*)
Net turnover		**15,934,813**	**15,504,573**
—Sales	Note 23.1	12.714,128	12,415,808
—Services		3,220,685	3,088,765
Supplies	Note 23.2	**(11,249,548)**	**(11,000,011)**
Personnel expenses	Note 23.3	**(2,587,618)**	**(2,521,950)**
Other Operating Income and Expenditure	Note 23.4	**(1,043,955)**	**(1,001,678)**
Depreciation of fixed assets	Notes 5.6 and 8	**(510,408)**	**(519,153)**
Allocation of non-financial fixed asset subsidies and others		**—**	**—**
Excessive provisions, impairment and gains or losses on disposals of non-current assets and other results	Notes 5 and 8	**(95,504)**	**6,968**
Obligations for provisions to personnel	Note 16.1	**(36,096)**	**(211,296)**
OPERATING RESULT		**411,684**	**257,453**
Financial income	Note 23.5	**9,968**	**10,614**
Financial expenses	Note 23.5	**(192,205)**	**(203,763)**
Variation in fair value of financial instruments	Notes 11 and 19	**10,609**	**33,991**
Result of companies accounted for using the equity method	Note 10	**45,679**	**38,744**
Translation differences		**(5,795)**	**839**
Impairment and gains or losses on disposals of financial instruments	Note 10	**(3,852)**	**22,621**
PRE-TAX RESULT		**276,088**	**160,499**
Income tax	Note 22	(73,893)	(37,775)
RESULT OF THE FINANCIAL YEAR		**202,195**	**122,724**
Profit attributable to non-controlling interests	Note 15.6	(1,629)	(1,226)
PROFIT ATTRIBUTABLE TO THE PARENT		**200,566**	**121,498**

Amounts in thousands of euros

(*) Re-stated figures. See Note 2.6

CONSOLIDATED GROUP EL CORTE INGLÉS

CONSOLIDATED GLOBAL RESULT STATEMENT OF 2017

STATEMENT OF INCOME AND EXPENSES ATTRIBUTABLE TO EQUITY

(In thousands euros)

		FY 2017	FY 2016(*)
I. RESULT OF THE PROFIT AND LOSS ACCOUNT (I)		**202,195**	**122,725**
Income and expenses allocated directly to net equity			
—From valuation of financial instruments	Note 15.5	(2,199)	(1,563)
—From cash flow hedges	Note 19	(42,724)	(9,207)
—Conversion differences		(8,577)	(4,041)
—Tax effect	Note 22.2	11,231	2,693
—Tax effect change			
TOTAL INCOME AND EXPENSES ALLOCATED DIRECTLY TO NET EQUITY (II)		**(42,268)**	**(12,119)**
Transfers to the profit and loss account			
—From valuation of financial instruments	Note 15.5	(423)	(500)
—From cash flow hedges	Note 19	6,625	33,488
—Efecto impositivo		(1,550)	(8,247)
TOTAL TRANSFERS TO THE PROFIT AND LOSS ACCOUNT (III)		**4,651**	**24,741**
TOTAL GLOBAL RECOGNISED INCOME AND EXPENSES (I+II+III)		**164,578**	**135,347**
TOTAL GLOBAL RECOGNISED INCOME AND EXPENSES OF THE PARENT COMPANY		**166,207**	**136,573**
TOTAL GLOBAL RECOGNISED INCOME AND EXPENSES OF MINORITY INTERESTS		**(1,629)**	**(1,226)**

(*) Reexpresed figures. See Note 2.6

Notes 1 to 26 of the attached Report form an integral part of the balance sheet at 28 February 2018.

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY FOR 2017

(Thousands of euros)

	Capital	Reserves: Legal reserve	Reserves: Other reserves	Reserves: Total	Other equity inst.	Treasury shares	Reserves in consolidated companies	Profit attributable to the parent	Valuation adjustments and translation differences	Non-controlling interests	TOTAL
BALANCE AT THE END OF 2015	**486,864**	**97,373**	**6,818,758**	**6,916,131**	**1,000,000**	**(1,176,667)**	**1,335,078**	**155,928**	**(76,634)**	**14,662**	**8,655,362**
Adjustments due to re-statement (Note 2.6)			(191,250)	(191,250)	—	—	12,000	—	110,938		(68,312)
ADJUSTED BALANCE AT THE START OF 2016	**486,864**	**97,373**	**6,627,508**	**6,724,881**	**1,000,000**	**(1,176,667)**	**1,347,078**	**155,928**	**34,304**	**14,662**	**8,587,050**
Total comprehensive income	—	—	—	—		—	—	**160,633**	**43,756**	**1,226**	**205,615**
Operations with shareholders	—	—	**115,863**	**115,863**	—	**(64,901)**	**5,065**	**(155,928)**	—	—	**(99,901)**
—Distribution of 2015 profit	—	—	115,863	115,863	—	—	5,065	(155,928)	—	—	(35,000)
To dividends	—	—	—	—	—	—	—	(35,000)	—	—	(35,000)
To reserves	—	—	115,863	115,863	—	—	5,065	(120,928)	—	—	—
—Operations with treasury shares (net)	—	—	—	—	—	(64,901)	—	—	—	—	(64,901)
Other changes in equity—Please see Note 4.2.8.c and 15.8	—	—	(52,572)	(52,572)	—	—	(49,647)	—	—	(43)	(102,262)
SALDO FINAL DEL EJERCICIO 2016	**486,864**	**97,373**	**6,690,799**	**6,788,172**	**1,000,000**	**(1,241,568)**	**1,302,496**	**160,633**	**78,060**	**15,845**	**8,590,503**
SALDO AJUSTADO AL INICIO DEL EJERCICIO 2016	**486,864**	**97,373**	**6,690,799**	**6,788,172**	**1,000,000**	**(1,241,568)**	**1,302,496**	**160,633**	**78,060**	**15,845**	**8,590,503**
Adjustments due to re-statement (Note 2.6)	—	—	—	—	—	—	—	(39,135)	(31,134)	—	(70,269)
ADJUSTED BALANCE AT THE START OF 2017	**486,864**	**97,373**	**6,690,799**	**6,788,172**	**1,000,000**	**(1,241,568)**	**1,302,496**	**121,498**	**46,926**	**15,845**	**8,520,233**
Total comprehensive income	—	—	—	—		—	—	**200,566**	**(37,616)**	**1,629**	**164,579**
Operations with shareholders	—	—	**94,524**	**94,524**	—	**(84,553)**	**(22,891)**	**(121,498)**	—	—	**(134,418)**
—Distribution of 2016 profit	—	—	94,524	94,524	—	—	(22,891)	(121,498)	—	—	(49,865)
To dividends	—	—	—	—	—	—	—	(49,865)	—	—	(49,865)
To reserves	—	—	94,524	94,524	—	—	(22,891)	(71,633)	—	—	—
—Operations with treasury shares (net)	—	—	—	—	—	(84,553)	—	—	—	—	(84,553)
Other changes in equity—Please see Note 4.2.8.c and 15.8	—	—	**50,181**	**50,181**	—	—	**(102,489)**	—	—	**(27)**	**(52,335)**
BALANCE AT THE END OF 2017	**486,864**	**97,373**	**6,835,504**	**6,932,877**	**1,000,000**	**(1,326,121)**	**1,177,116**	**200,566**	**9,310**	**17,447**	**8.498.059**

(*) Re-stated figures. See Note 2.6

The accompanying Notes 1 to 26 form an integral part of the consolidated income statement for the year ended 28 February 2018.

CONSOLIDATED GROUP EL CORTE INGLÉS

CASH FLOW STATEMENT FOR 2017

(Thousands of euros)

	Report Notes	FY 2017	FY 2016(*)
CASH FLOWS OF OPERATING ACTIVITIES (I)		**705,793**	**234,363**
Pre-tax result of the FY		**276,088**	**160,499**
Adjustments to the result		**690,682**	**605,941**
—Depreciation of fixed assets	Note 5.6 and 8	510,408	519,153
—Valuation corrections due to impairment	Note 5	26,936	(42,330)
—Variation in provisions		(34,410)	182,392
—Results due to removals and transfers of fixed assets	Note 5	(13,429)	(187,267)
—Results due to removals and transfers of financial instruments		2,729	(24,328)
—Financial income	Note 23.5	(9,968)	(10,614)
—Financial expenses	Note 23.5	213,230	203,765
—Exchange-rate differences		5,795	(839)
—Variation in fair value of financial instruments	Notes 11 and 19	(10,609)	(33,991)
Changes in current capital		**(9,693)**	**(119,991)**
—Stocks		(225,026)	37,045
—Trade and other receivables		37,464	(198,797)
—Other current assets		(287)	9,475
—Trade and other payables		216,797	12,462
—Other current liabilities		(29,385)	(1,807)
—Other non-current assets and liabilities		(9,256)	21,631
Other cash flows of operating activities		**(251,284)**	**(412,086)**
—Payment of interest		(191,998)	(180,133)
—Receipt of dividends		465	617
—Receipt of interest		9,503	9,996
—Receipts (payments) for corporation tax		(29,653)	(28,365)
—Other receipts / payments		(39,601)	(214,201)
CASH FLOWS OF INVESTMENT ACTIVITIES (II)		**(370,388)**	**(56,929)**
Payments for investments		**(440,222)**	**(368,111)**
—Group and associated companies		(15,578)	(113)
—Intangible fixed assets	Note 8	(114,701)	(104,160)
—Property, plant and equipment	Note 5	(306,651)	(255,787)
—Property Investments	Note 6	(3,292)	(75)
—Other financial assets		—	(7,976)
Receipts from divestments		**69,834**	**311,182**
—Group and associated companies		—	42,408
—Intangible fixed assets, PP&E and Property Investments		40,522	268,774
—Other financial assets		29,312	—
CASH FLOWS OF FINANCING ACTIVITIES (III)		**(271,191)**	**(195,540)**
Receipts and payments for equity instruments		**(70,503)**	**(46,692)**
—Acquisition of own equity instruments		(62,055)	(42,474)
—Diferences of conversion		(8,448)	(4,218)
Receipts and payments for financial liability instruments		**(75,688)**	**(38,848)**
—Repayment and amortisation of bonds and other negotiable securities		(162,588)	(67,889)
—Repayment and amortisation of bank borrowings		(1,571,825)	(219,072)
—Repayment and amortisation of debts with group and associated companies		—	(12,042)
—Repayment and amortisation of other debts		(17,328)	(80,777)
—Issue of bonds and other negotiable securities		229,473	16,971
—Issue of bank borrowings		1,427,084	319,902
—Issue of debt with group and associated companies		19,496	4,059
—Issue of other debts		—	—
Payments for dividends and remunerations of other equity instruments		**(125,000)**	**(110,000)**
—Dividends		(50,000)	(35,000)
—Other net equity instruments		(75,000)	(75,000)
EFFECT OF VARIATIONS IN EXCHANGE RATES (IV)		**(5,795)**	**839**
NET INCREASE/DECREASE IN CASH OR EQUIVALENTS (I+II+III+IV)		**58,419**	**(17,267)**
Cash or equivalents at start of the FY		154,139	171,406
Cash or equivalents at end of the FY		212,558	154,139

Amounts in thousands of euros

(*) Reexpresed figures. See Note 2.6

El Corte Inglés Consolidated Group

Consolidated report of the financial year ending on 28 February 2018

1. Group Activities and identification data

The Parent, El Corte Inglés, S.A. (henceforth 'the Company'), is a company incorporated in Spain in accordance with the Public Limited Companies Law. Its registered office is in Madrid, at Calle Hermosilla, 112.

The main activity of El Corte Inglés, S.A. and its consolidated subsidiaries is the retailing of consumer goods, as well as the provision of a wide range of services (travel agency, insurance brokerage, insurance, IT consultancy, etc.), for which it has a network of department stores, hypermarkets, supermarkets, convenience stores, offices and digital platforms.

The Parent is the head of a group of subsidiaries and, in accordance with current legislation, it is obliged to prepare separate consolidated financial statements, which likewise include the stakes in joint businesses and associated investments. The consolidated financial statements of the El Corte Inglés Group (henceforth 'the Group') for the year ending on 28 February 2018 were drawn up by the Parent's directors in a meeting of the Board of Directors held on 30 May 2018 and they will be submitted for approval by the General Meeting of Shareholders, which it is believed will approve them without any modification whatsoever. The consolidated financial statements for 2016 were approved by the General Meeting of Shareholders of El Corte Inglés, S.A. held on the 27th of August 2017 and filed at the Registry of Companies of Madrid.

The financial year of El Corte Inglés, S.A. and the majority of the subsidiaries begins on the 1st of March each year and ends on the 28th of February of the following year (29th of February in leap years). However, there are some subsidiaries and associates whose financial years coincide with the calendar year. The most relevant are Seguros El Corte Inglés, Vida, Pensiones y Reaseguros, S.A. and Centro de Seguros y Servicios. Correduría de Seguros, S.A., for which the financial year has been determined in accordance with Royal Legislative Decree 6/2004, which approves the revised text of the Law on the Regulation and Supervision of Private Insurance. In these financial statements, the period of 12 months ending on 28 February 2018 is referred to as "2017", the 12 months ending on 28 February 2017 are referred to as "2016", and so on.

The information on the companies (none of which are listed on a stock exchange) which comprise the El Corte Inglés Group included in the consolidation, at 28 February 2018, is as follows:

Company		Activity	Location	Auditor	Percentage Stake Direct	Percentage Stake Indirect
Parent:						
El Corte Inglés, S.A.	(a)	Department Store	Madrid	Ernst & Young	—	—
Group Companies:						
Construcción, Promociones e Instalaciones, S.A.	(a)	Constructions and installations	Madrid	Ernst & Young	100.00	—
Editorial Centro de Estudios Ramón Areces, S.A.	(a)	Publisher	Madrid	Ernst & Young	100.00	—
Centro de Seguros y Servicios. Insurance broker S.A., Grupo de Seguros El Corte Inglés	(b)	Insurance broker	Madrid	Ernst & Young	100.00	—
Seguros El Corte Inglés, Vida, Pensiones y Reaseguros, S.A.	(b)	Insurance	Madrid	Ernst & Young	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	—
Supercor, S.A....................	(a)	Supermarkets	Madrid	Ernst & Young	100.00	—
Canal Club de Distribución de Ocio y Cultura, S.A.	(a)	Direct sale by catalogue and television	Madrid	—	75.00	—
El Corte Inglés-Grandes Armazéns, S.A.	(a)	Department Store	Portugal	Ernst & Young	100.00	—
Bricor, S.A........................	(a)	Sale of DIY products	Madrid	Ernst & Young	100.00	—
Uría 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	—
Ingondel, S.L.	(a)	Portfolio	Madrid	—	100.00	—
Óptica 2000 Subgroup- Óptica 2000, S.L.	(a)	Sale of optical products and services	Barcelona	Ernst & Young	100.00	—
Gallery da Visao—Serviços de Óptica Unipessoal, L.D.A.	(a)	Sale of optical products and services	Portugal	—	—	100.00
Sfera subgroup- Sfera Joven, S.A..........	(a)	Sale of clothes and accessories	Madrid	Ernst & Young	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)	Portfolio	Madrid	—	100.00	—
Publicidad Punto de Venta ECI, S.A.	(a)	Exploitation of advertising rights	Madrid	Ernst & Young	—	100.00
Viajes El Corte Inglés Subgroup-						
Viajes El Corte Inglés, S.A.	(a)	Travel agency	Madrid	Ernst & Young	100.00	—
CDV Senior, S.L.	(a)	Travel agency	Madrid	Ernst & Young	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	Other auditors	—	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	Other auditors	—	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	—	—	95.00
Tourmundial Uruguay, S.A.	(b)	Travel agency	Uruguay	—	—	100.00
Viajes El Corte Inglés Panamá, S.A.	(b)	Travel agency	Panama	—	—	100.00
Viajes El Corte Inglés Ecuador, S.A.	(b)	Travel agency	Ecuador	—	—	100.00
Operadora de Turismo, S.A.	(b)	Travel agency	Chile	—	—	100.00
Informática El Corte Inglés Subgroup-						
Informática El Corte Inglés, S.A.	(a)	Sale of computer products and services	Madrid	Ernst & Young	100.00	—
Informática El Corte Inglés México, S.A. de C.V.	(b)	Sale of computer products and services	Mexico	Ernst & Young	—	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
Informática El Corte Inglés Costa Rica, S.A.S.	(b)	Sale of computer products and services	Costa Rica	—	—	100.00
Informática El Corte Inglés (USA) Corporation	(b)	Sale of computer products and services	USA	—	—	100.00
Informática El Corte Inglés (UK) Limited	(b)	Sale of computer products and services	United Kingdom	—	—	100.00
HIKU Document Services S.A.P.I. DE C.V.	(b)	Sale of computer products and services	Mexico	—	—	50.00
KIO Networks España	(a)	Sale of computer products and services	Murcia	—	—	50.00
Investrónica, S.A.	(a)	Sale of computer products and services	Madrid	Ernst & Young	—	100.00
Telecor, S.A.	(a)	Sale of telecommunications products and services	Madrid	Ernst & Young	—	100.00
Asón Inmobiliaria de Arriendos Subgroup-						
Asón Inmobiliaria de Arriendos, S.L.	(a)	Letting agency	Madrid	A.B. Auditor	100.00	—
Esgueva, S.A.	(a)	Property leasing and organisation of events	Madrid	—	—	100.00
Ízaro Films, S.A.	(a)	Letting agency	Madrid	—	—	100.00
Associated Companies:						
Gestión de Puntos de Venta, GESPEVESA, S.A.	(b)	Service stations and convenience stores	Madrid	Ernst & Young	50.00	—
Sephora Cosméticos España, S.L.	(b)	Sale of perfumery products and cosmetics	Madrid	Ernst & Young	50.00	—
FST Hotels, S.A.	(b)	Hotel management	Palma de Mallorca	Deloitte	—	50.00
Citorel, S.L.	(a)	Marketing of jewellery and watches	Madrid	—	50.00	—
Financiera El Corte Inglés E.F.C., S.A.	(b)	Financial	Madrid	PWC	49.00	—
Tagus Book, S.L.	(b)	Distribution of electronic books	Madrid	—	24.00	—
Lecius, S.L.	(b)	Marketing of jewellery and watches	Barcelona	—	50.00	—
Iberiafon, S.A.	(b)	Real Estate	Madrid	B.D.O.	40.00	—

(a) Financial year ending on 28-02-2018.

(b) Financial year ending on 31-12-2017.

During the 2017 financial year, El Corte Inglés, S.A. carried out the takeover merger of its dependent company, Hipercor, S.A.

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 for 2017 were prepared on the basis of the accounting records held by El Corte Inglés, S.A. (the Parent) and the other Group companies, and they were formulated by the Parent's directors in a meeting of its Board of Directors held on 30 May 2018, in order to give a true and fair view of the consolidated assets and financial position of the Group at 28 February 2018 and the results of its operations, the changes in equity and the consolidated cash flows of the Group during the financial year ending on that date.

These financial statements were prepared in accordance with the applicable regulatory financial reporting framework and in particular that established by the International Financial Reporting Standards, as adopted by the European Union, in accordance with EC Regulation no. 1606/2002 of the European Parliament and the Council. Note 4.2 outlines the most significant obligatory accounting principles and valuation criteria applied and the alternatives permitted by the regulations in this regard, as well as the issued standards and interpretations not in force on the date of preparation of these financial statements.

Given that the accounting principles and valuation criteria applied in the preparation of the consolidated financial statements of the Group for 2017 (International Financial Reporting Standards) differ from those used by the entities integrated into it (local regulations), in the consolidation process the necessary adjustments and reclassifications were made in order to harmonise those principles and criteria and to adapt them to the International Financial Reporting Standards adopted in Europe.

These consolidated financial statements are, unless otherwise indicated, presented in thousands of euros, as that is the functional currency of the main economic environment in which the Group operates. Operations abroad are incorporated in accordance with the policies established in note 4.2.9.

2.2 Accountancy principles applied

The Parent's directors have prepared these consolidated financial statements taking into consideration all of the applicable, obligatory accounting standards and principles and valuation criteria which have a significant effect on the consolidated financial statements, as well as the alternatives which the regulations permit in this regard and which are specified in note 4.2.

2.3 Accounting estimates and judgements

The information contained in these consolidated financial statements is the responsibility of the Parent's directors.

In the preparation of these consolidated financial statements, estimates made by the Parent's directors have been used to value some of the assets, liabilities, income, expenses and commitments recorded in them.

Those estimates refer basically to the following:

- The assessment of possible impairment losses of certain assets, including the goodwill.
- The valuation of inventories following the "retail" method.
- The useful lifetimes of intangible assets, property, plant and equipment and investment property.
- The fair value of certain financial instruments.
- The determination of the value of provisions.
- The recoverability of deferred tax assets.
- The estimation of commitments arising from onerous contracts.

Despite the fact that these estimates were made in accordance with the best information available at 28 February 2018 regarding the facts under analysis, future events may require them to be modified (upwards or downwards) in future financial years. This would be carried out in accordance with the provisions set out in IAS 8, prospectively recognising the effects of the changed estimation in the corresponding consolidated income statement except from those corrections that must be done due to error or change of criteria.

2.4 Comparison of information

In accordance with the requirements of IAS 1, the information contained in these notes to the financial statements referring to financial year 2016 is presented for the purpose of comparison with the information related to financial year 2017 and it does not therefore constitute the consolidated financial statements of the Group for financial year 2016.

The indications contained in Note 2.6. must be taken into account when comparing the figures of the 2017 financial year with those of 2016.

2.5 Grouping of items

Certain items of the consolidated balance sheet, the consolidated income statement, the consolidated statement of changes in equity and the consolidated statement of cash flows are presented grouped together in order to facilitate understanding, though, to the extent to which it is significant, the individualised information has been included in the corresponding notes to the financial statements.

2.6 Changes in accounting criteria, accounting policies and correction of errors

The accounting criteria applied in the presentation of these consolidated financial statements for the financial year ending on 28 February 2018 coincide with those applied in the consolidated financial statements corresponding to the financial year ending on 28 February 2017, which were approved by the General Meeting of Shareholders of the Parent Company.

The Parent Company has re-stated certain amounts in the comparative financial information corresponding to the financial year ending on 28 February 2017 in connection, mainly, with derivative financial instruments, commissions for finance operations, provisions for retiring plans and deferred tax assets, in order to be consistent with the criteria.

The mentioned corrections have been done considering the stablished in the paragraph 49 of the International Accounting Standard "Accounting policies, changes in accounting estimations and errors". Its effect were the following:

- Equity impact (increase/(decrease) of equity:

(Thousands of euros)	February 28th 2017	March 1st 2016
Fixed assets	(50,000)	—
Deferred tax assets	(110,888)	(87,882)
Total Assets	**(160,888)**	**(87,882)**
Non current provisions	(24,414)	(24,414)
Non current bank loans	21,249	23,986
Current provisions	(19,142)	(19,142)
Total Liabilities	**(22,307)**	**(19,570)**
Consolidated equity		
Reserves	(179,250)	(179,250)
Net Income—Profit / (Loss)	(39,135)	—
Change of value adjustments		
Interests hedges	79,804	110,938
Total Consolidated Equity	**(138,581)**	**(68,312)**
Efect of the reexpresion during 2017 in equity	**(70,269)**	

- Incomes and expenses attributable to Equity impact (increase/(decrease) of equity):

I.—Net Income (I)	**(39,135)**
Of cash flow hedges	(41,512)
Tax Effect	10,378
Total revenues and expenses directly attributed to shareholders' equity (II)	**(31,134)**
Transfers to Profit and Losses Account	

Of Cash Flow hedges	—
Tax effect	—
Total transferences to Profit and losses account (III)	**—**
TOTAL GLOBAL RESULT (I+II+III)	**(70,269)**
TOTAL GLOBAL RESULT OF THE PARENT COMPANY	**(70,269)**
TOTAL GLOBAL RESULT OF MINORITY INTEREST	**—**

- Impact on profit and loss account (increase/(decrease) of the result):

(Thousands of euros)	**February 28th 2017**
Excessive provisions, impairment and gains or losses on disposals of non-current assets and other results	(62,000)
Financial expenses	3,649
Fair Value variation of financial instruments	41,512
Consolidated result before taxes	**(16,839)**
Tax Income	(22,296)
Consolidated result of the year	**(39,135)**
Attributable result of the year to the parent shareholders	**(39,135)**

In addition, the Company has proceeded to classify the advance payment of 75 million euros for the sales option of the investor PrimeFin, trespassing from the non current liabilities to the current liabilities in the current liabilities of the attached balance sheet as of February 28th 2016, under the derivatives heading.

Finally, with regard to the cash flow statement, the amounts of the activities of operation, investment and financing of the previous financial year were not affected by the re-expression.

2.7 *Basis of consolidation*

2.7.1 Integration methods

The consolidation was carried out applying the global integration method for those companies over which, in accordance with IFRS 10, the Parent has control. In those cases in which there are joint agreements for the management of the part-owned company by the Group and one or more non-related third parties, in which the parties act jointly in order to direct the relevant activities and the decisions about those activities require the unanimous consent of the parties, the Group evaluates whether it has direct rights and obligations for its proportional part of the assets and liabilities of the agreement (joint operation) or whether it has rights only to the net assets of the agreement (joint business). The Group does not have entities classified as "joint operations" (fundamentally temporary joint ventures) with a significant impact on these consolidated financial statements.

Those companies which are joint businesses or companies in which the Group has a significant ability to influence the management (associates) are valued using the "equity method" (see notes 2.7.3 and 2.7.4).

2.7.2 Subsidiaries

Dependent entities are those in which the Parent Company has the ability to exercise effective control. In general, that ability is manifested by three aspects which must be fulfilled: having power over the investee company; exposure to losses or entitlement to profits as the return on the investment varies; and the ability to use that power in such a way that it can influence the amount of such returns.

Financial statements of subsidiaries are consolidated with those of the Company through the global integration method. Consequently, all balances and notes made between the consolidated companies that are significant have been eliminated in the consolidation procedure.

For the accounting of acquisitions of subsidiaries by the Group from third parties (business combinations), the acquisition method is used. The cost of acquisition (the consideration transferred) is the fair value of the assets handed over, the liabilities incurred or assumed on the acquisition date that brought about the taking control, as IFRS 3 indicates—Business Combinations, and, where applicable, the stakes in the equity issued by the Group. The consideration includes the fair value of any asset or liability which comes from a contingent consideration agreement. Acquisition-related costs are recognised as expenses in the years in which they are incurred. The identifiable assets acquired and the identifiable liabilities and contingencies assumed in a business combination are initially valued at their fair value on the acquisition date. For each combination of businesses, the Group may choose to recognise any non-controlling interest in the investee at either fair value or the proportional part of the non-controlling interest in the investee's identifiable net assets.

Any excess in the acquisition cost with regard to the fair values of the identified net assets is acknowledged as goodwill. If the acquisition cost is lower than the fair value of the identifiable net asset, in the event of dealing with a purchase with advantageous terms, the difference is attributed to the results on the acquisition date.

Consolidation of the results generated by companies acquired in a financial year is done by only taking into consideration those relating to the period included between the acquisition date and the close of that financial year. Correspondingly, the results generated by the divested companies in a financial year is done by only taking into consideration those relating to the period included between the beginning of the financial year and the divestment or sales date.

Interest of third parties in the equity of their part-owned companies is shown in the heading "non-controlling interests" of the consolidated balance sheet, within the chapter of Group Equity. Through analogy, its interest in the profit for the year is shown in the heading "profit attributable to non-controlling interests" of the consolidated income statement.

In purchases of non-controlling interests (interests held by non-controlling interests), the difference between the price paid and the applicable proportion of the book value of the subsidiary's net assets is recognised in equity. Gains or losses from the disposal of non-controlling interests are likewise recognised in equity.

2.7.3 Joint Ventures

A "Joint Venture" is a contractual agreement whereby two or more entities participate in entities in such a way that any strategic decision of a financial or operating nature which affects them requires the unanimous consent of all the participants, provided those joint agreements give rights to the net assets of the agreement.

The companies considered "joint ventures" are accounted for using the equity method (see Note 2.7.4).

2. Basis of presentation of the consolidated financial statements and basis of consolidation

2.7.4 Associates

"Associates" are companies over which the Group exercises a significant influence in their management, understood as the power to intervene in decisions regarding the financial and operating policies of the part-owned company, but without having control or joint control.

In the consolidated financial statements, the associates (as well as the joint ventures defined in note 2.7.3) are accounted for using the equity method, i.e. for the portion of their equity represented by the Group's participation in their capital, after having considered the dividends received from them and other equity eliminations.

The part of the acquisition cost which exceeds the Group's percentage stake in the fair value of the net assets of the associate is recorded implicitly as goodwill. The goodwill related to an associate is included in the book value of the investment and it is not depreciated. Any amount which exceeds the Group's percentage stake in the fair value of the net assets of the associate on the purchase date, over the acquisition cost, is recorded in results.

The results of the associates, net of taxes, are incorporated into the consolidated income statement of the Group, in the "Result of companies accounted for using the equity method" line, in accordance with the percentage stake.

If, as a result of the losses incurred in an associate, its accounting equity is negative, in the consolidated balance sheet of the Group it will be indicated as zero, unless the Group is obliged to give it financial support.

Note 1 gives further details of these entities.

2.7.5 Intra-group eliminations

All the debit and credit balances and transactions carried out among subsidiaries, with associates and joint ventures, and among themselves, have been eliminated in the consolidation process.

2.7.6 Uniformity of valuation

The consolidation of the entities included in the scope of consolidation was carried out based on their individual financial statements, which are prepared in accordance with the Spanish General Accountancy Plan for those companies residing in Spain and in accordance with their own local regulations for foreign companies. All the significant adjustments necessary to adapt them to the International Financial Reporting Standards and/or to bring them into line with the Parent's accounting criteria, have been considered in the consolidation process.

2.7.7 Companies with close dates different from that of the Group

The companies with close dates different from that of the consolidated financial statements have been consolidated with the financial statements at their close dates (31 December 2017, see note 1). Any significant operations carried out between the close dates of those subsidiaries and that of the consolidated financial statements are temporarily harmonised if they are significant.

2.7.8 Translation of financial statements in foreign currencies

2.7.8.1 Functional and presentation currency

The transactions and balances of each of the companies in the group are valued using the currency of the main economic environment in which the company operates ("functional currency"). The consolidated financial statements are presented in euros, which is the functional and presentation currency of the Parent and the main Subsidiaries.

2.7.8.2 Transactions and balances

Transactions in foreign currencies are converted into the functional currency using the exchange rates on the dates of the transactions. The gains and losses in foreign currency resulting from the settlement of these transactions and the conversion at closing exchange rates of the monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

2.7.8.3 Group Entities

The results and financial position of all the companies in the group (none of which has the currency of a hyper-inflationary economy) with a functional currency different from the presentation currency are translated into the presentation currency as follows:

- The assets and liabilities of each balance sheet presented are converted at the closing exchange rate on the date of the balance sheet.

- The income and expenses of each income statement are converted at the average exchange rates (unless that average is not a reasonable approximation of the cumulative effect of the exchange rates on the dates of the transactions, in which case the income and expenses are converted on the dates of the transactions).

- The difference resulting from applying the closing exchange rates to the assets and liabilities at close of each accounting period and the average exchange rates to the income and expenses (or where applicable, those on the dates of the transactions) is recognised in equity, in the 'Translation Differences' section.

When a foreign business is disposed of, the corresponding translation difference is recognised in the income statement as part of the loss or gain from the sale.

The goodwill and the fair value adjustments to the acquired net assets which arise in the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing exchange rate.

2.7.9 Changes in the scope of consolidation

On 28 August 2017, the General Meeting of Shareholders in El Corte Inglés approved the takeover merger of Hipercor, S.A., winding up the latter company and transferring all the rights and obligations constituting its corporate assets to the acquiring company (El Corte Inglés, S.A.), in accordance with the merger proposal previously approved by the members of the respective Boards of Directors of the El Corte Inglés, S.A. and Hipercor, S.A. companies and deposited with the Companies' Registry on 11 July 2017.

During 2016, Lecius S.L. and Kio Networks España were incorporated into the scope of consolidation. In addition, the stake in Iberiafon S.A. was sold off.

3. Distribution of the Parents profit

The proposal for the distribution of profit drawn up by the Directors of the Parent, El Corte Inglés, S.A., which will be submitted for approval by the general meeting of shareholders, is as follows:

	Thousands of euros
Dividends	60,000
Voluntary reserves	185,235
	245,235

4. Main accounting policies

4.1 Adoption of new standards and interpretations issued

4.1.1 Standards and interpretations effective in the present financial year

During 2017, the following accounting standards, amendments and interpretations came into effect, and these were therefore taken into account in preparing the accompanying consolidated financial statements:

Standards, amendments and interpretations	**Description**	**Obligatory application in financial years starting from**

Amendments to IAS 7—Cash flow statement: Disclosure Initiative	It introduces additional disclosure requirements in relation to the reconciliation of the movement of financial liabilities with the cash flows of financing activities, including both those derived from cash flows and those not involving cash flows (such as gains or losses due to translation differences).	1 January 2017
Amendments to IAS 12—Recognition of Deferred Tax Assets for Unrealised Losses	Clarification of the principles established with regard to the recognition of deferred tax assets for unrealised losses. The amendments clarify that account must be taken of whether or not the tax legislation restricts the types of tax benefits that can be used to offset the reversion of the deductible temporary difference corresponding to unrealised losses.	1 January 2017

These standards and amendments were applied without having any significant impacts on the figures reported or on the presentation and breakdown of information, either because they do not represent major changes or because they refer to economic circumstances which do not affect the Group.

4.1.2 Standards and interpretations issued but not yet in force

At the time of preparation of these financial statements, the following are the most significant standards and interpretations published by the IASB but which have not yet come into effect, either because their date of application is after the date of the consolidated financial statements or because they have not yet been adopted by the European Union:

Approved for use in the EU

Standards, amendments and interpretations	**Description**	**Obligatory application in financial years starting from**
IFRS 9—Financial Instruments	It replaces the classification, valuation, recognition and removal requirements in accounts of financial assets and liabilities, the accountancy of hedges and impairment of IAS 39.	1 January 2018
IFRS 15—Revenue from Contracts with Customers	New standard for the recognition of revenue (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31).	1 January 2018
Amendments of IFRS 4—Application of IFRS 9 Financial Instruments to IFRS 4 Insurance Contracts	It gives entities within the scope of IFRS the option of applying IFRS 9 or a temporary exemption.	1 January 2018
Amendments of IFRS 15—Clarifications to the standard	These refer to performance obligations, principal versus agent, the granting of licences and their accrual at a particular moment or over time, as well as clarifications of the transition rules.	1 January 2018
IFRS 16—Leases	New standard on leases (replaces IAS 17 and the associated interpretations). The main change is that the new standard proposes a single accountancy model for lessees, which will include all leases in the balance sheet (with some, limited exceptions) with an impact similar to that of the current financial leases (there will be amortisation of the asset for the right of use and a financial expense for the amortised cost of the liability).	1 January 2019

Not approved for use in the EU

Standards, amendments and interpretations	Description	Date of application of the IASB
Amendment of IFRS 2—Classification and measurement of share-based payment transactions (published in June 2016)	It clarifies specific issues such as the effects of the accrual conditions on share-based payments to be made in cash, the classification of share-based payments when they are settlement clauses for the net and some aspects of the modifications of the type of share-based payment.	1 January 2018
Amendment of IAS 40—Reclassification of investment property (published in December 2016)	It clarifies that a reclassification of an investment from or to investment property is only permitted if there is evidence of a change of use.	1 January 2018
Improvements of IFRSs, cycle 2014–2016 (published in December 2016)	Minor amendments of a series of standards (different dates of entry into effect).	1 January 2017 and 2018
IFRIC 22—Foreign currency transactions and advance consideration (published in December 2016)	This interpretation establishes the "transaction date" for the purposes of determining the applicable exchange rate in transactions with advance considerations in foreign currencies.	1 January 2018
Amendment of IFRS 10 and IAS 28—Sale or contribution of assets between an investor and its associate or joint venture (published in September 2014)	Clarification in relation to the result of these operations if they are businesses or assets.	Indefinitely postponed
Annual improvements of IFRSs—Cycle 2015–2017	Minor amendments of a series of standards (different dates of entry into effect).	1 January 2019
IFRIC 23—Uncertainty over Income Tax Treatments	The Interpretation addresses the accounting of income tax when the tax treatments imply uncertainty affecting the application of IAS 12	1 January 2019
Amendments to IAS 28—Investments in Associates and Joint Ventures	These clarify that an entity must apply IFRS 9 to long-term investments in associates or in joint agreements to which the equity method is not applied, but which substantially form part of the net investment in the associate or the joint venture.	1 January 2019
Amendments to IFRS 9—Prepayment Features with Negative Compensation	These amendments to IFRS 9 will enable entities to value, at amortised cost or at fair value against another global result, those financial assets which can be cancelled early by means of the payment of a variable amount, instead of valuing them at fair value against results.	1 January 2019
IFRS 17—Insurance Contracts	This covers the recognition, valuation, presentation and disclosures of insurance contracts, replacing IFRS 4.	1 January 2021

We will now indicate those standards that would affect the consolidated financial statements of the Group at the time of their application:

IFRS 9—Financial Instruments

IFRS 9 will replace IAS 39. This standard outlines the three phases of the financial instruments project: classification and valuation, impairment and accounting of hedges. IFRS 9 is applicable to financial years starting on or after 1 January 2018. Except for the accounting of hedges, retroactive application is required, although it is not necessary to modify comparative information.

There are very considerable differences compared to the current standard in relation to financial assets, including the approval of a new classification model based on just two categories, amortised cost and fair value, the disappearance of the current classifications of "Held-to-maturity investments" and "Available-for-sale financial assets", a new impairment model based on expected losses instead of incurred losses, and also the accountancy of hedges which seeks to align the accountancy with the economic management of the risk.

The Group plans to adopt the new standard on the required date of application. During 2017, the Group has carried out a detailed evaluation of the impacts of the three aspects of IFRS 9. That evaluation is based on the information currently available and it may be subject to variations due to any additional information becoming available in 2018 when the Group adopts IFRS 9. In general, the Group does not expect any significant changes in its financial situation or net equity, except due to the effect of the application of the requirements to determine impairment of IFRS 9. IFRS 9 introduces a new loss model for value impairment of financial assets, namely the model of expected credit losses during the life of commercial accounts, which replaces the incurred loss model currently in force. The Group considers that this new model will mainly affect the financial assets of its Travel Agency Services and the sale of IT Products and Services.

It is expected that the shares of unlisted entities will be maintained in the foreseeable future. No impairment losses have been recognised in the income statement for these investments in previous financial years. The Group will apply the option to submit the variations in fair value against another global result and, therefore, it is of the opinion that the application of IFRS 9 will have no material impact.

Loans, like trade receivables, are maintained in order to receive the contractual cash flows, and they are expected to mean cash flows representing only payments of principal and interest. The Group analysed the characteristics of the cash flows from these instruments and concluded that they meet the criteria to be valued at amortised cost in accordance with IFRS 9. Consequently, no re-classification of these instruments is required.

In addition to the impacts described, on the adoption of IFRS 9, other items of the financial statements will be adjusted if necessary, such as deferred taxes, assets held for sale and the liabilities related thereto, and investments in associates. Translation differences in the conversion of transactions abroad will also be adjusted.

IFRS 15—Revenue recognition

It is the new standard for recognition of revenue from customers, which, in financial years starting from the 1st of January 2018, will replace the following standards and interpretations currently in force: IAS 11—Construction contracts, IAS 18—Revenue from ordinary activities, IFRIC 13—Customer loyalty programmes, IFRIC 15—Agreements for the construction of real estate, IFRIC 18—Transfers of assets from customers, and SIC 31—Revenue—Barter transactions involving advertising services. This standard, which may be applied retroactively, in full or in part, establishes a new revenue recognition model based on the concept of control, meaning that revenue must be recognised as and when the obligations contracted with customers are fulfilled through the delivery of goods and services. For this purpose, IFRS 15 introduces a recognition approach based on five steps, as well as broader information disclosure requirements.

During the 2016 and 2017 financial years, the Group carried out a preliminary evaluation of IFRS 15.

As explained in Note 1, the main activities for which the Group recognises revenue are retailing through its commercial network.

Sale of goods

The Group's Management does not expect this standard to have any impact on the result of the Group for contracts with customers in which there is generally a single contractual obligation (the delivery of certain goods). The Group expects that the recognition of revenue will occur at the moment when control of the asset is transferred to the customer, normally when the goods are delivered.

Principal and agent

IFRS 15 establishes certain criteria for the distinction between agent and principal based on the concept of control, not determining it directly as the transfer of "risks and benefits" as currently applied. The Group does not expect significant changes as a result of these definitions when it comes to determining whether the Group acts as the principal, selling on its own account, or as the agent in a transaction, selling on behalf of third parties.

Services rendered

The Group's Management is of the opinion that the IT consultancy projects segment is affected by IFRS 15 given the interpretation of long-term service contracts inherent in that activity and the consequent definition of the Group's policies with regard to the definitions of the performance obligations, the allocation of prices to these, and the handling of possible obligations. At present, the Group records the equipment and services as separate provisions when they are sold jointly and assigns the consideration using relative fair values. The Group recognises service income based on the degree of progress. According to IFRS 15, the allocation will be based on their independent relative sale prices. As a result, the allocation of the consideration could be significantly affected and also, in consequence, the moment of recognition of the income in relation to those sales.

IFRS 16—Leases

For financial years starting from 1 January 2019, IFRS 16—Leases will replace IAS 17—Leases, IFRIC 4 Determining when an Arrangement contains a Lease, SIC 15—Operating Leases—Incentives, and SIC 27—Evaluating the Substance of Transactions Involving the Legal Form of a Lease. This new standard establishes the principles for the recognition, valuation, presentation and disclosure of leases and it proposes a single model for the lessee in which all leases (insignificant leases and those with lease periods of less than twelve months can be excluded) will be recorded on the balance sheet in a way similar to financial leases at present. On the lease start date, the lessee will recognise a liability for the payments to be made for the lease (i.e. the liability for the lease) and an asset representing the right to use the underlying asset during the term of the lease (i.e. the asset for the right of use). A dual model for the lessor is maintained, based on the current IAS 17, and leases will be financial or operational.

IFRS 16 is effective for financial years starting on or after 1 January 2019, and its early adoption is permitted, but not before the entity in question applies IFRS 15. A lessee may opt to apply the standard retroactively, in full or by means of a modified retroactive transition.

In 2018, the Group will continue to evaluate the potential effect of IFRS 16 on its consolidated financial statements.

With the exception of the impacts of the standards mentioned in the previous paragraphs, the Group's directors do not anticipate any major changes due to the introduction of the rest of the standards, amendments and interpretations which have been published but are not yet in force, as they are applications of a prospective nature, changes in presentation and breakdown, and/or they address aspects not applicable to the Group's operations.

4. Main accounting policies

4.2 Registration and valuation standards

4.2.1 Goodwill

The positive differences between the cost of stakes in the capital of consolidated entities compared to the corresponding theoretical book values, adjusted on the date of first consolidation, are allocated in the following manner:

- If they can be assigned to specific asset elements of the part-owned companies, increasing the value of the assets (or reducing that of the liabilities) whose fair values are higher (lower) than the net book values stated in their balance sheets and whose accounting treatment is similar to that of the assets (liabilities) of the Group: depreciation, accrual, etc.

- If they can be assigned to specific intangible assets, recognising them explicitly in the consolidated balance sheet provided that their fair value on the date of acquisition can be reliably determined.

- The remaining differences are registered as goodwill, which is assigned to one or more specific cash generation units.

The goodwills are only recorded if they have been acquired in return for payment and they therefore represent advance payments made by the acquiring entity of the future economic benefits deriving from the assets of the acquired entity which are not individual, separately identifiable and recognisable.

At the time of transfer of a subsidiary or a jointly controlled entity, the attributable amount of the goodwill is included in the determination of the profits or losses deriving from that transfer.

The goodwill which arises in the acquisition of companies with functional currencies other than the euro is valued in the functional currency of the acquired company, the conversion to euros being made at the exchange rate on the date of the balance sheet.

The goodwill is not depreciated, but rather it is subjected to an "impairment test" at least once a year (see note 4.2.5).

4.2.2 Other intangible assets

Other intangible assets are considered to be the non-monetary and non-physical, specifically identifiable assets which were acquired from third parties or developed by the Group. Only those whose cost can be objectively estimated and from which it is expected that economic benefits will be obtained are recorded in accounts.

The intangible assets are initially recognised at their acquisition or production cost and, subsequently, they are valued at their cost minus, where applicable, the corresponding cumulative depreciation and any impairment losses they have suffered.

The interim interest accrued during the financing period of projects in progress for investment in new computer applications, whose execution period is greater than one year, is recorded as greater value of the fixed assets until that project goes into operation.

An "indefinite useful lifetime" is considered to be when, on the basis of the analyses carried out of all the relevant factors, it is concluded that there is no foreseeable limit to the period during which it is expected that net cash flows will be generated in favour of the Group; in all other cases, they will be considered to have "defined useful lifetimes".

The only assets with indefinite useful lifetimes held by the Group correspond to the goodwill and the value of certain brands, whose values at the close of 2017 and 2016, included in the "Other intangible assets" section 19.49 million euros and 27.70 million euros, respectively.

On the basis of an analysis of all the relevant factors, the Group has established that there is no foreseeable limit to the period during which it is expected that the brands will generate net cash flows for the entity, and therefore those brands are assigned indefinite useful lifetimes.

The company applies the linear depreciation method to its intangible assets with fixed useful lifetimes, applying annual depreciation percentages calculated in accordance with the estimated years of useful life of the respective assets.

The intangible assets with indefinite useful lifetimes are not depreciated, so they are subjected to an "impairment test" at least once a year, following the same criteria as those for goodwill (see note 4.2.5).

The Group recognises in accounts any loss in the registered value of these assets due to impairment, using as the counterpart the "Impairment and gains or losses on disposals of assets" section of the consolidated income statement. The criteria for the recognition of the impairment losses of these assets and, where applicable, any recoveries of these which take place subsequently are detailed in note 4.2.5.

a) Development costs:

The costs of research activities are recognised as expenses in the year in which they are incurred.

Development costs are only recognised as intangible assets if they fulfil all the conditions indicated below:

- they are specifically individualised by projects;
- the cost of the development of the asset can be reliably evaluated; and
- it is likely that the asset created will generate future economic benefits.

The assets thus generated are depreciated on a linear basis over the course of their useful lifetimes (over a maximum period of five years).

At 28 February 2018 and 28 February 2017, these assets were fully depreciated.

If there are doubts about the technical success or the financial profitability of the project, the amounts recorded in the assets are allocated directly to the income statement of the financial year.

b) Intellectual Property:

This account records the amounts paid for the acquisition of an intellectual property or the right of use of the different manifestations of it (patents, brands, licences), or the expenses incurred for the registration of the intellectual property developed by the Group.

Patents and brands are initially valued at their acquisition price and they are depreciated on a linear basis throughout their estimated useful lifetimes, with the exception of brands considered to have indefinite useful lifetimes, which are subjected to an annual impairment test.

The rest of the assets classified as "Intellectual Property", considered of defined useful lifetime, are depreciated on a linear basis, generally over a period of 5 years.

c) Administrative concessions:

Concessions can only be included in the assets if they were acquired by the Company in return for payment in those concessions which may be transferred, or for the amount of the expenses incurred for their direct obtainment from the corresponding Body.

The administrative concessions registered by the Group reflect the amounts paid for the acquisition of the construction and operation rights of certain premises and they are depreciated on a linear basis over their term of validity between 20 and 99 years.

d) Computer applications:

The acquisition and development costs incurred in relation to computer systems which are basic for the Group management are charged to the "Other intangible assets" section of the consolidated balance sheet.

The maintenance costs of computer applications are recognised in the consolidated income statement of the financial year in which they are incurred.

The depreciation of computer applications is carried out applying the linear method over a period of 5 years from the time when each application goes into operation.

e) Transfer rights:

The transfer rights are valued at the amount paid for their acquisition and they are depreciated over 10 years, which is the estimated period during which they will contribute to the obtainment of income.

4.2.3 Property, plant and equipment

The items of property, plant and equipment acquired for use in the production or supply of goods or services, or for administrative purposes, are presented in the consolidated balance sheet at acquisition or production cost minus cumulative depreciation and any impairment losses they have suffered. In addition, and as a result of applying the First Application Standard (IFRS 1) in 2013, certain properties and other elements of the fixed assets were recorded at fair value (based on appraisals by independent experts) as attributed costs.

The costs of expansion, modernisation or improvements which represent an increase in the productivity, capacity, efficiency or useful lifetime of the assets are recorded as a greater cost of those assets. The acquisition cost includes the professional fees and the finance costs incurred during the financing period of work in progress on investments in fixed assets, whose execution period was greater than one year and until that work is transferred to the corresponding item of property, plant and equipment.

The interest rate used is the average rate of financing of the Group.

The conservation and maintenance costs are recognised in the consolidated income statement for the year in which they are incurred.

Assets and elements which have been removed, whether as a result of a modernisation process or any other reason, are recorded in accounts by removing their balances in the corresponding cumulative depreciation and cost accounts.

The Group recognises in-house work on non-current assets at the cumulative cost resulting from adding to the external costs those other costs determined in accordance with the internal consumptions of warehouse materials and the manufacturing costs incurred.

The property, plant and equipment is depreciated following the linear method, the cost of the assets being distributed across the years of estimated useful lifetime, as shown in the following table:

	Years
Constructions	33 - 85
Machinery, installations and tooling	3.5 - 17
Furniture and effects	3.5 - 15
Information processing equipment	4 - 6
Transport elements	5 - 15

The gain or loss on the disposal or removal of an asset is calculated as the difference between the profit from the sale and the book value of the asset, and it is recognised in the consolidated income statement.

4.2.4 Investment property

The ‘Investment property’ section of the consolidated balance sheet includes the values of lands, buildings and other constructions which are held either to lease them out or to obtain a capital gain from their sale as a result of future increases in their respective market prices.

Investment property is presented at their acquisition cost, following, for all effects, the same criteria as elements of the same class of property, plant and equipment (see note 4.2.3).

The income accrued during 2017 deriving from the rental of that investment property was approximately 12.59 million euros (6.25 million euros in 2016), and they are registered in the “Other operating income” section of the accompanying income statement.

4.2.5 Value impairment of non-current assets

In each financial year, and whenever there are indications of a loss of value, the Group evaluates the book values of its plant, property and equipment, investment property and intangible assets, including the goodwill and the intangible assets with indefinite useful lifetimes, by means of an "impairment test", in order to determine whether their recoverable value is lower than their book value (impairment loss). In the case of the goodwill and intangible assets with indefinite useful lifetimes, the impairment test is carried out at least once a year and more frequently if there are indications of impairment.

If the asset does not itself generate cash flows independent from other assets, the Group calculates the recoverable amount of the cash generation unit to which the asset belongs.

The Group defines as basic cash generation units (CGUs) each one of the commercial premises (department stores, hypermarkets, supermarkets and offices) which make up its distribution network. However, when determining the CGU, those units may be aggregated at the geographical area level, depending on the real management of their operations.

With regard to the Group's assets (offices, warehouses, logistics centres, etc.) which do not fulfil the criteria outlined above, they have their own treatment in accordance with that mentioned in this note.

The recoverable amount is determined as either the fair value minus the estimated sales costs or the value in use, whichever is higher.

If it is estimated that the recoverable amount of an asset (or cash generation unit) is lower than its book value, the latter is reduced to its recoverable amount, recognising a value impairment loss as an expense, using as the counterpart the "Impairment and gains or losses on disposals of assets" section of the consolidated income statement.

When a value impairment loss is subsequently reverted, the book value of the asset (or cash generation unit) is increased to the revised estimation of its recoverable value, but in such a way that the increased book value does not exceed the book value that would have been determined if no value impairment loss had been recognised for the asset (or cash generation unit) in previous financial years.

In the case of goodwill, at each accountancy close an estimation is made of whether it has suffered any impairment which reduces its recoverable value to an amount which is lower than the registered net cost and, if so, the appropriate write-down is applied. Impairment losses related to goodwill are not subject to subsequent reversion.

Finally, in the case of brands with indefinite useful lifetimes, the recoverable amount was determined as their value in use, using cash flow forecasts which, as a general rule, are based on the company forecasts, which cover a period of five years.

4.2.5.1 Value in use

For each cash generation unit (mainly Supercor supermarkets, Bricor stores and offices of Viajes El Corte Inglés), the value in use is calculated based on the estimated future cash flows, discounted at a rate which reflects the current market valuations with regard to the value of money, adjusted by the specific risks associated with the asset that were not taken into account when estimating the future cash flows.

The Group generally prepares the cash flow forecasts of the cash generation units for a period of 5 years, incorporating the best available estimations of income and expenses, using sectoral forecasts, past experience and future expectations (the entity's forecasts, business plans, etc.), as well as the macro-economic indicators which reflect the current and foreseeable economic situation of each market. Likewise, another estimation to be taken into consideration is the margin, depending on the CGU and the nature of the business or product.

The Group's management considers that the average weighted growth rate of sales for the next five years is consistent with past experience, taking into account the expansion plans, conversions of stores to new formats and the evolution of the macroeconomic indicators (population, inflation, GDP, etc.).

In addition, a residual value is calculated depending on the standardised cash flow of the last year of the forecast, to which a growth rate in perpetuity is applied (in the majority of cases, it is zero), which in no case exceeds the growth rates of previous years. The cash flow used for the calculation of the residual value takes into account the investments for replacement which are necessary for the future continuity of the business at the estimated growth rate.

For the discounting of the cash flows, the weighted average cost of capital is used, which is determined before taxes and is adjusted by the country risk, the corresponding business risk and other variables influenced by the current market situation. The average discount rate applied depends on the business and the country in which the activity is carried out. For the main assets of the Group it was 6.7% for 2017, 7% in 2016.

4.2.5.2 Fair value

For the present year, the Group has determined the recoverable amount of the main assets (Department Stores and Hypermarkets) as the fair value based on the appraisals carried out by independent experts. For assets in operation, the valuation was made in accordance with the valuation principles, methodology and criteria contained in Ministerial Order ECO/805/2003, dated 27 May, modified by Orders EHA/3011/2007 and EHA/564/2008. For real estate intended to generate rental income, the fair value has been determined in accordance with the updating method according to the methodology described in articles 24 to 28 and 31 to 33 of Ministerial Order ECO/805/2003, depending on the likeliest cash flows to be generated in its remaining working life.

4.2.6 Leases

Leases are classified as financial leases whenever their conditions indicate that the risks and benefits inherent in the ownership of the asset which is the object of the contract are substantially assumed by the lessee. Other leases are classified as operating leases.

a) Financial leases:

In financial leasing operations in which the Group acts as the lessee, the cost of the leased assets is presented in the consolidated balance sheet in accordance with the nature of the asset which is the object of the contract and, simultaneously, a liability for the same amount. That amount will be either the fair value of the leased asset or the current value at the start of the lease of the minimum quantities agreed, including the purchase option if there are no reasonable doubts regarding its exercise, whichever is lower.

The property, plant and equipment acquired under financial leasing are recorded in the asset category to which the leased asset corresponds, depreciated over its forecast useful lifetime, following the same method as that for assets in ownership (see note 4.2.3) or, if they are shorter, during the relevant term of the lease.

The calculation does not include the charges of a contingent nature, the cost of the services and the taxes payable by the lessor.

Finance costs originating from these lease contracts are allocated to the consolidated income statement so that the financial cost is maintained constant over the course of the lifetimes of the contracts.

Contingent charges are recognised as expenses of the financial year in which they are incurred.

b) Operating Leases:

In operating lease operations, the ownership of the leased asset and substantially all the risks and advantages of the asset remain with the lessor, and the lessor registers those assets at their acquisition cost.

When the consolidated entities act as lessors, they present the acquisition cost of the leased assets in the “Investment property” section. These assets are depreciated using a policy consistent with the lessor’s normal depreciation policy for similar items (see note 4.2.3) and the income from the lease contracts is recognised in the income statement on a linear basis.

When the consolidated entities act as lessees, the costs of the lease, including any incentives granted, where applicable, by the lessor, are charged to their income statements on a linear basis.

The profit collected and to be collected due to incentives for the formalisation of an operating lease are also distributed linearly over the course of the duration of the lease.

4.2.7 Inventories

For the Group’s main activity, retail sales, inventories are valued using the “retail” method, given that the result of applying it does not produce significant differences compared to their real costs.

The retail method determines the cost of inventories starting from the sale price minus an estimated gross margin percentage, in which the sale price, possible discounts to be made on those sale prices and the age of the merchandise are considered, as well as the changes in seasons and trends, mainly in fashion items. This method is applied consistently for all the Group's product families.

With this method, inventories arevalued at all times at the cost or the net production value, whichever is lower.

On the other hand, the inventories for the activities of the Technological Group (mainly comprising Informática El Corte Inglés S.A.) are valued at their acquisition price or net realisable value, whichever is lower. Likewise, the inventories section of the aforementioned Group includes the amounts incurred in projects in progress, valued at their cost price in accordance with the degree of progress criterion. Those costs include both services rendered by third parties and internal costs.

4.2.8 Financial instruments

a) Financial assets:

Valuation and classification

Financial assets are recognised in the Group's balance sheet when they are acquired. Financial assets are initially recorded at their fair value, including, in general, the costs of the operation.

The subsequent valuation will depend on the classification assigned by the Group to each financial asset. The financial assets held by the companies of the Group are classified into the following categories:

- Trade and other receivables and credits granted to third parties: these correspond to credits deriving from the sale of products or the provision of services for trade operations of the Group, or those which do not have a commercial origin and are not equity instruments or derivatives and whose amounts receivable are fixed or can be determined and are not traded in an active market.

Trade and other receivables with due dates in the short term are recorded at their nominal values, which are considered equivalent to their fair values.

The El Corte Inglés store card is accepted as a means of payment by the majority of the Group companies indicated in note 1, and Financiera El Corte Inglés E.F.C., S.A. is the holder of almost all of those cards. Likewise, Financiera El Corte Inglés E.F.C., S.A. is responsible for the management and administration of the billing and collection of the sales made with that card.

- Held-to-maturity financial assets: they correspond to assets with fixed maturity, receivable amounts which are fixed or can be determined, and for which the Group has declared its intention and ability to hold to the date of maturity. These instruments are recorded at their amortised cost.

With regard to guarantees and deposits, assets classified under this heading which fundamentally refer to the amounts paid out by Group companies to the owners of the leased units are valued at the amounts paid out, which do not significantly differ from their fair value.

- Available-for-sale financial assets: these include securities representing debt and financial stakes in other companies that are not classified in any of the preceding categories.

They are valued at their fair value when it is possible to reliably determine it, whether from the listed value or, failing that, the value established in recent transactions, or at the current value after discounting the future cash flows. The profits and losses deriving from variations in the fair value are recognised directly in equity until the asset is transferred, at which time the cumulative profits or losses previously recognised in equity are included in the consolidated income statement for the year. If the fair value is lower than cost, and if there is objective evidence that the asset has suffered an impairment which cannot be considered temporary, the difference is registered directly in the consolidated income statement.

If the fair value cannot be reliably determined, these assets are valued at their acquisition cost, corrected by any evidence of impairment which may exist.

At 28 February 2018, the valuations at fair value made on available-for-sale financial assets were calculated by reference to prices listed in the market (unadjusted).

- Other financial assets of the insurance business: the financial assets deriving from insurance, co-insurance and re-insurance operations are valued at their amortised cost. The interest accrued is recorded in the consolidated income statement, applying the effective interest rate method.

- Cash and cash equivalents: the treasury includes both cash and sight bank deposits. The other equivalent liquid assets are short-term investments, with maturities of less than three months and which are not subject to a significant risk of changes in their value.

As established by IFRS 7, the Group classifies financial instruments (see Note 11.6) in accordance with the following hierarchy:

- Level 1: The fair value of financial instruments traded on active markets (such as derivatives listed on a stock exchange and securities available for sale and negotiation) is based on market listing prices at the end of the year in question. The market listing price used for financial assets held by the Group is the current buyer price. These instruments are included in level 1.

- Level 2: The fair value of financial instruments which are not traded on an active market (for example, OTC derivatives) is determined using valuation techniques which maximise the use of observable market variables and are based on the smallest possible measurement in specific estimations of the entity. If all the significant variables required to calculate the fair value of an instrument are not observable, the instrument is included in level 2.

- Level 3: If one or more of the significant variables are not based on observable market data, the instrument is included in level 3. This is the case of equity securities without official listings.

De-recognition of financial assets

The Group derecognises financial assets when they expire or the rights over the cash flows of the corresponding asset have been transferred and the risks and benefits inherent in its ownership have also been substantially transferred.

On the other hand, the Group does not derecognise financial assets, and it recognises a financial liability for an amount equal to the consideration received, in transfers of financial assets in which the risks and benefits inherent in its ownership are substantially retained.

Losses due to Value Impairment of Financial Assets

On each balance sheet date, the Group evaluates whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and an impairment loss has taken place if there is objective evidence of the impairment as a result of one or more events which have occurred after the initial recognition of the asset (an "event which causes the loss") and that event or events causing the loss has/have an impact on the estimated future cash flows of the financial asset or group of assets, which can be reliably estimated.

- Assets registered at amortised cost: For loans and items payable, the amount of the loss is the difference between the book value of the asset and the current value of the estimated future cash flows (excluding the future credit losses which have not been incurred), discounted at the original effective interest rate of the financial asset. The book value of the asset is reduced and the amount of the loss is recognised in the profit for the year. If a loan or a held-to-maturity investment has a variable interest rate, the discount rate to value any value impairment loss is the current effective interest rate, determined in accordance with the contract. As a practical measure, the Group can estimate the impairment in accordance with the fair value of an instrument, using an observable market price.

  If, in a later period, the amount of the value impairment loss decreases and the decrease can objectively be attributed to an event that has taken place since the impairment was recognised (such as an improvement in the debtor's credit rating), the reversion of the previously-recognised impairment will be recognised in the profit for the year.

- Assets classified as available for sale: If there is objective evidence of a value impairment of available-for-sale financial assets, the cumulative loss, determined as the difference between the acquisition cost and the current fair value minus any loss through impairment of the value of that financial asset previously recognised in the results, is eliminated from equity and recognised in the results. The value impairment losses in equity instruments which were recognised in the profit for the year are not reverted through the profit for the year in a later reporting period.

If, in a later period, the fair value of a debt instrument classified as available for sale increases and that increase can be objectively attributed to an event which occurred after the impairment loss was recognised in the results, the impairment loss is reverted through the profit.

b) Financial liabilities:

Valuation and classification

The financial liabilities held by Group companies are classified as:

- Bank borrowings: loans obtained from banking entities are recorded at the amount received, after deducting the costs and commissions deriving from their formalisation. Those formalisation costs and the finance costs generated by the loans are recorded in the income statement using the effective interest rate method and they are incorporated at the book amount of the liability, to the extent to which they are not settled, in the period in which they are accrued. In subsequent periods, these liabilities are valued at their amortised cost, using the effective interest rate method.

- Debt instruments and other marketable securities, trade payables and other financial liabilities are initially recorded at their fair value and subsequently in accordance with their amortised cost.

Trade payables which do not explicitly accrue interest are recorded at their nominal values, which do not significantly differ from their fair values.

De-recognition of financial liabilities

The Group derecognises financial liabilities when the obligations which generated them no longer exist.

c) Equity instruments:

An equity instrument represents a residual stake in the Parent's equity, once all its liabilities have been deducted.

The capital instruments issued by the Parent are registered in equity at the amount received, net of issue costs.

The Company records a loan convertible into shares as "Other equity instruments" because it will be repaid by means of a fixed number of treasury shares of the Company and any additional compensation to be paid will be decided by the General Meeting of Shareholders (see Note 15.8).

Likewise, the interest accrued on that loan is payable in shares. Therefore, the variations in that instrument, as well as the associated issue costs and accrued interest are recorded directly in the net equity.

Treasury Shares

Treasury shares are recorded at the value of the consideration given in exchange, directly as lower value of the equity. The results deriving from the purchase, sale, issue or amortisation of own equity instruments are recorded directly in equity, and in no case is any result whatsoever recorded in the consolidated income statement.

d) Derivative financial instruments

The Company uses derivative financial instruments to cover the risks to which its activities, operations and future cash flows are exposed. Fundamentally, these risks are in regard of variations in exchange rates and interest rates.

The Company designates a financial instrument as a derivative if it fulfils the following criteria:

1. Its value changes in response to changes in variables such as interest rates, exchange rates, credit ratings, etc.

2. It does not require an initial investment or it requires a lower investment than that required by other types of contracts in which a similar response to changes in market conditions could be expected.

3. It is settled on a future date.

Derivative financial instruments are initially valued at their fair value, which will be, unless there is evidence to the contrary, the price of the transaction, equivalent to the consideration given. Directly attributable transaction costs will be recognised in the income statement for the financial year.

Subsequently, these financial instruments will be valued at their fair value, without deducting any transaction costs which may be incurred in their disposal. Any changes in the fair value will be allocated to the income statement for the financial year.

So that these financial instruments may be classified as accounting hedges, they must be initially designated as such, documenting the hedging relationship, which must be highly effective. Likewise, the Company verifies, initially and periodically throughout its lifetime (at least at each accounting close) if the hedging relation is effective, i.e. that it can be prospectively expected that the changes in the fair value or in the cash flows of the hedged item (attributable to the hedged risk) are offset almost entirely by those of the hedge instrument and that, retrospectively, the results of the hedge have oscillated within a reasonable variation range compared to the result of the hedged item.

The part of the gain or loss from the hedging instrument determined as an effective hedge is temporarily recognised in the net equity and allocated to the income statement in the financial year or years in which the envisaged hedged operation affects the result.

Hedging instruments will be valued and recorded in accordance with their nature, insofar as they are not, or cease to be, effective hedges. In this way, if the Company designates its derivative financial instruments as accounting hedges, they will be interrupted when the hedging instrument expires or is sold or exercised or no longer fulfils the criteria for accounting as a hedge. At that moment, any accumulated profit or loss corresponding to the hedge instrument which has been recorded in the net equity would be maintained in the net equity until the envisaged operation took place. When it is not expected that the operation which is the object of the hedge will take place, the net accumulated profit or loss recognised in the net equity is transferred to the net results of the period.

The Directors of the Company have decided to re-express the accounting classification of interest-rate derivatives recognised in previous financial years, re-classifying them as non-hedging accounting derivative financial instruments.

The fair value of financial derivative instruments incorporates the adjustment for bilateral credit risk (taking into account both our own credit risk and the counterparty’s credit risk).

The adjustment for bilateral credit risk, which amounts to 1.93 million euros at 28 February 2018 (0.68 million euros at 28 February 2017), was calculated applying a technique based on calculation through simulations of the total expected exposure (which incorporates both the current exposure and the potential exposure), adjusted by the probability of non-fulfilment over time and the severity (or potential loss) assigned to the Company and to each one of the counterparties.

The total expected exposure of the derivatives is obtained using observable market inputs such as interest rate curves, exchange rate curves and volatilities in accordance with the market conditions on the date of valuation.

The inputs applied for the obtainment of our own credit risk and those of the counterparties (determination of the probability of default) are based mainly on the application of our own credit spreads or those of comparable companies currently negotiated in the market (CDS curves, IRR debt issues). In the absence of our own credit spreads or those of comparable companies, and in order to maximise the use of relevant observable variables, the listed references considered most appropriate have been used, depending on the case (global CDS curve). For counterparties with available credit information, the credit spreads used are obtained from the CDSs (Credit Default Swaps) listed in the market.

Likewise, for the adjustment of the fair value to the credit risk, we have taken into account the credit improvements related to guarantees or collaterals when it comes to determining the level of severity to be applied for each one of the positions.

As of 28 February 2018, the fair value assessments made on different derivative financial instruments, including the data used for calculating the adjustments by own and counterparty credit risk, are included in level 2 of the fair value hierarchy framework established by IFRS 7, since the entries are based on the prices quoted for similar instruments in active markets (not included in level 1), prices quoted for identical or similar instruments in markets that are not active, and techniques based on valuation models for which all significant inputs are observable in the market or can be corroborated by observable market data. Although the Group has determined that most of the entries used to assess the derivatives fall within level 2 of the fair value hierarchy, adjustments for credit risk use level 3 entries, such as credit estimates according to credit rating or from comparable companies to assess the probability of the company or of the counterpart defaulting. The Group has evaluated the importance of the credit risk adjustments in the total valuation of derivative financial instruments and concludes that they are not significant.

4.2.9 Balances and transactions in currencies other than the euro

Transactions in currencies other than each company's functional currency are recorded in the company's functional currency at the rate of exchange prevailing at the time of the transaction. During the financial year, the differences between the accounting exchange rate and the one in force at the date of receipt or payment are recorded as financial results in the consolidated income statement.

4. Main accounting policies

Likewise, the conversion of balances receivable or payable as of 28 February of each year in a currency other than the functional currency in which the financial statements of the companies forming part of the scope of consolidation are set out, is carried out at the closing exchange rate. Any differences in valuation are recorded as financial results in the consolidated income statement.

4.2.10 Income tax

The income tax expense represents the sum of the tax burden to be paid during the financial year plus the changes in deferred tax assets and liabilities.

The expense arising from income tax in the financial year is calculated using the sum of the current tax resulting from the application of the tax rate on the tax base for the year, after applying any fiscally permissible deductions, plus the variation in deferred tax assets and liabilities.

Deferred tax assets and liabilities include temporary differences which are identified as the amounts expected to become payable or recoverable deriving from the differences between the book values of assets and liabilities and their taxable values, as well as the negative tax bases pending offsetting and credits for tax deductions which have not been applied. These amounts are recorded by applying the tax rate at which it is expected they will be recovered or settled to the corresponding temporary difference or credit.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the temporary difference arises from the initial recognition of the goodwill, whose depreciation is not deductible for tax purposes, or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction affecting neither the tax result nor the accounting result.

Deferred tax assets, identified with temporary differences, are only recognised when it is considered probable that the consolidated entities will in future have sufficient taxable profits against which they can be made effective and where they do not arise from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction affecting neither the tax result nor the accounting result. The remaining deferred tax assets (negative taxable amounts and deductions pending offsetting) are only recognised if it is deemed likely that the consolidated entities will in future have sufficient taxable profits against which to make them effective.

Income tax and variations in deferred tax assets and liabilities not arising from business combinations are recognised fully in the consolidated income statement or in the equity accounts of the consolidated balance sheet, depending on where the profit or loss which gave rise to them was recorded.

Deferred tax assets and liabilities are not updated and they are classified as non-current assets/liabilities in the consolidated balance sheet.

At each accountancy close, any recorded deferred tax (both assets and liabilities) is reviewed, in order to ensure that it is up-to-date, and the appropriate corrections are made in accordance with the results of the analyses carried out.

El Corte Inglés, S.A. is taxed in accordance with the tax consolidation system, together with the Spanish subsidiaries in which it owns at least 75% of the capital, excluding those which have a different financial year to that of the Parent for reasons of their sectoral regulation, in accordance with the legal regulations currently in force in this matter.

Since the 1st of January 2008, El Corte Inglés, S.A., as the dominant company, has applied the Special Group of Entities System regulated in Chapter IX of Section IX of Law 37/1992 on Value Added Tax, together with certain Spanish subsidiaries.

4.2.11 Revenue recognition

The recognition of the income from sales takes place when the significant risks and benefits inherent in the ownership of the sold goods have been substantially transferred to the buyer.

Income from the sale of goods or services is recognised at the fair value of the consideration received or to be received deriving from those goods or services. Discounts for prompt payment, volume or other types of discounts are registered as a decrease in that income.

The discounts granted to customers are recognised as a reduction in revenue from sales when it is likely that the conditions which determined their granting will be met.

The Group has customer loyalty programmes which do not generate credits because they consist of the granting of discounts which are materialised at the time of sale and which are recorded as a lower amount of the transaction in which they are applied.

4.2.11.1 Retail sales of consumer goods

Income from retail sales correspond to the sale of goods, products through the commercial formats of department stores, hypermarkets, supermarkets, Sfera, Bricor and other lines of business.

Income from the sale of goods or services is recognised at the fair value of the consideration received or to be received deriving from those goods or services. These sales are recognised at the time of delivery to the customer, which generally takes place at the stores and warehouses owned by the Group.

4.2.11.2 Provisions of services

Income from "provision of services" corresponds mainly to the services of Travel Agencies, Information and Communication Technologies and Insurance.

- Information Technologies:

The Group records the income from its sales once it has received the formal conformity of its clients in relation to the goods delivered or the services rendered and once all the conditions stipulated in the contracts and agreements with clients have been fulfilled.

The goods delivered and the services rendered which are pending billing to clients or are still under preparation at close of the financial year are recorded at their cost in the "Inventories" section of the balance sheet at 28 February 2018.

In the case of services rendered, the income deriving from projects in progress is recognised by means of the application of the percentage of completion method from the start of the project, the completion percentage being determined on the date of close of the financial statements in accordance with the technical estimation of the degree of progress. The estimations of ordinary income from provisions of services, costs or degree of completion are reviewed if the circumstances change. Any resulting increase or decrease in the ordinary income or estimated costs is reflected in the result of the financial year in which the circumstances which give rise to the revision are known by the Management.

- Travel Agency:

The income is allocated in accordance with the accrual criterion, i.e. when the effective provision of the services which it represents takes place. In general, that coincides with the delivery of transport or travel documents corresponding to the customers, independently of the time when the monetary or financial flow deriving from them takes place. Specifically, the income represents the amounts receivable for the services rendered in the ordinary framework of the activity, minus discounts, VAT and other taxes related to sales.

In particular, the Company's directors consider that, as the Company assumes—partially at least—the risks and benefits of the provision of services, it acts as the principal agent in the provision of those services. For this reason, the income and expenses deriving from the provision of services as part of the Company's activity are recognised at their gross amounts in the income statement.

- Insurance and insurance brokerage services

The El Corte Inglés Group is present in the Spanish and Portuguese insurance markets through two companies: Centro de Seguros y Servicios, Correduría de Seguros S.A., dedicated to brokerage; and Seguros El Corte Inglés, the insurance entity which operates in the life and accidents branches and which is a pension fund manager.

With regard to the brokerage activity, the income corresponds basically to the commissions accrued for the premium receipts issued by the intermediate insurance operations.

With regard to the life insurance and pensions activity, it focuses on the issue of risk and savings insurance policies in which the majority of the income corresponds to premiums accrued for risk insurance policies. Those premiums are allocated to results as and when they are accrued over the course of the coverage period of the insurance.

The savings premiums are corrected by the mathematical provision recorded in the liabilities of the consolidated balance sheet (See Note 16). Their allocation to the income statement takes place over the course of the life of the operation in accordance with the variables considered in order to determine the premium (expectation of survival, interest rate, etc.).

- Income from rentals:

Income from rentals is classified as operating income because the assets are not transferred, and it is recognised linearly in accordance with the duration of the contracts.

4.2.12 Provisions and contingencies

a) General criteria:

The Group follows the practice of providing projected income to meet liabilities arising from ongoing litigation, compensation or any obligations, as well as for any guarantees and warranties granted which entail a probable payment obligation for the Group, provided the amount can be reliably estimated. In addition, the Directos of the Parent Company, together with the Supervisory and Control Bodies of the Company, verify that the Company's activities are carried out in accordance with the laws and regulations applicable to them. In this sense, they respond appropriately, through appropriate investigations, to complains about irregularities that may be received, in order to be able to conclude whether risk arise for the Company that could, if applicable, have an impact on the annual accounts. As of the date of this annual accounts, no significants aspects have been identified that shows the need to book any provision in the consolidated annual accounts in relation to complaints received.

Provisions are quantified on the basis of the best available information about the situation and the evolution of the events which gave rise to them, and they are re-estimated at each accountancy close, leading to their total or partial reversion when the aforementioned obligations cease to exist or decrease.

Contingent liabilities, except in business combinations, are not recognised in the consolidated financial statements, rather they are reported in the report notes, in accordance with the requirements of IAS 37.

The Group considers onerous those contracts in which the inevitable costs of complying with the obligations they impose exceed the economic benefits expected to be derived from them.

The Group follows the criterion of recording a provision for the current value of the aforementioned difference between the costs and the benefits of the contract.

The discount rates used reflect current valuation of money in the market, as well as the specific risks of these contracts.

b) Technical provisions:

Technical provisions cover the amounts of any obligations undertaken arising from insurance and reinsurance contracts currently in force, in order to ensure, in accordance with reasonable and prudent criteria, the obligations arising from those contracts.

Provisions for unearned premiums and for ongoing risks

The unearned premiums provision aims to reflect the accretion of premiums accrued at year end and it comprises the fraction of the premiums accrued during the financial year which should be attributed to the period between the closing date and the end of the coverage period. The unearned premiums provision has been determined, for each type, by applying the "policy by policy" approach, on the basis of the premium rate, in accordance with the Technical Bases, and pursuant to the Management and Supervision of Private Insurance Regulations.

Commissions and other acquisition costs corresponding to the premiums issued are recognised as an expense using the same criteria, which recognises as income any premiums for insurance contracts currently in force. That part of commissions and other acquisition costs corresponding to the unused coverage period from insurance policies currently in force is recorded under the "Other Current Assets" heading of the assets in the balance sheet. As of 28 February 2018, those commissions amounted to 7.7 million euros (7.2 million euros at 28 February 2017).

The ongoing risks provision supplements the unearned premiums provision insofar as that amount is insufficient to reflect the valuation of all the risks and expenses to be covered, corresponding to the unelapsed coverage period at the close of the financial year. Its calculation is carried out in accordance with the existing Management and Supervision of Private Insurance Regulations. As of 28 February 2018 and 28 February 2017, it has not been necessary to set aside this provision.

Life insurance provisions

They represent the value of the Group's obligations, net of the policyholder's obligations, arising from life insurance policies at the end of the financial year. The life insurance provision includes:

- Insurance policies whose coverage period is equal to or less than the year, the "unearned premiums provision" and, where appropriate, the "ongoing risks provision", whose aim and calculation method are the same as those set out in the preceding paragraph.

- Regarding other insurance policies, there is a "mathematical provision". This provision represents the difference between the present actuarial value of the Group's future obligations and those of the policyholder, or as the case may be, the insured party. The basis for calculating this provision is the inventory premium accrued throughout the financial year; this is understood to mean the pure premium increased by extra administration cost charges as foreseen in the Technical Bases. The calculation is made policy by policy, through a system of individual capitalisation and the implementation of a prospective approach, in accordance with the Technical Bases and pursuant to the Management and Supervision of Private Insurance Regulations.

The technical interest rates used during 2016 and 2017 are essentially between 1.25% and 6.03%. However, for the main insurance policies which have a guaranteed high technical interest rate, the Group has assigned portfolios of specific financial investments whose profitability can cover the aforesaid guaranteed interest rates.

For those insurance policies for which the policyholder assumes the investment risk, the corresponding life insurance technical provisions are determined depending on the specific assets covered, or the indices or assets, which have been set as a reference to determine the economic value of their rights.

Correction of accounting asymmetries

In insurance operations that are financially immunized, which refer their redemption value to the value of specifically assigned assets, which provide for a profit sharing of a linked asset portfolio, or in the case of insurance operations in those that the policyholder assumes the risk of the investment or assimilated, the Company has recognized, through its equity, symmetrically, the variations experienced in the fair value of the assets classified in the categories of "Available-for-sale financial assets" or of "Other financial assets at fair value with changes in profit and loss" and those that have occurred in the life insurance provisions; either with payment to said technical provisions, when required by the Regulation and other applicable regulations, or by crediting a liability account (with a positive or negative balance) for the part not recorded as a life insurance provision.

Technical provisions for compensation

They cover the projections made by the Group to meet its commitments originating from claims occurring prior to the end of the financial year and pending declaration, settlement or payment on the aforesaid date. Likewise, any maturities and redemptions requested, pending settlement or payment to year end are included. This provision will be comprised by providing compensation pending settlement or payment, the provision of claims pending declaration and the provision of internal expenses for the payment of claims. It will be calculated in accordance with the corresponding regulations.

Provisions for shares in benefits and rebates

These provisions cover accrued, but not yet assigned, benefits in favour of policyholders, insured parties or beneficiaries, as well as the projected amount of the premiums that it is appropriate to return to policyholders or insured parties, if necessary, in accordance with the performance of the insured risks. Such provisions are calculated on the basis of the corresponding clauses of the contracts in force at year end.

Technical provisions of accepted and assigned reinsurance

The corresponding provisions are reflected in the balance sheet in accordance with the terms in the relevant contracts and regulations.

4.2.13 Severance payments and other payments to personnel

In accordance with current labour regulations, the Group is obliged to pay compensation to employees with whom, under certain conditions, it severs its labour relations.

The Company's directors estimate that the provisions recorded at 28 February 2018 to cover situations of this nature are sufficient (see Note 16.1).

4.2.14 Official subsidies

Official subsidies are recognised as income once all their terms have been met and during the periods for which they cover the related costs. They are deducted upon presentation of the corresponding expense.

Official subsidies relating to property, plant and equipment and intangible assets are considered deferred income and are classified under the heading "Other non-current liabilities" and any profits are distributed over the expected useful lives of the relevant assets.

4.2.15 Discontinued operations and non-current assets and liabilities held for sale

The Group classifies as "non-current assets held for sale" property, plant and equipment, intangible assets, other non-current assets or those included under the heading "Investments accounted for using the equity method" and disposal groups (groups of assets to be disposed of along with their directly associated liabilities), for which, at the date of closure of the consolidated balance sheet, active business negotiations have begun and at a fair sale price and it is projected that the sale will take place within the twelve months following the aforesaid date.

Likewise, the Group considers discontinued operations to be those business lines that have been sold or which have been disposed of by other means or which meet the conditions to be classified as being held for sale, including, where appropriate, those other assets that, together with the business line, are part of the same sale plan or as a result of assumed commitments. Likewise, any entities acquired solely for resale are considered discontinued operations.

These assets or disposal groups are valued at the lesser of either the amount of their book value or the projected sale value, the costs thereby entailed having been deducted. They cease to be amortised from the moment they are classified as non-current assets held for sale.

Non-current assets held for sale and the components of the groups classified as held for sale are presented in the attached consolidated balance sheet in the following manner: the assets on a single line called "non-current assets held for sale and from discontinued activities"; and the liabilities also on a single line called "liabilities associated with non-current assets held for sale and from discontinued activities".

The profit after tax from discontinued operations is presented in a single line of the consolidated income statement named "profit after tax from discontinued activities".

At the close of 2017 and 2016, the Group does not have classified non-current assets and liabilities as held for sale, as well as for discontinued activities.

4.2.16 Assets of an environmental nature

Assets of an environmental nature are considered to be those which are used in a lasting manner in the Group's activity whose main purpose is the minimisation of the environmental impact and the protection and improvement of the environment, including the reduction or elimination of future contamination.

The Group's activity, due to its nature, does not have a significant environmental impact, though the details of the assets and expenses of an environmental nature are given in note 25.

4.2.17 Current and non-current items

The Group presents the consolidated balance sheet classifying assets and liabilities as current and non-current. Current items include those balances that the Group expects to sell, consume, turn into cash over the course of the normal operation cycle, or which are expected to be cashed in within the period of the twelve months following the closing date. Should this not be the case, they will be classified as non-current.

Assets are not offset by liabilities unless offsetting is required or permitted by any standard or interpretation.

4.2.18 Consolidated statement of cash flows

In the consolidated statement of cash flows, which is prepared according to the indirect method, the following expressions are used in the following ways:

- Cash flows: entries and outlays of money in cash and equivalents, these being understood as short-term, highly liquid investments with a low risk of alterations in their value.

- Operating activities: typical activities of the entity, as well as other activities that cannot be classified either as investment or financing.

- Investment activities: the acquisition, transfer or disposal by other means of non-current assets and other investments not included in cash and cash equivalents.

- Financing activities: activities which produce changes in the size and composition of the equity and liabilities that are not part of operating activities.

4.2.19 Working capital

As is usual in the sector in which the Group operates, due to the existing lag between the payment and receipt dates of commercial transactions, and as a result of applying the cash flows of the operating activities to the acquisition of assets of a non-current nature (see statement of cash flows), the current liabilities in the accompanying consolidated balance sheets at 28 February 2018 and 28 February 2017 are greater than the current assets. The Group's Management considers that that lag does not represent any risk whatsoever of a lack of liquidity, because the current income makes it possible to meet the short-term payment commitments with complete normality.

4.2.20 Information by Segments

The information by segments is presented in accordance with the provisions contained in IFRS 8 "Operating Segments". Note 23.1 outlines the reporting requirements in detail.

5. Property, plant and equipment

The changes in the different accounts of the property, plant and equipment section of the consolidated balance sheet in the years ending on 28 February 2018 and 28 February 2017 were as follows:

FY 2017

	INITIAL BALANCE	**Additions/ provisions**	**Removals/ Reversions**	**Transfers**	**FINAL BALANCE**
Cost					
Land and constructions	10,509,332	7,597	(14,512)	33,920	10,536,337
Machinery, installations and tooling	6,055,795	76,499	(47,913)	89,078	6,173,459
Furniture and effects	2,094,969	14,029	(14,559)	36,729	2,131,168
Information processing equipment	479,733	34,277	(78,958)	15	435,067
Transport elements	6,337	362	(115)	(16)	6,568
Work in progress	351,616	173,888	382	(155,200)	370,686
	19,497,782	**306,652**	**(155,675)**	**4,526**	**19,653,285**
Depreciation					
Constructions	(1,045,548)	(67,144)	2,242	(1,566)	(1,112,016)
Machinery, installations and tooling	(4,333,933)	(235,801)	26,160	1,788	(4,541,786)
Furniture and effects	(1,371,855)	(93,589)	8,173	519	(1,456,752)
Information processing equipment	(419,408)	(16,659)	65,252	241	(370,574)
Transport elements	(11,319)	(230)	112	4	(11,433)
	(7,182,063)	**(413,423)**	**101,939**	**986**	**(7,492,561)**
Impairment					
Land and constructions	(49,790)	(18,463)	14,673	(21,649)	(75,229)
Machinery, installations and tooling	(15,592)	(6,379)	17,822	(7,150)	(11,299)
Furniture and effects	(249)	(263)	4,248	1,400	5,136
Information processing equipment	(1,794)	(8)	135	16	(1,651)
Transport elements	5,964	—	—	—	5,964
	(61,461)	**(25,113)**	**36,878**	**(27,383)**	**(77,079)**
Net book value	**12,254,258**	**(131,884)**	**(16,858)**	**(21,871)**	**12,083,645**

5. Property, plant and equipment

FY 2016(*)

	INITIAL BALANCE	Additions/ provisions	Removals/ Reversions	Transfers	FINAL BALANCE
Cost					
Land and constructions	10,527,055	6,323	(64,370)	40,324	10,509,332
Machinery, installations and tooling	5,984,648	29,028	(53,732)	95,851	6,055,795
Furniture and effects	2,030,545	10,442	(10,363)	64,345	2,094,969
Information processing equipment	485,307	12,067	(17,673)	32	479,733
Transport elements	6,764	212	(633)	(6)	6,337
Work in progress	378,913	197,715	(609)	(224,403)	351,616
	19,413,232	**255,787**	**(147,380)**	**(23,857)**	**19,497,782**
Depreciation					
Constructions	(988,777)	(68,228)	16,201	(4,744)	(1,045,548)
Machinery, installations and tooling	(4,130,957)	(245,826)	40,082	2,768	(4,333,933)
Furniture and effects	(1,285,014)	(96,058)	7,980	1,237	(1,371,855)
Information processing equipment	(416,612)	(21,750)	18,498	456	(419,408)
Transport elements	(11,683)	(242)	603	3	(11,319)
	(6,833,043)	**(432,104)**	**83,364**	**(280)**	**(7,182,063)**
Impairment					
Land and constructions	2,916	(8,580)	(47,859)	3,733	(49,790)
Machinery, installations and tooling	(46,412)	(17,570)	50,953	(2,563)	(15,592)
Furniture and effects	(2,785)	(258)	537	2,257	(249)
Information processing equipment	(1,776)	(38)	147	(127)	(1,794)
Transport elements	5,954	—	1	9	5,964
	(42,103)	**(26,446)**	**3,779**	**3,309**	**(61,461)**
Net book value	**12,538,086**	**(202,763)**	**(60,237)**	**(20,828)**	**12,254,258**

(*) Reexpressed figures. See Note 2.6.

Property, plant and equipment additions in 2017 and 2016 correspond basically to the costs of expansion and modernization of several stores as well as other formats.

The removals of property, plant and equipment during financial year 2017 basically correspond to fully-depreciated elements and the sale of certain properties. The "Variation in provisions, impairment and result from transfers of fixed assets" section of the attached income statement includes mainly the capital gains obtained from the sale of certain properties.

At the close of 2017, the Group recorded 95.86 million euros (77.76 million euros in 2016) as impairment of property, plant and equipment, intangible assets and investment property.

The Group owns real estate whose net book value separate from the construction and the land at the close of 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Land	5,463,172	5,520,296
Constructions	3,885,920	3,893,698
	9,349,092	**9,413,994**

During financial year 2017, the Group capitalised finance costs in the constructions section of property, plant and equipment for the sum of 12.02 million euros (10.80 million euros at close of financial year 2016).

At the close of 2016 and 2017, the Group had the following investments in property, plant and equipment located outside Spanish territory:

	Thousands of euros			
	2017		2016	
	Cost	Depreciation and impairment	Cost	Depreciation and impairment
Land and constructions	366,571	(58,238)	365,858	(53,770)
Machinery and installations	200,434	(112,735)	179,959	(98,995)
Other fixed and ongoing assets	99,288	(69,168)	97,064	(68,523)
	666,293	**(240,141)**	**642,881**	**(221,288)**

Likewise, the assets constructed on lands obtained as concessions are the following:

	Thousands of euros	
	2017	2016
Constructions	134,718	138,165
Machinery and installations	69,940	67,617
Other fixed assets	47,403	51,381
Cumulative depreciation	(137,424)	(131,239)
	114,637	**125,924**

As is indicated in note 9.1, at the close of 2017 and 2016 the Group had contracted different financial leasing operations on its property, plant and equipment.

At the close of 2017 and 2016, the Group had fully depreciated items of property, plant and equipment that continued in use, pursuant to the following table:

	Thousands of euros	
	2017	2016
Constructions	44,431	44,441
Machinery, installations and tooling	1,318,030	1,844,071
Furniture and effects	343,515	361,068
Information processing equipment	136,270	116,889
Transport elements	3,686	3,872
	1,845,932	**2,370,341**

At the close of 2017 and 2016 the Group kept its investment commitments firm for a total amount of 65,553 and 60,757 thousand euros, respectively.

The Group follows the crition of insuring the value of its fixed asset elements by means of insurance policies taken out with third parties. The Parent’s directors consider that the insurance coverage for 2017 and 2016 is appropriate.

6. Investment property

The Group’s investment property mainly includes properties which are earmarked for leasing. The movement of this heading in the consolidated balance sheet during 2017 and 2016 was as follows:

FY 2017

	Thousands of euros				
	Balance at 01 March 2017	Additions or provisions	Disposals	Transfers	Balance at 28 February 2018
Land and constructions	201,747	3,292	—	(803)	204,236
Total cost	201,747	3,292	—	(803)	204,236
Cumulative depreciation	(14,680)	(3,680)	—	1,507	(16,853)
Impairment	(9,683)	—	—	580	(9,103)
Net balance	**177,384**	**(388)**	**—**	**1,284**	**178,280**

FY 2016

Thousands of euros

	Balance at 01 March 2016	Additions or provisions	Disposals	Transfers	Balance at 28 February 2017
Land and constructions	201,719	75	—	(47)	201,747
Total cost	201,719	75	—	(47)	201,747
Cumulative depreciation	(13,376)	(3,610)	—	2,306	(14,680)
Impairment	(22,262)	(209)	158	12,630	(9,683)
Net balance	**166,081**	**(3,744)**	**158**	**14,889**	**177,384**

Regarding the use of such investments, at the end of 2017 and 2016 they were distributed in the following manner:

	Thousands of euros	
	2017	2016
Offices	118,375	116,592
Premises	37,827	38,034
Others	22,078	22,585
	178,280	**177,211**

The Group follows the criterion of insuring the value of its investment property by means of insurance policies taken out with third parties. The Parent’s directors consider that the insurance coverage for 2017 and 2016 is appropriate.

7. Goodwill

The breakdown of goodwill during 2017 and 2016 was as follows:

	Thousands of euros	
	Balance at 28 February 2018	Balance at 28 February 2017
Merger Goodwill	10,688	10,688
Consolidation Goodwill	8,797	8,797
	19,485	**19,485**

Impairment tests carried out on 28 February 2018, for each of the cash-generating units have not demonstrated the need to make a provision for any impairment.

8. Other intangible assets

The movements in this section of the consolidated balance sheet in the years ending on 28 February 2018 and 28 February 2017 were as follows:

FY 2017

DESCRIPTION	INITIAL BALANCE	Additions/ provisions	Removals/ Reversions	Transfers	FINAL BALANCE
Cost					
Development costs	35,415	—	—	—	35,415
Transfer rights	28,675	242	(14)	(1,140)	27,763
Computer applications	900,873	113,202	(1,480)	208	1,012,803
Concessions	164,512	—	(11,064)	—	153,448
Intellectual Property	42,392	370	(1)	—	42,761
Other fixed assets	24,243	886	(2,824)	—	22,305
	1,196,110	**114,700**	**(15,383)**	**(932)**	**1,294,495**
Depreciation					
Depreciation of development costs	(35,415)	—	—	—	(35,415)
Depreciation of transfer rights	(19,239)	(31)	—	(670)	(19,940)
Depreciation of computer applications	(523,274)	(90,058)	(1,542)	4,478	(610,396)
Depreciation of concessions	(51,891)	(3,017)	9,698	—	(45,210)
Depreciation of intellectual property	(6,056)	(127)	3,548	(3,559)	(6,194)
Depreciation of other fixed assets	(1,004)	(72)	—	2	(1,074)
	(636,879)	**(93,305)**	**11,704**	**251**	**(718,229)**
Impairment					
Impairment of transfer rights	(1,954)	—	—	(6)	(1,960)
Impairment of computer applications	(229)	—	1	1	(227)
Impairment of concessions	(116)	(3,055)	—	—	(3,171)
Impairment of intellectual property	(4,322)	—	—	—	(4,322)
	(6,621)	**(3,055)**	**1**	**(5)**	**(9,680)**
Net book value	**552,610**	**18,340**	**(3,678)**	**(686)**	**566,586**

FY 2016

DESCRIPTION	INITIAL BALANCE	Additions/ provisions	Removals/ Reversions	Transfers	FINAL BALANCE
Cost					
Development costs	35,415	—	—	—	35,415
Transfer rights	30,061	—	(6,369)	4,983	28,675
Computer applications	808,152	101,631	(8,809)	(101)	900,873
Concessions	164,512	—	—	—	164,512
Intellectual Property	41,484	908	—	—	42,392

Other fixed assets	23,150	1,621	(528)	—	24,243
	1,102,774	**104,160**	**(15,706)**	**4,882**	**1,196,110**
Depreciation					
Depreciation of development costs	(35,415)	—	—		(35,415)
Depreciation of transfer rights	(18,608)	(48)	5,693	(6,276)	(19,239)
Depreciation of computer applications	(459,644)	(74,843)	11,322	(109)	(523,274)
Depreciation of concessions	(48,359)	(3,532)	—	—	(51,891)
Depreciation of intellectual property	(5,431)	(3,883)	3,258	—	(6,056)
Depreciation of other fixed assets	(938)	(66)	—	—	(1,004)
	(568,395)	**(82,372)**	**20,273**	**(6,385)**	**(636,879)**
Impairment					
Impairment of transfer rights	(1,955)	—	—	1	(1,954)
Impairment of computer applications	(227)	—	—	(2)	(229)
Impairment of concessions	(1,190)	—	—	1,074	(116)
Impairment of intellectual property	(4,322)	—	—	—	(4,322)
	(7,694)	**—**	**—**	**1,073**	**(6,621)**
Net book value	**526,685**	**21,788**	**4,567**	**(430)**	**552,610**

The additions recorded in the "Computer Applications" account for years 2016 and 2017 correspond mainly to developments of applications necessary for the Group's activity.

During financial year 2017, the Group capitalised financial expenses within the intangible fixed assets section for the sum of 3.56 million euros (4.9 million euros in 2016).

As of 28 February 2018, assets with indefinite useful lifetimes other than those presented as commercial funds, mainly corresponding to various brands acquired in the preceding years by El Corte Inglés, S.A., amounted to 27.92 million euros (27.92 million euros for 2016). These brands are not systematically depreciated, but their possible impairment is verified annually.

At close of financial years 2016 and 2017 the Group had the following fully amortised intangible fixed assets still in use, as set out in this table:

	Thousands of euros	
	2017	**2016**
Development costs	35,415	35,415
Administrative concessions	2,984	720
Transfer rights	12,723	11,193
Computer applications	417,801	351,313
Patents, licences and others	12,660	1,925
	481,583	**400,566**

9. Leases

9.1 Financial leases (as the lessee)

The Group has financial lease contracts, corresponding mainly to premises.

The assets leased under these contracts are recorded in the property, plant and equipment and investment property sections of the consolidated balance sheet (see notes 5 and 6) and the corresponding debt is recorded as a financial liability (see note 17).

At the close of 2017 and 2016, the Group, in its capacity as a financial lessee, has leased assets in accordance with the following details:

	Thousands of euros			
	2017		**2016**	
	Cost	**Cumulative depreciation and impairment**	**Cost**	**Cumulative depreciation and impairment**
Land and constructions	211,335	(49,643)	222,441	(69,322)
Information processing equipment	26,735	(3,556)	2,972	(928)

Other facilities	36,183	(2,258)	—	—
Computer applications	5,304	(749)	—	—
	279,557	**(56,206)**	**225,413**	**(70,250)**

The minimum leasing charges (including, where applicable, the purchase options), in accordance with the current contracts in force, without taking into account the impact of shared costs, future increases due to the CPI, nor contractually-agreed future updates of rents, which the Group holds with its lessors at actual value, are the following:

	Miles de Euros			
	Actual Value		**Minimun Future Payments**	
	2017	**2016**	**2017**	**2016**
Less than one year	29,534	22,285	31,152	23,975
Between one and five years (Note 13.1)	68,764	39,445	70,908	43,149
More than five years	—	—	1	60
	98,298	**61,730**	**102,061**	**67,184**

The main data of the financial leasing contracts which the Group held at close of the year are the following:

	Amounts in thousands of euros
Duration of the contracts (years)	10
Years elapsed	6 - 9
Value of the purchase options	2,638
Charges paid in previous financial years	189,769

9.2 Operating leases

As the lessor

The main operating lease contracts of the El Corte Inglés Group as a lessor cover the spaces in department stores, shops and premises attached to these that are rented out in order to complete the range of products on offer in its stores, as well as the rental of offices.

At the close of 2017 and 2016, the Group had the following minimum rental payments contracted with the lessees, in accordance with the current contracts in force, without taking into account the impact of shared costs, future increases due to the consumer price index, or contractually-agreed future updates of rents:

	Thousands of euros	
	2017	**2016**
Received in the financial year	25,155	17,071
Less than one year	26,766	21,459
Between one and five years	103,877	90,532
More than five years	123,798	112,095
	279,596	**241,157**

As the lessee

Part of the premises used by the Group for its main business activities are leased from third parties. These rentals are classed as operating leases because, regardless of the term of the rental agreement and the amounts paid or agreed upon with the owners of the leased properties, there is no transfer of the risks and benefits inherent in their ownership.

Due to the varying nature and financial position of the owners and other factors, there is a wide variety of clauses regulating how the rental agreements work. Most of the lease contracts establish a fixed rent which is normally paid monthly and updated in accordance with an index that corrects the rent for inflation.

Rental contracts generally have a minimum duration of between 1 and 10 years.

At the close of 2017 and 2016, the Group had the following minimum rental payments contracted with the lessors, in accordance with the current contracts in force, without taking into account the impact of shared costs, future increases due to the consumer price index, nor future updates of rents contractually agreed:

	Thousands of euros	
	2017	**2016**
Paid in the financial year	151,211	145,945
Less than one year	140,680	153,051
Between one and five years	354,930	406,104
More than five years	383,390	316,062
	930,211	**1,021,162**

10. Investments accounted for using the equity method

At 28 February 2018 and 28 February 2017, the most significant stakes in Group associates were as follows:

FY 2017

	Thousands of euros			
	Balance at 01 March 2017	**Other Changes**	**Stake in results of companies by the equity method**	**Balance at 28 February 2018**
Financiera El Corte Inglés E.F.C., S.A.	169,116	(32,993)	37,210	173,333
Gestión de Puntos de Venta, Gespevesa, S.A.	26,500	(1,351)	1,918	27,067
Sephora Cosméticos España, S.L.	5,977	—	806	6,783
Citorel, S.L.	1,665	(719)	502	1,448
FST Hotels, S.L.	83,095	(515)	4,665	87,245
Tagus Book, S.L.	(106)	—	(90)	(196)
Kio Networks España	4,931	2	571	5,504
Lecius, S.L.	480	(1)	97	576
	291,658	**(35,577)**	**45,679**	**301,760**

10. Investments accounted for using the equity method

FY 2016

	Thousands of euros				
	Balance at 01 March 2016	Changes in the scope of consolidation	Other Changes	Stake in results of companies by the equity method	Balance at 28 February 2017
Financiera El Corte Inglés E.F.C., S.A.	162,224	—	(25,780)	32,672	169,116
Iberiafon. S.A.	20,913	(22,193)		1,280	—
Gestión de Puntos de Venta, Gespevesa, S.A.	25,855	—	(856)	1,501	26,500
Sephora Cosméticos España, S.L.	5,563	—	38	376	5,977
Citorel, S.L.	1,450	—	(129)	344	1,665
FST Hotels, S.L.	80,894	—	(314)	2,515	83,095
Tagus Book, S.L.	1	—	36	(143)	(106)
Kio Networks España	—	5,500	(788)	219	4,931
Lecius, S.L.	—	500	—	(20)	480
	296,900	**(16,193)**	**(27,793)**	**38,744**	**291,658**

The investment of Financiera El Corte Inglés E.F.C., S.A., accounted for using the equity method since 2013, includes implicit goodwill of 31.1 million euros.

The amounts reflected within “Other Changes” mainly correspond to the dividends given from each one of the part-owned companies to the Group during the year.

On the 27th of February 2017, the 40% stake in the company Iberiafon S.A. was sold. As a result of that operation, a capital gain was obtained, recorded in accounts in the “Impairment and gains or losses on disposals of financial instruments” section of the consolidated income statement.

The main figures of the Group’s joint ventures and associates are as follows:

FY 2017

	Thousands of euros				
	Assets	Liabilities	Operating result	Result of the financial year	Percentage stake
Financiera El Corte Inglés E.F.C., S.A.	2,002,881	1,712,579	25,866	75,938	49.00
Gestión de Puntos de Venta, Gespevesa, S.A.	66,560	12,426	5,115	3,836	50.00
Sephora Cosméticos España, S.L.	72,119	59,464	2,667	1,613	50.00
Citorel, S.L.	4,194	1,298	1,340	1,005	50.00
FST Hotels, S.L.	207,339	67,769	12,578	9,330	50.00
Tagus Book, S.L.	884	1,702	(444)	(375)	24.00
Kio Networks España	18,327	7,319	1,473	1,142	50.00
Lecius, S.L.	3,411	2,258	243	193	50.00
	2,375,715	**1,864,815**	**48,838**	**92,682**	

FY 2016

	Thousands of euros				
	Assets	Liabilities	Operating result	Result of the financial year	Percentage stake
Financiera El Corte Inglés E.F.C., S.A.	1,873,479	1,591,702	11,274	66,887	49.00
Gestión de Puntos de Venta, Gespevesa, S.A.	63,391	10,392	4,000	3,002	50.00
Sephora Cosméticos España, S.L.	59,206	47,761	1,579	752	50.00

Citorel, S.L.	3,982	878	917	689	50.00
FST Hotels, S.L.	208,181	76,906	5,538	5,031	50.00
Tagus Book, S.L.	1,211	1,654	(776)	(598)	24.00
Kio Networks España	15,242	5,380	715	439	50.00
Lecius, S.L.	2,843	1,881	(46)	(41)	50.00
	2,227,535	**1,736,554**	**23,201**	**76,161**	

10.1 Investments in Joint Ventures

The tables below show 100% of the financial information of the joint ventures considered most significant by the Group:

	Thousands of euros			
	Gespevesa		FST Hoteles	
	2017	2016	2017	2016
Fixed assets	35,476	35,829	189,785	194,110
Financial investments	22	—	2,007	1,908
Deferred tax assets	432	468	—	—
Inventories	540	431	531	368
Trade and other receivables	20,122	18,672	9,721	7,496
Short-term financial investments	4,000	3,001	48	15
Short-term accruals	—	—	98	101
Cash and cash equivalents	5,968	4,990	5,149	4,183
Total Assets	**66,560**	**63,391**	**207,339**	**208,181**
Shareholders' equity	54,134	52,999	139,550	131,253
Subsidies and donations	—	—	20	22
Long-term debts	38	37	47,512	53,102
Deferred tax liabilities	—	—	59	131
Short-term debts	—	—	7,445	14,037
Debts with group companies	—	—	—	1,470
Trade payables, accruals, provisions and accounts payable	12,388	10,355	12,753	8,166
Total liabilities and equity	**66,560**	**63,391**	**207,339**	**208,181**

	Thousands of euros			
	Gespevesa		FST Hoteles	
	2017	2016	2017	2016
Revenue	39,176	53,052	65,190	49,375
Supplies	(25,297)	(25,014)	(4,649)	(3,686)
Other income and expenses	(6,913)	(21,942)	(40,561)	(33,742)
Depreciation, impairment and result from transfer.	(1,851)	(2,096)	(7,402)	(6,409)
Operating profit	5,115	4,000	12,578	5,538
Financial profit	—	3	(469)	(507)
Profit before tax	5,115	4,003	12,109	5,031
Income tax	(1,279)	(1,001)	(2,779)	—
Result of the financial year	**3,836**	**3,002**	**9,930**	**5,031**

10.2 Investments in associates

We will now show the financial information of the associates considered most significant by the Group:

	Thousands of euros	
	Financiera El Corte Inglés	
	2017	2016
Fixed assets	5,446	4,041
Financial investments	7,503	3
Deferred tax assets	12,109	11,399
Trade and other receivables	1,469,241	1,353,972
Short-term financial investments	8,974	8,884
Short-term accruals	—	4
Cash and cash equivalents	499,608	495,176
Total Assets	**2,002,881**	**1,873,479**

Shareholders' equity	290,301	281,778
Long-term provisions	2,250	1,056
Long-term debts	600,000	600,000
Deferred tax liabilities	—	2
Short-term provisions	487	1,082
Short-term debts	972,379	855,192
Debts with group companies	62,516	64,023
Trade payables, accruals, provisions and accounts payable	74,948	70,346
Total liabilities and equity	**2,002,881**	**1,873,479**

	Thousands of euros	
	Financiera El Corte Inglés	
	2017	2016
Supplies	(127)	(301)
Other income and expenses	27,873	12,992
Depreciation, impairment and result from transfer.	(1,880)	(1,417)
Operating profit	25,866	11,274
Financial profit	81,371	84,430
Profit before tax	107,237	95,704
Income tax	(31,299)	(28,817)
Result of the financial year	**75,938**	**66,887**

11. Current and noncurrent financial assets

The breakdown of the balance of this section of the consolidated balance sheet is as follows:

	Thousands of euros			
	2017		2016	
	Current	Non-current	Current	Non-current
Loans and items receivable	2,847	238,035	3,053	234,876
Held-to-maturity investments	8,935	—	24,819	—
Assets at fair value with changes in income statement	—	14,917	—	22,000
Assets available for sale	12,288	709,459	13,907	766,370
Derivatives (Note 19)	32	—	25,162	—
	24,102	**962,411**	**66,941**	**1,023,246**

With regard to the financial assets detailed in the table above, the majority of the investments are related to the business of Seguros El Corte Inglés, Vida, Pensiones y Reaseguros, S.A., as indicated below:

	Thousands of euros			
	2017		2016	
	Current	Non-current	Current	Non-current
Loans and items receivable	109	148,586	41	149,943
Assets at fair value with changes in income statement	—	14,918	—	22,000
Assets available for sale	12,288	641,592	13,984	697,833
	12,397	**805,096**	**14,025**	**869,776**

Most of the insurance business investments are to cover technical provisions (see note 16).

11.1 Loans and items receivable

The breakdown of the balance of this section of the consolidated balance sheet is as follows:

	Thousands of euros			
	2017		2016	
	Current	Non-current	Current	Non-current
Securities representing debt:				
Fixed-interest securities	—	136,304	—	148,164
Deposits in credit entities	—	1,552	—	1,544

Credits, derivatives and others:				
Loans	1,575	53,892	1,703	48,865
Guarantees and deposits	1,272	46,287	1,350	36,303
	2,847	**238,035**	**3,053**	**234,876**

The fixed-interest securities correspond mainly to long-term deposits which are not traded on active markets. These investments are associated with the activity of Seguros El Corte Inglés, S.A. The maturities of those deposits extend from 2018 to 2043.

The "Loans" section includes mainly the credits granted to employees for the purchase of El Corte Inglés S.A. shares, with maturities of between 1 and 5 years, as well as other long-term credits granted to third parties.

The maturity of the heading "Loans and receivables—loans" is as follows:

FY 2017

	Thousands of euros					
	2019	**2020**	**2021**	**2022**	**From 2023**	**Total**
Loans	7,853	7,507	6,767	5,265	26,500	53,892

FY 2016

	Thousands of euros					
	2018	**2019**	**2020**	**2021**	**From 2022**	**Total**
Loans	8,203	7,219	6,860	5,692	20,891	48,865

11.2 Held-to-maturity investments

The breakdown of the balance of this section of the consolidated balance sheet is as follows:

	Thousands of euros			
	2017		**2016**	
	Current	**Non-current**	**Current**	**Non-current**
Equity instruments	165	—	2,161	—
Securities representing debt	8,770	—	22,658	—
	8,935	**—**	**24,819**	**—**

The securities representing debt correspond mainly to short-term deposits in certain entities which accrue interest at market rates.

11. Current and noncurrent financial assets

11.3 Assets at fair value with changes in income statement

The breakdown of the balance of this section of the consolidated balance sheet is as follows:

	Thousands of euros			
	2017		2016	
	Current	Non-current	Current	Non-current
Equity instruments	—	9,607	—	16,926
Securities representing debt	—	5,310	—	5,074
	—	**14,917**	**—**	**22,000**

The "Equity instruments" section corresponds entirely to investments in collective investment schemes (UCIs) deriving from the activity of Seguros El Corte Inglés, S.A.

11.4 Available-for-sale assets

The breakdown of the balance of this section of the consolidated balance sheet is as follows:

	Thousands of euros			
	2017		2016	
	Current	Non-current	Current	Non-current
Equity instruments:				
Valued at fair value	—	45,346	—	42,353
Valued at cost	—	63,225	—	63,956
Securities representing debt:				
Valued at fair value	12,288	600,888	13,907	660,061
Valued at cost	—	—	—	—
	12,288	**709,459**	**13,907**	**766,370**

The equity instruments valued at fair value include 15,706 thousand euros (16,836 thousand euros in 2016) which correspond to variable-interest securities, almost all of which are listed on regulated markets of the OECD, as well as stakes in collective investment schemes (UCIs) for the sum of 29,640 thousand euros (25,517 thousand euros in 2016), in both cases deriving from the activity of Seguros El Corte Inglés.

The "Equity instruments valued at cost" section includes 38 million euros (38 million euros in 2016) corresponding to the 11.1% stake (11.1% in 2016) which Viajes El Corte Inglés S.A. holds in Grupo Real Turismo, S.A.B de Capital Variable, a Mexican company dedicated to hotel and catering activities, as well as the 9.9% stake (9.9% in 2016) which Parinver S.A. holds in Grupo Financiero Multiva for the sum of 17.0 million euros (18.5 million euros in 2016).

The securities representing debt correspond to fixed-interest securities of the activity of Seguros El Corte Inglés, specifically securities which are listed on active markets, and they are therefore valued at fair value. The maturities of the aforesaid securities range from 2018 to 2043. With regard to the fixed-interest securities classified as Loans and items receivable (see Note 11.1), the total amount of fixed-interest securities is 753.01 million euros, 455.24 million euros of which are public fixed-interest securities and 297.77 million euros are private fixed-interest securities.

11.5 Derivatives

The breakdown of the balance of this section of the consolidated balance sheet is as follows:

	Thousands of euros			
	2017		2016	
	Current	Non-current	Current	Non-current
Credit, derivatives and others (Note 19)	32	—	25,162	—
	32	**—**	**25,162**	**—**

11.6 *Hierarchy of recognised fair values*

The judgements and estimations made in order to determine the fair values of the financial instruments which are recognised in the consolidated financial statements are listed below. The Group classifies its financial instruments in the three levels envisaged in IFRS 7, as described in Note 4.2.8:

	Thousands of euros			
Recurrent valuations at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
28 February 2018	—	—	—	—
Financial Assets at Fair Value with Changes in Results (Note 11.3):				
Equity instruments	—	9,607	—	9,607
Available-for-sale financial assets (Note 11.4):				
Equity instruments	16,836	29,640	63,225	109,701
Debt securities	600,888	—	—	600,888
Loans and items receivable (Note 11.1):				
Debt securities (Note 18)	136,304	—	—	136,304
Total financial assets	**754,028**	**39,247**	**63,225**	**856,500**

	Thousands of euros			
Recurrent valuations at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
28 February 2017	—	—	—	—
Financial Assets at Fair Value with Changes in Results (Note 11.3):				
Equity instruments	—	16,926	—	16,926
Available-for-sale financial assets (Note 11.4):				
Equity instruments	16,836	25,517	63,956	106,308
Debt securities	660,061	—	—	660,061
Loans and items receivable (Note 11.1):				
Debt securities (Note 18)	148,164	—	—	148,164
Total financial assets	**825,061**	**42,443**	**63,956**	**931,460**

12. Inventories

The details of the “Inventories” section of the accompanying consolidated balance sheet are as follows:

	Thousands of euros	
	2017	**2016**
Commercial inventories	2,057,851	1,837,286
Consumables	28,054	23,594
	2,085,905	**1,860,880**

The “commercial inventories” section includes, as detailed in valuation standard 4.2.7, the amounts corresponding to the projects in progress of Informática El Corte Inglés, S.A. at the close of the 2017 and 2016 financial years for the sum of 25.94 and 19.2 million euros, respectively.

In accordance with the normal practice in the distribution sector, El Corte Inglés, S.A. and Hipercor, S.A. formalise the purchase orders with certain suppliers some months in advance of the delivery date of the merchandise. For this reason, they had firm purchase orders for an approximate sum of 773.44 and 760.75 million euros at 28 February 2018 and 28 February 2017, respectively.

Likewise, El Corte Inglés, S.A. had sales commitments with its customers at the close of 2017 and 2016 for the sum of 130.92 and 124.31 million euros, respectively.

The Group’s policy is to take out insurance policies to cover the risks to which its inventories are exposed. At 28 February 2018 and 28 February 2017, the Parent’s directors considered that the coverage of the insurance policies on its inventories was adequate.

13. Trade and other receivables

The composition of the balance at 28 February 2018 and 28 February 2017 is as follows:

	Thousands of euros	
	2017	**2016**

Trade receivables	444,149	437,853
Doubtful trade receivables	35,088	37,535
Invoices pending issue	1,583	1,948
Value impairment in commercial credits and provisions	(38,302)	(42,072)
Sub-total, trade receivables for sales and services	442,518	435,264
Sub-total, sundry receivables	470,982	522,420
	913,500	**957,684**

At 28 February 2018 and 28 February 2017, there were no balances of "trade and other receivables" that were in arrears and no significant impairments.

In 2017, the net charge for the provision for trade and other receivables was 3.77 million euros (2.33 million in 2016).

14. Cash and cash equivalents

The breakdown of this heading of the consolidated balance sheet at 28 February 2018 and 28 February 2017 is as follows:

	Thousands of euros	
	2017	**2016**
Cash balances	53,385	58,596
Bank balances	159,173	95,543
	212,558	**154,139**

The cash and bank balances include cash and sight accounts in credit entities that are compensated at market rates.

15. Equity

15.1 Subscribed capital

The corporate capital of El Corte Inglés, S.A. is represented by 81,144,000 shares with a face value of 6 euros each at 28 February 2018 and 28 February 2017, all of them registered and fully subscribed and paid out. The Company's shares are not listed on a Stock Exchange.

The only legal entities with a stake of over 10% in the company's share capital are Fundación Ramón Areces (37.39%) and Cartera de Valores IASA, S.A. (22.18%).

15.2 Legal reserve

Pursuant to the Capital Companies Act, 10% of the profit for the year must be allocated to the legal reserve until this reaches at least 20% of the corporate capital.

The part of the legal reserve exceeding 10% of the already-increased capital may be used to increase the capital.

Except for that purpose, and as long as it does not exceed 20% of the share capital, the legal reserve may only be used to compensate for losses, provided that there are no other sufficient available reserves for that purpose.

The Group's Parent has a total legal reserve amounting to 97,373 thousand euros at 28 February 2018.

15.3 Other reserves

The other reserves heading includes 2,188 million euros in non-disposable reserves for the legal reserves of the consolidated companies and other restricted reserves (basically reappraisal due to the application of IFRS, goodwill, etc.).

The effects of the reserves caption of the reexpresion of the comparative figures that are described in Note 2.6 of the consolidated report.

15.4 *Treasury shares*

At the close of 2017 and 2016, the Group had treasury shares in its possession, held only temporarily and intended for disposal in the immediate future, in accordance with the following details:

		Euros
	No. of Shares	Face Value
Type-A treasury shares at the close of 2017	11,520,623	6
Type-A treasury shares at the close of 2016	11,506,916	6

In the course of 2017 and 2016, parent's shares were acquired for an effective value of 68.40 million euros and 49.82 million euros, and shares for the sum of 58.81 and 59.91 million euros were transferred, respectively, 52.50 million euros of which corresponded in 2017 to the payment of accrued interest on the convertible loan (see Note 15.8).

In addition, deriving from the third tranche of the sale option granted in favour of the investor of the loan convertible into shares, the Company recorded the sum of 75 million euros as a greater amount of its treasury shares, with the total registered figure amounting to 225,000 thousand euros for this item on February 28, 2018.

15.5 *Valuation adjustments*

Financial assets available for sale

This heading of the consolidated balance sheet includes the net amount of the fiscal impact of changes in fair value of assets classed as available for sale. These differences are recorded in the consolidated income statement when the asset that gives rise to them is sold, or if there is an impairment.

The movements in the balance of this heading in 2017 and 2016 were as follows:

	Thousands of euros	
	2017	2016
Balance at 1 March	31,732	33,280
Increases in value during the year	14,761	24,150
Decreases in value during the year	(19,588)	(25,322)
Transfer to income for the year	(423)	(376)
Change in tax rate	(5,250)	(1,548)
Balance at 28 February	**26,482**	**31,732**

Cash flow hedges

This section of the consolidated balance sheet includes the net amount of the fiscal impact of changes in the value of financial derivatives designated as cash flow hedging instruments (see note 19).

The movements in the balance of this heading during 2017 and 2016 are shown below:

	Thousands of euros	
	2017	2016
Balance at 1 March	16,556	4,291
Increases in value during the year	37,252	11,198
Decreases in value during the year	(76,244)	(21,629)
Transfer to income for the year	6,625	25,116
Change in tax rate	(32,367)	14,685
Other adjustments	8,449	(2,420)
Balance at 28 February	**(7,362)**	**16,556**

(*) Reexpressed figures. See Note 2.6.

15.6 *Non-controlling interests*

This heading of the consolidated balance sheet shows the stakes of the minority shareholders of the companies listed below at the end of 2017 and 2016:

FY 2017

Company	% Stake	Thousands of euros — Stake in: Capital and reserves	Result of the financial year	Total
Canal Club de Distribución de Ocio y Cultura, S.A.	25.00	18	20	38
Moda Sfera Joven México, S.A. de C.V.	49.00	15,602	1,572	17,174
Viajes El Corte Inglés, S.A. de C.V.	4.00	153	55	208
Viajes El Corte Inglés, S.A. Colombia	5.00	45	(18)	27
Operadora Turismo, S.A.	0.1	—	—	—
		15,818	**1,629**	**17,447**

FY 2016

Company	% Stake	Thousands of euros — Stake in: Capital and reserves	Result of the financial year	Total
Canal Club de Distribución de Ocio y Cultura, S.A.	25.00	18	25	43
Moda Sfera Joven México, S.A. de C.V.	49.00	14,413	1,192	15,605
Viajes El Corte Inglés, S.A. de C.V.	4.00	138	15	153
Viajes El Corte Inglés, S.A. Colombia	5.00	49	(6)	43
Operadora Turismo, S.A.	0.1	—	—	—
		14,618	**1,226**	**15,844**

The movements of Group non-controlling interests in 2017 and 2016 were as follows:

FY 2017

Company	Thousands of euros — Balance at 01 March 2017	Valuation adjustments and others	Result of the financial year	Balance at 28 February 2018
Canal Club de Distribución de Ocio y Cultura, S.A.	43	(25)	27	45
Moda Sfera Joven México, S.A. de C.V.	15,605	(2)	1,571	17,174
Viajes El Corte Inglés, S.A. de C.V.	153		55	208
Viajes El Corte Inglés, S.A. Colombia	43		(17)	27
Operadora Turismo, S.A.	—	—	—	—
	15,844	**(27)**	**1,636**	**17.447**

FY 2016

Company	Thousands of euros — Balance at 01 March 2016	Valuation adjustments and others	Result of the financial year	Balance at 28 February 2017
Canal Club de Distribución de Ocio y Cultura, S.A.	45	(27)	25	43
Moda Sfera Joven México, S.A. de C.V.	14,429	(16)	1,192	15,605
Viajes El Corte Inglés, S.A. de C.V.	138	—	15	153
Viajes El Corte Inglés, S.A. Colombia	50	(1)	(6)	44
Operadora Turismo, S.A.	0.1	—	—	—
	14,662	**(44)**	**1,226**	**15,844**

We will now provide financial information for Moda Sfera Joven México, S.A. de CV:

Balance Sheet	Thousands of euros — Moda Sfera Joven México 2017	2016
Fixed assets	28,235	27,249
Deferred tax assets	4,825	3,553
Inventories	15,661	16,882
Trade and other receivables	2,009	1,919
Cash and cash equivalents	2,726	2,428
Total Assets	**53,456**	**52,031**
Shareholders' equity	35,048	31,845
Valuation adjustments	270	3,484
Debts, trade and other payables	18,138	16,702
Total liabilities and equity	**53,456**	**52,031**

Thousands of euros

Moda Sfera Joven México

Income Statement	2017	2016
Revenue	67,364	57,094
Supplies	(36,513)	(31,059)
Other income and expenses	(20,200)	(18,027)
Depreciation, impairment and results from transfer	(4,471)	(4,218)
Operating profit	6,180	3,790
Financial profit	(1,847)	(601)
Profit before tax	4,333	3,189
Income tax	(1,126)	(759)
Result of the financial year	**3,207**	**2,430**

15.7 Capital management

With respect to capital management, the Group's objectives are to ensure the capacity to continue as a going concern, so that the group continues to provide a return for shareholders and benefit other stakeholders, as well as maintaining an optimum financial structure to reduce the cost of capital.

With a view to maintaining and adjusting the capital structure, the Group may adjust the amount of the dividends to be paid out to shareholders, it may reimburse capital, issue shares or sell assets to reduce its debt.

The Parent's directors consider the leverage ratio as an indicator of fulfilment of the capital management objectives set. This ratio is calculated as the coefficient of dividing net debt by equity. Net debt is calculated as the sum of the current and non-current bank borrowings, excluding the corresponding held-for-sale assets, minus current financial investments and cash and cash equivalents.

15. Equity

The level of leverage at 28 February 2018 and 28 February 2017 is shown below:

	Thousands of euros	
	2017	**2016**
Net financial debt:		
Debt instruments and other non-current marketable securities	595,804	2,010,273
Debt instruments and other current marketable securities	1,631,212	149,857
Long-term bank borrowings	1,652,302	1,877,937
Short-term bank borrowings	114,408	56,959
Current financial assets, cash and cash equivalents (not including derivatives)	(236,628)	(195,917)
	3,757,098	**3,899,109**
Equity (discounting dividends):		
Of the Parent	8,480,612	8,504,389
Of non-controlling interests	17,447	15,845
	8,498,059	**8,520,234**
Leverage	**44.2%**	**45.8%**

15.8 Other equity instruments

On the 13th of July 2015, the Company formalised a loan contract obligatorily convertible into shares with the Luxembourg company PrimeFin, S.A. for the sum of one billion euros; this is recorded in the "Other net equity instruments" section. That loan has a maturity of three years, and it must be repaid in the form of treasury shares of the El Corte Inglés Group. The shares handed over as a result of the repayment of the principal of the loan represent 10% of the corporate capital of El Corte Inglés, S.A. Likewise, the loan accrues interest payable in treasury shares which in total will represent an additional 2.25%.

In addition, the aforementioned contract establishes that, if certain situations occur in relation to the evolution of certain financial figures of the consolidated accounts of the El Corte Inglés Group or the occurrence of certain operations related to the corporate capital of El Corte Inglés, S.A., the latter must be able to compensate the investor by means of the delivery of additional treasury shares. However, those compensations are conditional upon the General Meeting of Shareholders of El Corte Inglés, S.A. previously agreeing a distribution of dividends charged to freely-disposable reserves within a given time. If the Meeting of Shareholders has not agreed that distribution of dividends, the investor's right to be compensated will cease to exist.

In addition, on that same date, the Company signed an agreement with PrimeFin, S.A. which granted it an exit sale option on all of the shares held by El Corte Inglés, S.A. That exit sale option will be executable from the tenth year after the signing of the contract and its execution depends on certain conditions whose fulfilment is optional for the Company.

Likewise, the Company agreed a sale option with PrimeFin, S.A. on those company shares which are transferred in payment of the interest of the loan, which represent 2.25% of the corporate capital of El Corte Inglés, S.A. As is stipulated in the contract, PrimeFin S.A. may request cash advances from El Corte Inglés, S.A. on account of the aforementioned sale option. The valuation of that sale option is 225 million euros, which is recorded linearly during the lifetime of the loan, as and when the interest accrues.

At the close of the 2016 financial year, the Company registered 75 million euros for the put option, and, in financial year 2017, PrimeFin S.A. requested the second advance payment, and that amount was paid out in July 2017. At 28 February 2018, the Company again registered a liability of 75 million euros for the put option. Those amounts are classified in the "Other current liabilities" caption of the attached balance sheet.

16. Provisions and contingent liabilities

16.1 Current and non-current provisions

The details of the provisions corresponding to this section of the accompanying consolidated balance sheet, as well as the changes registered during the financial year, were the following:

Long-term provisions	Thousands of euros Initial balance	Provisions	Reversion, application and others	Final balance
FY 2017:				
Obligations for provisions to personnel	21,937	32,680	(34,909)	19,708
Technical provisions	679,842	—	(77,329)	602,513
Other	174,373	80,550	(75,682)	179,241
Long-term total	**876,152**	**113,230**	**(187,920)**	**801,462**
FY 2016(*):				
Obligations for provisions to personnel	24,883	29,698	(32,644)	21,937
Technical provisions	687,543	(7,701)	—	679,842
Other	201,791	33,727	(61,145)	174,373
Long-term total	**914,217**	**55,724**	**(93,789)**	**876,152**

(*) Figures reexpressed. See Note 2.6.

Short-term provisions	Thousands of euros Initial balance	Provisions	Reversion, application and others	Final balance
FY 2017:				
Obligations for provisions to personnel	17,650	3,416	(7,567)	13,499
Other	335	195	(88)	442
Short-term total	**17,985**	**3,611**	**(7,655)**	**13,941**
FY 2016:				
Obligations for provisions to personnel	17,605	181,598	(181,553)	17,650
Other	860	155	(680)	335
Short-term total	**18,465**	**181,753**	**(182,233)**	**17,985**

Technical provisions

The “Non-current provisions” heading basically includes the technical provisions of the Insurance business. By category, this is as follows:

	Thousands of euros 2017	2016
Provisions for unearned premiums—Non-life insurance	16,701	15,091
Provisions for unearned premiums—Life insurance	20,893	19,765
Life insurance provisions	437,278	508,896
Technical provisions related to life insurance—investment risk is carried by policyholders	8,782	16,229
Technical provisions for compensation	25,676	25,132
Provisions for share in profits and returns	84,146	79,911
Technical provisions for reinsurance	(47,844)	(51,523)
Accounting asymmetry	56,881	66,341
	602,513	**679,842**

The composition, by types, of the balance of the "Provisions for unearned premiums—Life Insurance—Provisions for life insurance—Technical provisions related to life insurance—Investment risk is carried by policy holders" section of the above table is shown below:

	Thousands of euros	
	2017	**2016**
Individuals, savings	172,342	224,097
Individuals, risk	23,593	22,349
Groups, savings	28,190	27,985
Groups, risk	8	6
Groups, annuities	234,038	256,266
Policyholder carries the investment risk	8,782	14,188
	466,953	**544,891**

The composition, by branches and types, of the balance of the "Technical provisions for compensation" and "Provisions for share in profits and returns" sections is as follows:

FY 2017

	Thousands of euros	
	Direct insurance and reinsurance accepted	**Reinsurance granted**
Provision for benefits, non-life:		
Accidents	4,544	1,269
	4,544	**1,269**
Provision for benefits, life:		
Individuals, savings	93	—
Individuals, mixed	253	—
Individuals, risk	12,211	611
Groups, savings	821	—
Groups, risks	7,048	—
GBP	1	—
Individuals, annuities	24	—
Groups, annuities	672	—
Accepted Reinsurance	9	—
	21,132	**611**
Provision for share in benefits and returns:		
Accidents	61,498	—
Individuals, savings	4,979	—
Individuals, risk	16,738	—
Groups, savings	863	—
Groups, risk	68	—
	84,146	**—**

FY 2016

	Thousands of euros	
	Direct insurance and reinsurance accepted	**Reinsurance granted**
Provision for benefits, non-life:		
Accidents	4,238	792
	4,238	**792**
Provision for benefits, life:		
Individuals, savings	95	—
Individuals, mixed	58	—
Individuals, risk	11,373	342
Groups, savings	968	—
Groups, risks	7,656	—
Guaranteed Benefit Plans	9	—
Individuals, annuities	1	—
Groups, annuities	726	—

Accepted Reinsurance	8	—
	20,894	**342**
Provision for share in benefits and returns:		
Accidents	57,188	—
Individuals, savings	5,048	—
Individuals, risk	16,998	—
Groups, savings	664	—
Groups, risk	13	—
	79,911	**—**

Employee benefit contributions

At 28 February 2018, the Group had provisioned, in the "Obligations for provisions to personnel" section, the impacts deriving from those employment termination agreements within the partial retirement plan communicated at the close of this financial year to employees aged 61. The corresponding part to be paid out in the short term is recorded at 28 February 2018 in the "Short-term provisions" section. The total amount of the provision at 28 February 2018 was 36.4 million euros (39.6 euros at 28 February 2017).

In addition, in March 2016, the Company established a Voluntary Redundancy Plan for those employees who may be interested in terminating their employment with El Corte Inglés, S.A. The employees will receive seventy per cent of their net salaries until they reach the age of 63 plus a one-off severance payment equivalent to 6 months' net salary. In order to qualify for this plan, the workers must have been born in 1956, 1957 or 1958, have served at least 15 years in the Company and have paid social security contributions for at least 35 years. The application period began on the 15th of March and ended on the 5th of April 2016.

In this regard, the Company took out an insurance policy with Seguros El Corte Inglés, Vida, Pensiones, y Reaseguros, S.A., which is responsible for making the payments described above.

During 2017, the Group recorded a provision of 178.4 million euros charged to the "Employee benefit contributions" section of the income statement for 2017, having applied all of that provision in that year.

Other provisions

The rest of the amount in this heading includes provisions of a highly diverse nature, including those related to the amount the Group may be liable to for certain local taxes and onerous contracts.

The provisions included in "Other" include mainly the charges for the tax on department stores of the stores located in the Autonomous Communities of Catalonia, Asturias and Aragon.

All of those charges have been appealed before the corresponding judicial bodies, and at the present time we are awaiting a ruling.

16.2 Guarantees Committed with Third Parties and Contingent Liabilities

The guarantees presented by the Group stood at 382.25 and 371.82 million euros at 28 February 2018 and 28 February 2017, respectively. Of those amounts, 156.07 million and 151.82 million at 28 February 2018 and 2017, respectively, are related to matters of a legal and fiscal nature (local and national). The rest, deposited with different entities, guarantee trade operations.

The Parent's directors estimate that the unforeseen liabilities at 28 February 2018 which could arise from the guarantees provided and for other contingent liabilities, if they were to occur, would not be significant.

17. Current and non-current bank borrowings and debt instruments and other marketable securities

The composition of the balance of these headings in the consolidated balance sheet is as follows:

	Thousands of euros			
	2017		**2016(*)**	
	Current	**Non-current**	**Current**	**Non-current**
Bonds and other negotiable securities	1,631,212	595,806	149,857	2,010,273
Debts with credit entities	84,874	1,583,538	34,674	1,838,492
Debts for financial leases (note 9.1)	29,534	68,764	22,285	39,445

Derivatives (Note 19)	98,142	90,915	75,000	138,765
Other financial liabilities	17,483	14,015	20,241	15,109
	1,861,245	**2,353,036**	**302,057**	**4,042,084**

(*) Figures reexpressed. See Note 2.6.

17.1 Non-current financial Liabilities

On 24 January 2018, the Parent Company signed a new syndicated financing contract without guarantees for the sum of up to 3.6 billion euros with a number of credit institutions.

That financing was used for:

- Payment in full of the previous syndicated loan signed on 14 November 2013, after which the process of withdrawing the real estate guarantees of that loan was begun.

- To ensure liquidity in the process of cancellation of the debt formalised in promissory notes and which, at 28 February 2018, was 1,251,880,000 euros.

The Parent Company has sent a letter to all the holders of those promissory notes, notifying them that none of them will be renewed as of 22 April 2018 and, therefore, despite the fact that the liquidity is assured with a tranche of the new syndicated financing whose maturity is long-term, the Directors of the Company have decided to classify all of that balance in the "Short term debentures and other marketable securities" section of the short-term liabilities of the balance sheet at 28 February 2018 (see Note 17.2).

That new financing contract is divided into the following tranches:

- Tranche A1 (1.2 billion euros): this tranche is earmarked for the refinancing of the debt formalised in promissory notes, and its maturity is one year from the date of signing of the agreement, which the Company may choose to extend to two years. At 28 February 2018, the Company had not drawn down any amount of that tranche.

- Tranche B1 (1.45 billion euros): this tranche replaces the old syndicated financing and its maturity is five years from the date of signing of the agreement. The Company had drawn down the entire balance at 28 February 2018.

- Tranche C1 (1 billion euros): this tranche corresponds to a revolving line of credit and its maturity is five years from the date of signing of the agreement.

At 28 February 2018, the average rate of the debt, considering bank borrowings, was within a market range.

The current financing contract, unlike the previous one, does not contemplate guarantees of any kind. The previous debt contemplated the mortgaging of some department stores whose net book value at the close of financial year 2016 was 1,977 million euros.

As stipulated in the new syndicated finance contract, the Parent is obliged to meet certain financial ratios calculated on the basis of the consolidated financial statements of the El Corte Inglés Group. The fulfilment of the aforementioned ratios, together with the payment schedule, are considered for the distribution of dividends.

At 28 February 2018, the Parent fulfilled the financial ratios calculated on the basis of the consolidated financial statements of the El Corte Inglés Group. Likewise, no non-fulfilments are expected in financial FY 2018.

In addition, the Parent Company has the following significant financing contracts, both signed in financial year 2016:

- Loan signed in June 2016 with various entities for the sum of 185 million euros. The balance drawn down at 28 February 2017 and 2018 was 119 million euros, and it matures in June 2020. Interest is charged at market rates.

- Loan signed with the European Investment Bank in December 2016 for the sum of 116 million euros which matures in February 2027. At 28 February 2017, this loan was fully drawn down. Interest is charged at market rates.

The interest rates of the debts are the euribor rate plus an in-market spread.

In addition to the issue of the financing contracts with credit entities, at 28 February 2018 the Parent Company recorded, in the "Debentures and other marketable securities" section, bonds which were issued in January 2015 by Hipercor, S.A. (company absorbed by El Corte Ingles, S.A. in 2017) for a maximum sum of 600,000 thousand euros and a nominal value of 100 thousand euros. At 28 February 2018, those bonds totalled 595.80 million euros, their maturity is 7 years after the date of issue and the interest rate is 3.875%.

Issue costs stemming from these issues amounted to 7,500 thousand euros, which are recorded as a reduction in the debt. During financial year 2017, 1,071 thousand euros was transferred to the "Financial expenses" section of the income statement for the 2017 financial year (1,071 thousand euros in FY 2016). During the financial year, unpaid interest accrued for the sum of 1,938 thousand euros (same amount in FY 2016). Almost all the remainder of the "Financial expenses" section on the income statement for the 2017 financial year corresponds to the interest accrued and paid out during the financial year.

Arising from the bond issues, the Group is required to meet certain ratios. The Directors of the Group's Parent Company estimate that all commitments arising from these ratios are met at 28 February 2018.

17.2 Current financial Liabilities

The details of the items forming part of the "Non-current bank borrowings" section, by maturity, are as follows:

FY 2017

	Thousands of euros						
	Comisions	**2019**	**2020**	**2021**	**2022**	**2023 and later**	**Total**
Bank loans and credits	(48,533)	288,857	265,785	252,571	758,571	66,287	1,583,538
Financial lease (note 9.1)	—	25,175	19,926	15,367	7,938	358	68,764
	(48,533)	**314,032**	**285,711**	**267,938**	**766,509**	**66,645**	**1,652,302**

FY 2016

	Thousands of Euros						
	Comisions	**2018**	**2019**	**2020**	**2021**	**Resto**	**Total**
Bank loans and credits	(36,907)	257,414	303,470	280,398	951,258	82,858	1,838,491
Financial lease (Nota 9.1)	—	17,206	12,603	7,105	2,532	—	39,446
	(36,907)	**274,620**	**316,073**	**287,503**	**953,790**	**82,858**	**1,877,937**

Included in the "Short-term debentures and other marketable securities" section, the Group classifies the balance of promissory notes issued on the Alternative Bonds Market (MARF), which, at 28 February 2018, stood at the sum of 379,330 thousand euros (149,857 thousand euros in financial year 2016). The aforementioned promissory notes have short-term maturities and they accrue interest at market rates.

Likewise, at 28 February 2018, the Company recorded, in the "Short-term debentures and other marketable securities" section, the balance of the debt formalised in promissory notes after they were not renewed during this financial year (see Note 13.1). The amount of these at 28 February 2018 was 1,251,880 thousand euros.

The Group has discount lines and credit policies accruing interest at market rates and with the following limits:

	Thousands of euros			
	2017		**2016**	
	Limit	**Unused amount**	**Limit**	**Unused amount**
Discount lines				
Credit lines(a)	19,000	17,517	19,000	17,464
Loan—Tranche A1(a)	1,000,000	1,000,000	850,000	659,982
Others	1,200,000	1,200,000	—	—
	123,964	123,964	—	—
	2,342,964	**2,341,481**	**869,000**	**677,446**

(a) This forms part of the syndicated finance contract (see note 17.1).

17. Current and non-current bank borrowings and debt instruments and other marketable securities

17.3 Changes in current liabilities originating from financing activities

In compliance with the requirements of the amendments to IAS 7, below we provide a breakdown of the changes in financial liabilities as a result of financing activities. The Group has only provided information corresponding to the financial year ending on the 28th of February 2018, in accordance with the options established in that standard.

Thousands of euros	1 March 2017	Cash Flows	Reclassification to short-term	New financial leases	Others	28 February 2018
Non-current, long-term bonds and other negotiable securities........	**2,010,273**	(162,589)	(1,251,880)	—	—	**595,804**
Non-current, long-term debts with credit entities .	**1,877,937**	(176,477)	(114,408)	65,250	—	**1,652,302**
Other non-current financial liabilities	**153,874**	49,198	(98,142)	—	—	**104,930**
Non-current, short-term bonds and other negotiable securities........	**—**	379,332	1,251,880	—	—	**1,631,212**
Non-current, short-term debts with credit entities .	**56,959**	(157,897)	114,408	—	100,938	**114,408**
Other current financial liabilities	**95,241**	(152,758)	98,142	—	75,000	**115,625**
Dividends payable	**—**	(50,000)	—	50,000	—	**—**
Total liabilities from financing activities	**4,194,284**	**(271,191)**	**—**	**115,250**	**175,938**	**4,214,281**

18. Risk management policies

The Group's activities are exposed to various types of financial risk: market risk (including exchange rate risk, interest rate risk and price), credit risk and liquidity risk. The Group's risk management is performed by the Parent Company's management, which has the necessary mechanisms in place. It focuses on the uncertainty of financial markets, attempting to minimise potentially adverse effects on the profitability of the Group. To this end, it uses certain financial instruments described in Note 19.

This note presents information on the Group's exposure to each one of the risks mentioned above, the objectives, policies and processes defined by the Group for risk management, and the methods used to measure those risks and the changes that have occurred compared to last year.

Credit risk

Credit risk consists of the probability of a counterparty to a contract failing to meet its payment obligations, thereby causing a financial loss for the Group.

The Group, mainly in the activity of Seguros El Corte Inglés, is governed by a prudence criterion in its investments policy, whose main aims are to mitigate the credit risk of investment products. In this regard, the credit quality of the financial assets of the activity of Seguros El Corte Inglés can be evaluated by reference to external credit ratings, as indicated below:

	Thousands of euros	
	2017	2016
Loans and receivables—Fixed Interest (Note 11.1):		
A	—	—
BBB	132,659	144,336
BB	3,645	3,828
	136,304	**148,164**
Available-for-sale assets—Fixed Interest (Note 11.4):		

AAA	49,170	52,448
AA	14,038	20,694
A	22,022	34,542
BBB	464,640	479,490
BB	35,220	44,475
B	—	3,950
NR	15,798	24,462
	600,888	**660,061**

Generally speaking, the Group maintains its treasury and equivalent liquid assets at financial entities with a high credit rating.

The Group has no significant concentrations of credit risks with third parties, as retail sales constitute the largest share of its revenue. Essentially, everything is paid for in cash or by credit card.

With regard to the credit risk of other commercial operations (mainly deriving from corporate retail operations, IT consultancy and the services of the travel agency to the corporate network), provisions are set aside to cover impairment losses on trade receivables when there is objective evidence that the Group will not be able to collect all the amounts due, in accordance with the original terms of the receivables. The amount of the provision is the difference between the book value of the asset and the present value of the estimated effective cash flows. The amount of the provision is recorded in the consolidated income statement (see note 13). In financial year 2017, the Group's insolvency provision was 38.3 million euros (42.1 million in 2016), for accounts receivable of 913.5 million euros (957.7 million euros in 2016).

On 28 February 2018 and 28 February 2017 there were no expired accounts in a significant amount. Moreover, in accordance with the available historical experience, the Group deems it is not necessary to make assessment corrections with regard to the unexpired accounts receivable. The fair value of the accounts receivable does not differ significantly from its book value.

Liquidity risk

The El Corte Inglés Group maintains a prudent liquidity risk management policy. It maintains the appropriate level of cash and marketable securities, as well as contracting committed credit facilities for a sufficient amount to meet any anticipated needs (see note 17).

Final responsibility for liquidity risk management lies with the Parent Company's Management, which prepares an appropriate framework for controlling the Group's liquidity needs in the short, medium and long term. The Group manages liquidity by maintaining adequate reserves, appropriate banking services and the availability of credit and loans through ongoing monitoring of the forecasts and the current amounts of cash flows, and matching these with the maturity profile of financial assets and liabilities.

The Company has started the process of cancellation of the debt formalised in promissory notes, which stands at 1,251,880 thousand euros at 28 February 2018, with the aim of optimising its financial structure, increasing maturities and reducing the interest rates. The Directors of the Company have ensured liquidity in this process with the signing of a financing contract of 1,200,000 thousand euros with a maturity of two years (see Note 13.1), of which, at close of financial year 2017, no amount whatsoever had been drawn down.

Interest rate risk

Variations in the interest rates modify future flows of assets and liabilities with reference to a variable interest rate. Financial instruments exposed to interest rates are basically financing with a variable rate and the financial instruments stemming from them.

According to the estimates of the El Corte Inglés Group regarding interest rate performance and the performance of the objectives of the long-term debt structure, derivatives are contracted to mitigate these risks (see note 19).

Price risk

The Group's exposure to price risk is reflected through its investments in equity instruments listed on markets, which are classified as assets at fair value with changes in the income statement at the sum of 9,607 thousand euros (16,926 thousand euros in 2016) (Note 11.3) and financial assets available for sale at fair value in the sum of 45,346 thousand euros (42,353 thousand euros in 2016) (Note 11.4).

To manage the price risk arising from those investments, the Group, in relation to the insurance activity of Seguros El Corte Inglés, applies an investment policy based on a diversification strategy with the aim of minimising the impacts of price variations. Most of these investments are listed on stock exchanges or are invested in undertakings for collective investment (UCIs).

In the case of price variations in the aforementioned financial assets, there would be no significant impacts on the income statement or the equity on the consolidated financial statements.

Exchange rate risk

The Group operates internationally and it is therefore exposed to exchange-rate risk from currency transactions denominated in US dollars.

The exchange rate risk is managed in accordance with the Group Management guidelines, which provide, fundamentally, the establishment of financial or natural hedges, the ongoing monitoring of fluctuations in the exchange rate and other earmarked measurements to mitigate this risk. The Group's policy is to contract financial instruments (exchange-rate insurance) in order to reduce the translation differences arising from transactions in foreign currency (see note 19).

Details of the most significant balances and transactions in foreign currency of domestic companies in the Group, mainly denominated in US dollars, valued at the closing exchange rate and the average exchange rate, respectively, are as follows:

	Thousands of euros	
	2017	2016
Accounts payable	214,678	212,636
Sales	76,848	91,421
Services rendered	702	819
Purchases	851,655	798,673
Services received	3,381	5,104

On the other hand, the details of the most significant balances and transactions in foreign currency of companies operating in a currency other than the euro (mainly the subsidiaries located in Latin America), valued at the closing exchange rate and the average exchange rate, respectively, are as follows:

	Thousands of euros					
	Mexican Pesos		Other currencies		Total	
	2017	2016	2017	2016	2017	2016
Accounts payable	19,243	20,754	23,597	19,513	42,840	40,267
Other liabilities	—	—	189	267	189	267
Sales	92,548	90,613	19,675	22,561	112,223	113,174
Services rendered	105,508	91,439	110,993	109,589	216,501	201,028
Purchases	153,626	138,853	116,805	122,165	270,431	261,018
Services received	23,609	20,900	9,013	9,507	32,622	30,407

In this case, the impacts deriving from exchange-rate fluctuations would affect the "Translation Differences" section within Equity, as reflected in valuation standard 2.7.8.3.

19. Derivative financial instruments

The Group uses derivative financial instruments to hedge the risks its activities, operations and future cash flows are exposed to.

The methods followed by the Group in order to calculate the fair value of its derivative financial instruments, including credit risk introduced by IFRS 13 and the level of hierarchy determined by IFRS 7, are described in note 4.2.8.

The hedging derivatives held by the Company at 28 February 2018 and 28 February 2017 were as follows:

FY 2017

Classification	Type	Amount Contracted	Maturity	Fair value[(a)]	
				Asset	Liability

Exchange-rate insurance...	Exchange-rate hedges	Purchase of currency	523,553[(b)]	2021	8	16,974

(a) Amounts in thousands of euros.

(b) Amounts in thousands of dollars.

FY 2016

	Classification	Type	Amount Contracted	Maturity	Fair value[(a)] Asset	Fair value[(a)] Liability
Exchange-rate insurance..	Exchange-rate hedges	Purchase of currency	458,937[(b)]	2017	19,364	—

(a) Amounts in thousands of euros.

(b) Amounts in thousands of dollars.

At the close of FY 2017 and FY 2016, the Group had taken out various derivative financial instruments of a speculative nature for accountancy purposes, which are registered in accordance with the following characteristics:

	Exchange-rate insurance		Interest-rate derivatives	
	2017	2016	2017	2016[(*)]
Amount contracted	81,424[(b)]	86,543[(b)]	1,799,041[(a)]	1,950,522[(a)]
Maturity		2017	—	2017
Fair value[(a)]:				
Assets	24	5,798	—	—
Liabilities	(6,417)	—	(90,665)	(138,765)
Impact recorded on the income statement[(a)]		—	(48,100)	42,563

(*) Figures reexpressed. See Note 2.6.

(a) Amounts in thousands of euros.

(b) Amounts in thousands of dollars.

Since January 2015, the contracting of the exchange-rate insurance for the subsidiaries has been carried out by the Parent with the financial entities. In turn, the Parent enters into contracts with the subsidiaries in order to cover the exchange-rate risk they are exposed to.

In addition, a put option granted to the investor of the loan convertible into shares is recorded in this section, for the percentage of shares in excess of 10% of the capital (see Note 15.8). Its value at 28 February 2017 was 75 million euros.

20. Trade payables

"Trade and other payables" includes mainly the amounts pending payment for trade purchases and related costs. Group Management is of the opinion that the book amount of the trade payables is close to their fair value.

20.1 Information related to payment times to suppliers

The table below contains the information required by additional provision number three, "Duty to Report", in Law 15/2010, of 5 July.

	Days 2017	Days 2016
Average period of payment to suppliers	48	56
Ratio of paid operations	49	57
Ratio of operations pending payment	28	33

	Thousands of euros 2017	Thousands of euros 2016
Total payments made	11,845,344	11,269,911
Total payments pending	557,140	618,518

The information given in the above table on payments to suppliers refers to those which, due to their nature, are trade payables for debts with suppliers of goods and services, so they include the data related to the "Trade and other payables" items of current liabilities on the accompanying consolidated balance sheet.

The "Average time for payment to suppliers" shall be understood to mean the time between the delivery of goods or the provision of services by the supplier and the payment of the operation.

The "Average time for payment to suppliers" is calculated as the quotient formed in the numerator by the sum of the ratio of paid operations multiplied by the total amount of the payments made, plus the ratio of operations pending payment multiplied by the total amount of payments pending and, in the denominator, by the total amount of payments made and payments pending.

The ratio of paid operations is calculated as the coefficient formed in the numerator by the sum of the products corresponding to the amounts paid, multiplied by the number of days for payment (difference between the calendar days that have elapsed between the delivery of the goods or the provision of services by the supplier and the material payment of the operation) and, in the denominator, the total amount of payments made.

Likewise, the ratio of operations pending payment corresponds to the quotient formed in the numerator by the sum of the products corresponding to the amounts pending payment, multiplied by the number of days pending payment (difference between the calendar days that have elapsed between the delivery of the goods or provision of the services by the supplier and the day of close of the financial statements or current accounts, as applicable), and, in the denominator, the total amount of payments pending.

The Parent Company is subject to the Organic Law on the Regulation of the Retail Trade (LORCOMIN). The maximum legal term for payment applicable to the Company based on that law is 60 days, as almost all the goods acquired correspond to food and mass consumer products, save express agreement which contemplates financial compensation equivalent to the extended period, to the benefit of the supplier, and in no case may a period of 90 days be exceeded.

21. Trade and other payables

At the close of the 2017 and 2016 financial years, the composition of these sections was as follows:

	Thousands of euros	
	2017	**2016**
Suppliers and creditors	2,763,855	2,685,667
Short-term taxes payable	256,779	162,268
Accounts with personnel	477,761	430,006
	3,498,395	**3,277,941**

21.1 Personnel accounts

At the close of 2017 and 2016, the composition of this section was as follows:

	Thousands of euros	
	2017	**2016**
Remuneration accrued and other payments to personnel	224,419	225,561
Group personnel, administration accounts and others	253,342	204,445
	477,761	**430,006**

The "Group personnel, administration accounts and others" section corresponds to the current accounts held with El Corte Inglés, S.A. by the employees of the companies of the Group.

22. Public administrations and tax situation

El Corte Inglés, S.A. pays tax under the tax consolidation system with the Spanish subsidiaries in which it holds over 75% of the capital, excluding those that close their financial reporting periods at a different time from that of the Parent due to sectoral regulatory reasons, in accordance with the applicable legislation in force.

22.1 Reconciliation of accounting result and tax base

Income tax is calculated on the basis of the individual financial or accounting profit—obtained by applying generally accepted accounting principles—and this does not necessarily have to coincide with the taxable profit, which is understood to be the tax base for that tax.

The reconciliation between the accounting profit and the aggregate base for Income Tax is as follows:

FY 2017

	Thousands of euros		
	Increase	**Decrease**	**Amount**
Accounting profit before tax			276,087
Consolidation adjustments			117,780
Permanent differences	21,332	(277,979)	(256,647)
Temporary differences:			
Current year	88,048	(6,031)	82,017
Previous years	4,734	(107,862)	(103,128)
Others			(5,552)
Aggregate tax base			**110,557**

FY 2016

	Thousands of euros		
	Increase	**Decrease**	**Amount**
Accounting profit before tax			177,338
Consolidation adjustments			58,363
Permanent differences	35,455	(190,659)	(155,204)
Temporary differences:			
Current year	98,105	(6,570)	91,535
Previous years	3,123	(142,716)	(139,593)
Others			(12,513)
Aggregate tax base			**(19,926)**

The Company has considered the effects of the re-expression described in note 2.6, above, in the calculation of the tax base of the corporation tax of financial year 2017.

By virtue of the provisions contained in article 3 of Royal Decree 3/2016, of 2 December, adopting measures in the sphere of taxation aimed at the consolidation of the public finances and other urgent social measures, the figure for permanent positive differences includes the minimum reversion of the portfolio impairment which was tax deductible on the tax base for the Group's Corporate Income Tax paid on a consolidated basis in tax periods starting before 1 January 2013. That reversion results in a figure of 2.4 million euros, and the sum of 7.2 million euros remains pending reversion in the next four financial years.

In addition, the aforementioned Royal Decree establishes, with effects for periods starting from the 1st of January 2017, the non-deductibility of the impairment losses of stakes even in the case of transfer of the stake (if the deductibility is contemplated in the case of winding-up of the part-owned entity). As a result of this tax modification, the Accountancy and Auditing Regulator (ICAC) published a formal consultation setting out its accountancy implications. Thus, as these impairment losses become non-deductible expenses, the ICAC imposes the reclassification of the difference from temporary to permanent, at close of financial year 2016, removing all the deferred tax assets which were previously recorded in accounts for this item. In this way, in the figure for positive permanent differences, the sum of 0.7 million has been included for the impairment of part-owned companies in the financial year.

22. Public administrations and tax situation

El Corte Inglés, S.A. and Hipercor, S.A. qualify for the tax benefits granted by Royal Decree-Law 3/1993, of 26 February, in relation to the depreciation of new fixed assets.

In 2001, for the profits obtained in the transfer of assets, and by virtue of the provisions contained in Transitory Provision number 3 of Law 24/2001, El Corte Inglés, S.A. and Hipercor, S.A. opted for the system contemplated in article 21 of the Corporate Income Tax Act, not integrating in that year a sum of 34.6 million euros. Both companies reinvested the full amount of the transfer which gave rise to that profit in the same year in the Cádiz department store. The method of integration into the tax base for the tax is that established in article 21.3 of that Law and in article 34.1.b) of the Regulations for the said tax at that time.

	Thousands of euros
Deferred income 2001	34,643
Integrated income, financial years 2002 to 2015	(6,212)
Integrated income, financial year 2016	(382)
Income pending	**28,049**

The income pending will be integrated into the tax base of the tax in the tax periods in which the building of the Cádiz shopping centre is depreciated, for the sum which proportionally corresponds to the value of the depreciation of the aforementioned building in relation to its acquisition cost.

Additionally, during 2012 the revaluation of specific plots of land associated with certain property took place for an amount of 37.4 million euros.

22.2 Taxes recognised in the net equity

Independently of the income tax recognised in the consolidated income statement, the Group registered an income of 7 million euros in 2017 directly in its equity, and an expense of 5.6 million euros in 2016. These amounts correspond mainly to the tax impacts due to the valuation adjustments of the available-for-sale assets.

22.3 Reconciliation between accounting result and income tax expense

The reconciliation between the accounting result and the income tax expense is as follows:

	Thousands of euros	
	2017	2016(*)
Accounting profit before tax	276,087	177,338
Permanent differences and consolidation adjustments	(139,711)	(97,666)
Base for the purposes of determination of the tax as an expense	136,376	79,672
Amount payable	**36,266**	**20,921**
Deductions:		
For advertising and publicity of events	—	(1)
Due to double taxation	(5)	(323)
For reversion of temporary measures	—	—
Other	(34)	(8,615)
Others	37,666	3,438
Adjustment for change of tax rate		—
Changes in the scope of consolidation		—
Total tax expense /(income) recognised in the income statement	**73,893**	**15,420**
Reexpresion effect (Note 2.6)	**—**	**(53,195)**
Total tax expense / (income) recognised in the income statement	**73,893**	**(37,775)**

(*) Figures reexpresed. See Note 2.6.

On the other hand, in fulfilment of the provisions contained in section 10 of article 42 of Royal Legislative Decree 4/2004, of 5 March, approving the revised text of the Corporate Income Tax Act, the income eligible for deduction through reinvestment of extraordinary profit, was as follows:

	Amounts in thousands of euros		
FY	**Eligible income**	**Reinvestment date**	**Deduction**
2011	50	FY 2011	6
2012	78,727	FY 2012	9,447
2013	56,483	FY 2013	6,778
2014	65,746	FY 2014	7,889

22.4 Deferred tax

The details of the balance of deferred tax assets and liabilities at the close of 2017 and 2016 are as follows:

	Thousands of euros	
Deferred tax assets	**2017**	**2016(*)**
Temporary differences (advance taxes)	297,566	328,693
Negative tax bases	292,637	292,637
Deductions pending and others	293,070	293,070
Total deferred tax assets	**883,273**	**914,400**

	Thousands of euros	
Deferred tax liabilities	**2017**	**2016**
Differences associated with revaluation of assets due to application of IFRS	730,806	729,555
Temporary differences (deferred taxes)	198,752	206,613
Total deferred tax liabilities	**929,558**	**936,168**

The temporary differences correspond mainly to the allocation of value impairment of the property, plant and equipment, as well as the differences due to accelerated depreciation, financial leases and the reversion of the adjustment made in previous financial years due to the limitation of the tax deductibility of depreciation.

The deferred tax assets indicated above were recorded in the consolidated balance sheet because the Parent's directors consider that, in accordance with the best estimation of the future results of the Group, those assets are likely to be recouped.

The variations in temporary asset and liability differences in financial years 2017 and 2016 were as follows:

FY 2017

	Thousands of euros	
	Deferred tax assets	**Deferred tax liabilities**
Balance at 28-02-2017	**328,693**	**936,168**
Temporary differences:		
Current year	32,120	6,425
Previous years	(75,830)	(13,035)
Others	12,583	(15,158)
	297,566	**914,400**

FY 2016(*)

	Thousands of euros	
	Deferred tax assets	**Deferred tax liabilities**
Balance at 29-02-2016	365,384	931,723
Temporary differences:		
Current year	40,913	14,427
Previous years	(64,507)	(9,982)
Others	(13,097)	—

	328,693	**936,168**

(*) Figures reexpressed. See Note 2.6.

The deductions recorded and pending application are the following:

Type of Deduction	Thousands of Euros 2017	Year of expiry	2016*	Year of expiry
Deductions due to domestic double taxation	173.197	Unlimited term	173.197	Unlimited term
Deductions due to international double taxation	3.040	Unlimited term	3.040	Unlimited term
Deductions for investments	79.217	2018 - 2035	79.217	2017 - 2034
Deductions for donations to non profit entities	5.821	2018 - 2027	5.821	2017 - 2026
Deductions for reinvestment	28.213	2022 - 2029	28.213	2021 - 2028
Deductions for reversion of temporary measures	3.582	Unlimited term	3.582	Unlimited term
Balance at 28 February	**293.070**		**293.070**	

* Figures reexpressed (see Note 2.6)

Por su parte, las deducciones no activadas contablemente y pendientes de aplicar son las siguientes:

Type of Deduction	Thousands of Euros 2017	Type of Deduction	2017	Type of Deduction
Deductions due to domestic double taxation	—	Plazo ilimitado	—	Plazo ilimitado
Deductions due to international double taxation	—	Plazo ilimitado	—	Plazo ilimitado
Deductions for investments	13.954	2018 - 2035	6.431	2017 - 2034
Deductions for donations to non profit entities	1.117	2018 - 2027	755	2017 - 2026
Deductions for reinvestment	—	2022 - 2029	—	2021 - 2028
Deductions for reversion of temporary measures	—	Plazo ilimitado	—	Plazo ilimitado
Balance at 28 February	**15.071**		**7.186**	

Pursuant to the Corporate Income Tax Act (Law 27/2014), negative tax bases may be offset without any time limitation.

22.5 Financial years pending verification and inspection actions

The tax authorities are currently carrying out the work of verification and inspection, which encompasses the years from 2011/12 to 2014/15 with regard to Income Tax, and from 2012 to 2015 for other taxes with annual periods coinciding with the calendar year. The Directors of the Company do not expect that any considerable liabilities, not registered at 28 February 2018, will be incurred from the financial years open for inspection nor from the inspection actions carried out by the tax authorities on previous financial years.

23. Income and expenses

23.1 Segmentation by items

The main activity of the Group consists in the retail sale of consumer goods, as well as the provision of a wide range of services; travel agencies, insurance brokerage, insurance etc. for which the Group has a network of department stores, hypermarkets, supermarkets, convenience stores and local offices.

The following tables show the information by segments corresponding to the Group by activity type:

FY 2017

	Thousands of euros Retail	Sale of products and information service	Travel agency services	Insurance brokerage service and life insurance	Other activities	Consolidation adjustment	Total
Revenue	13,236,557	737,391	2,593,573	191,018	137,330	(961,056)	15,934,813

Gross margin	4,083,293	189,243	303,232	121,112	56,146	(67,761)	4,685,265
Operating result	299,195	43,009	40,067	62,600	(2,308)	(30,881)	411,683
Profit for the year	301,272	25,988	28,736	56,000	(496)	(209,307)	202,195
Inv. in non-current assets	400,883	5,550	19,841	6,593	7,586	(15,808)	424,645

FY 2016(*)

	Thousands of euros						
	Retail	**Sale of products and information service**	**Travel agency services**	**Insurance brokerage service and life insurance**	**Other activities**	**Consolidation adjustment**	**Total**
Revenue	12,886,910	733,329	2,450,398	304,822	143,989	(1,014,875)	15,504,573
Gross margin	3,936,309	184,426	289,313	106,738	57,334	(69,558)	4,504,562
Operating result	213,377	20,093	39,514	55,663	(3,489)	(5,704)	319,454
Profit for the year	202,993	12,735	28,649	51,448	30,316	(164,282)	161,859
Inv. in non-current assets	351,712	6,772	15,626	4,388	2,553	(21,104)	359,947

(*) Figures reexpressed. See Note 2.6.

FY 2017

	Thousands of euros						
Balance Sheet	**Retail**	**Sale of products and information service**	**Travel agency services**	**Insurance brokerage service and life insurance**	**Other activities**	**Consolidation adjustment**	**Total**
Fixed assets	9,227,233	15,511	89,573	32,492	145,139	3,338,047	12,847,995
Financial assets	1,709,990	14,166	148,912	931,165	107,812	(1,625,820)	1,286,225
Deferred tax assets	869,743	4,310	1,555	3,076	2,356	2,232	883,272
Inventories	1,983,769	100,053	276	—	2,002	(195)	2,085,905
Trade and other receivables	1,073,723	312,587	199,511	87,264	82,202	(746,768)	1,008,519
Cash and others	159,014	17,968	5,918	25,160	4,498	—	212,558
Total Assets	**15,023,472**	**464,595**	**445,745**	**1,079,157**	**344,009**	**967,496**	**18,324,474**
Net equity	6,624,447	120,811	194,725	366,354	183,053	1,008,669	8,498,059
LT provisions and others	211,183	3,479	(3)	606,796	—	2,834	824,289
LT debt	2,553,863	10,627	28	189	3,413	(167,237)	2,400,883
Deferred tax liabilities	70,197	450	—	13,023	554	845,333	929,557
ST debts	2,418,888	72,661	62	45	126,533	(666,441)	1,951,748
Other current liabilities	3,144,894	256,567	250,933	92,750	30,456	(55,662)	3,719,938
Total Liabilities	**15,023,472**	**464,595**	**445,745**	**1,079,157**	**344,009**	**967,496**	**18,324,474**

FY 2016(*)

	Thousands of euros						
Balance Sheet	**Retail**	**Sale of products and information service**	**Travel agency services**	**Insurance brokerage service and life insurance**	**Other activities**	**Consolidation adjustment**	**Total**
Fixed assets	9,359,613	16,237	86,063	16,502	151,342	3,373,980	13,003,737
Financial assets	2,384,111	18,395	149,025	997,075	109,141	(2,321,173)	1,336,574
Deferred tax assets	897,010	7,160	1,760	3,958	2,582	1,930	914,400
Inventories	1,787,130	68,976	204	—	4,775	(205)	1,860,880
Trade and other receivables	1,375,801	290,555	176,254	90,733	110,790	(965,705)	1,078,428
Cash and others	87,813	20,465	7,033	32,419	6,409	—	154,139
Total Assets	**15,891,478**	**421,788**	**420,339**	**1,140,687**	**385,039**	**88,827**	**18,348,158**
Equity	6,877,123	106,971	192,903	349,076	218,880	775,281	8,520,234
LT provisions and others	267,427	7,032	6	686,445	1,331	7,576	969,817
LT debt	4,646,438	11,325	47	495	3,429	(570,992)	4,090,742
Deferred tax liabilities	75,207	630	—	14,374	625	845,332	936,168

ST debts	976,684	72,705	72	—	128,820	(886,797)	291,484
Other current liabilities	3,048,599	223,125	227,311	90,297	31,954	(81,573)	3,539,713
Total Liabilities	**15,891,478**	**421,788**	**420,339**	**1,140,687**	**385,039**	**88,827**	**18,348,158**

(*) Figures reexpressed. See Note 2.6.

The figures included within Other activities are mainly those corresponding to the businesses of Telecor and others.

Consolidation adjustments affecting the net result mainly correspond to the dividends received from subsidiaries.

The distribution of the consolidated revenue corresponding to 2017 and 2016, by geographical areas, is as follows:

	Thousands of euros	
Activity	**2017**	**2016**
Spain	15,136,153	14,745,715
European Union	470,306	444,643
Rest of the world	328,354	314,215
	15,934,813	**15,504,573**

23.2 Procurements

The breakdown of the “Procurements” section of the consolidated income statements for the years ending on 28 February 2018 and 28 February 2017 is as follows:

	Thousands of euros	
	2017	**2016**
Consumption of goods	11,152,426	10,919,122
Consumption of raw materials and other consumables	66,166	45,818
Work carried out by other companies	30,956	35,071
	11,249,548	**11,000,011**

The “Procurements” section of the accompanying consolidated income statement includes costs for preparing the goods for sale. During 2017, 16.71 million euros were incurred for this concept, and 16.90 million in 2016.

23. Income and expenses

Likewise, that section includes 28.66 and 26.94 million euros corresponding to costs and expenses, both internal and external, incurred during the 2017 and 2016 financial years, respectively, in the processing and preparation for sale of food products commercialised by El Corte Inglés, S.A.

23.3 Staff costs

The balance of the "Staff costs" account in 2017 and 2016 shows the following composition:

	Thousands of euros	
	2017	**2016**
Wages, salaries and compensations	1,986,221	1,930,778
Social charges:		
Social Security	580,377	571,528
Uniforms	5,921	2,709
Life insurance	6,880	4,228
Other social charges	8,219	12,707
	2,587,618	**2,521,950**

The average number of people employed in 2017 and 2016, expressed in complete working days, distributed by groups of activities, was as follows:

	Average number of employees	
Groupings	**2017**	**2016**
Directors and managers	145	149
Supervisors and coordinators	12,061	11,799
Commercial activity	56,475	57,034
Services activity	7,269	6,514
Other activities	5,330	5,144
	81,280	**80,640**

In addition, the workforce at close of financial years 2017 and 2016, distributed by gender and category, was as follows:

	2017		2016	
Groupings	**Women**	**Men**	**Women**	**Men**
Directors and managers	9	137	12	137
Supervisors and coordinators	4,330	8,317	4,145	8,270
Commercial activity	47,514	18,271	47,136	18,651
Services activity	3,990	3,863	3,876	3,571
Other activities	3,106	2,541	3,245	2,647
	58,949	**33,129**	**58,414**	**33,276**

The number of people with disabilities equal to or greater than 33% employed by the Group in 2017 and 2016, broken down by category, is as follows:

	Thousands of euros	
Groupings	**2017**	**2016**
Directors and managers	—	—
Supervisors and coordinators	101	101
Commercial activity	663	583
Services activity	143	103
Other activities	74	125
	981	**912**

23.4 *Other Operating Income*

The balance of the "Other operating income and expenses" account for 2017 and 2016 shows the following composition:

Groupings	Thousands of euros 2017	2016
Changes in inventory of finished goods	(10)	(55)
In-house work on non-current assets	140,613	129,186
Other operating income	213,569	282,055
Other operating expenses	(1,398,127)	(1,412,864)
	(1,043,955)	**(1,001,678)**

The balance of the "Other operating expenses" account for 2017 and 2016 shows the following composition:

Groupings	Thousands of euros 2017	2016
Leases and charges	204,746	198,292
Repairs and maintenance	64,610	66,125
Advertising	236,573	233,925
Supplies	160,214	140,339
Taxes	110,897	113,105
Others	621,087	661,078
	1,398,127	**1,412,864**

23.5 *Financial income and costs*

The details of the Group's financial income and costs are as follows:

	Thousands of euros 2017	2016(*)
Financial income:		
Revenues from shares in capital	465	618
Revenues from other securities	9,503	9,996
	9,968	**10,614**
Financial expenses:		
From debts with group companies and associates	2,292	2,538
From debts with third parties	189,913	201,225
	192,205	**203,763**

(*) Figures reexpressed. See Note 2.6.

24. Operations and balances with related parties

Transactions between the Company and its subsidiaries, which are related parties and form part of the regular business traffic insofar as their object and conditions, have been eliminated in the consolidation process, as indicated in these notes to the financial statements, and they are not broken down in this note. Transactions between the Group and its associates and other related parties are broken down below.

24.1 *Balances and transactions with associates and related parties*

The details of transactions carried out with related parties during 2017 and 2016 are as follows:

FY 2017

	Thousands of euros		
	Associated Companies	Other related parties	Total
Sales	24,574	1,181	25,755
Purchases	32,288	58,156	90,444
Disposal of fixed assets	—	—	—
Acquisitions of fixed assets	—	353	353

Services rendered	9,780	562	10,342
Services received	45,891	1,497	47,388
Interest paid	165	—	165
Interest charged	—	1,104	1,104
Other financial services	15,748	—	15,748

FY 2016

	Thousands of euros		
	Associated companies	Other related parties	Total
Sales	16,234	1,743	17,977
Purchases	27,664	49,977	77,641
Disposal of fixed assets	1	—	1
Acquisitions of fixed assets	24	4,153	4,177
Services rendered	15,687	1,225	16,912
Services received	45,117	2,200	47,317
Interest paid	176	6	182
Interest charged	—	1,492	1,492
Other financial services	14,981	—	14,981

Furthermore, the amount of the balances in the balance sheet with related parties is as follows:

FY 2017

	Thousands of Euros		
	Associated companies	Other related parts	Total
Trade and other receivables	19,566	2,935	22,501
Short-term financial investments	1,979	204	2,183
Long-term debts	(3)	(48,654)	(48,657)
Short-term debts	(68,862)	(21,641)	(90,503)
Payables to suppliers and trade payables	(13,242)	(2,309)	(15,551)
Current accounts with Administrations		(71,096)	(71,096)

FY 2016

	Thousands of euros		
	Associated companies	Other related parties	Total
Trade and other receivables	24,223	1,221	25,444
Short-term financial investments	30	204	234
Long-term debts	(3)	(48,654)	(48,657)
Short-term debts	(50,833)	(13,593)	(64,426)
Payables to suppliers and trade payables	(10,768)	(12,442)	(23,210)
Current accounts with Administrations	—	(69,287)	(69,287)

The main transactions carried out by the Group with related parties are due to commercial operations. Those transactions were carried out at market prices.

24.2 Remunerations to the Board of Directors

The remunerations received by the members of the Parent's Board of Directors (which include the senior Executives) during 2017 and 2016, classified by items, were as follows:

	Thousands of euros	
	2017	2016
Board of Directors:		
Salaries	6,242	4,500
Other items[(1)]	9,353	9,263

(1) Other items: retribution linked to the assistance to Board of Directors meetings.

At the close of 2017 and 2016, the Group did not have any advance payments or loans, considered globally and additional to those already outlined, granted to the members of its Board of Directors, nor commitments acquired with them in relation to pensions or retirement bonuses, life insurance or special compensations.

During financial year 2017, compensation was paid for the sum of 1.6 million euros (included in the salaries section of the previous breakdown),having likewise agreed remunerations for other concepts related to the termination of office of certain directors for the sum of 3.2 million euros, payable in several financial years.

With the exception indicated in the previous paragraph, the members of the Board of Directors did not receive any remuneration whatsoever in either financial year 2017 or 2016 for per diem allowances, pension plans, severance payments or payments based on equity instruments.

The civil liability of the Directors and Executives of the Company is insured by means of two insurance policies contracted with certain entities and which provide coverage to all of the companies of the Group. The sum of the premiums paid for this concept is 185,762 euros for financial years 2017 and 2016.

At 28 February 2018 and 2017, the Board of Directors was composed of 10 people, 3 women and 7 men.

On the 11th of November 2016, the member of the board Mr. Juan Hermoso Armada presented his resignation, which was approved by the Board of Directors on the 30th of November 2016.

In view of the resulting vacancy, and in accordance with the power which article 244 of the current Revised Text of the Capital Companies Law and article 39 of the company's articles of incorporation grant to the Board of Directors, by co-option, the Board proposed and approved the appointment as the new member of the board of Mr. Jesús Nuño de la Rosa Coloma.

On the 24th of July 2017, the member of the board Mr. José Leopoldo del Nogal Ropero presented his resignation, which was approved by the Board of Directors on the 25th of July 2017.

During the General Meeting of Shareholders held on 27 August 2017, among other points, the following were agreed: the ratification of Mr. Jesús Jorge Nuño de la Rosa Coloma as a member of the board and executive officer; and the appointment of Mr. Víctor del Pozo Gil as a member of the board and executive officer.

25. Information on the environment

The Group has continued to develop its environmental management policy, in accordance with the legal provisions on the protection of the environment currently enacted in our country.

The main actions and initiatives are as follows:

25.1 Environmental Assets

With regard to the current systems put in place by the Group in order to reduce the environmental impact of its facilities, it has continued with the reduction of emissions into the atmosphere, the treatment and reuse of water, the reduction of noise and vibrations, etc., incorporating the cost of those elements into that of the facilities in which they are located. At the close of 2017 and 2016, the cost of the identified environmental assets and their corresponding cumulative depreciation and impairment are listed by their composition according to their environmental nature:

FY 2017

	Thousands of euros				
	Cost	Cumulative depreciation	Impairment from the current year	Impairment from previous years	Net value
Water protection	4,390	(936)	(6)	—	3,448
Air protection..	62,255	(32,643)	(6)	—	29,606
Noise protection......................................	2,566	(1,336)	(39)	—	1,191
Others..	41	(31)	—	—	10
	69,252	(34,946)	(51)	—	34,255

FY 2016

Thousands of euros

	Cost	Cumulative depreciation	Impairment from the current year	Impairment from previous years	Net value
Water protection	2,258	(803)	(6)	—	1,449
Air protection	80,429	(43,801)	(5)	—	36,623
Noise protection	3,184	(1,764)	(73)	—	1,347
Others	31	(19)	—	—	12
	85,902	**(46,387)**	**(84)**	**—**	**39,431**

25.2 Environmental expenses

The expenses of an environmental nature recorded during 2017 and 2016 came to 18.64 and 17.67 million euros, respectively, and are registered in the following sections of the consolidated income statement:

	Thousands of euros	
	2017	2016
Supplies	187	179
External services	14,255	14,831
Taxes	4,197	2,660
	18,639	**17,670**

Supplies refer to acquisitions of consumable materials not included in external services whose purpose is environmental improvement, such as: filters for the elimination of pollution in the air expelled into the atmosphere; products for the treatment of water; or products for the maintenance of boilers and purifiers.

With regard to external services, it should be noted that this item includes all contracts, both periodic maintenance and other services in general, for the protection and improvement of the environment. The following actions, among others, are particularly notable: cleaning of air conditioning ducts, treatment of the water at our facilities (cleaning, disinfection, etc.), management of packages and waste packaging, transportation and management of waste (fluorescent tubes, machine oil, waste paper, vegetable oils, organic waste, sanitary waste, etc.), and civil liability insurance.

Finally, the "Taxes" section includes levies of an environmental nature, fundamentally the gate fee related to the use of landfills.

26. Other information

26.1 Information in relation to situations of conflict of interests by the Directors

At the close of 2017 neither the members of the Parent's Board of Directors nor anyone related to them in accordance with to the definition established in the Capital Companies Act had reported any direct or indirect conflict they may have with the interests of Group companies to the other members of the Board of Directors.

26.2 Audit Fees

On 16 October 2017, the firm of Ernst & Young, S.L. was appointed as the new auditor of the consolidated financial statements of the Group for the financial year ending on 28 February 2018, replacing Deloitte, S.L. as the accounts auditor.

During financial years 2017 and 2016, the fees related to the accounts audit services and other services rendered by the auditor of the consolidated financial statements, Ernst & Young, S.L. (previously Deloitte, S.L.), or by another company related to the auditor by control, shared ownership or management were as follows:

	Thousands of euros			
	2017		2016	
	Main Auditor	Other Firms	Main Auditor	Other Firms
Services of auditing of financial statements	1,353		1,584	—
Other verification services	397		29	—
Total audit services	**1,750**		**1,613**	**—**
Tax advisory services	82		—	—
Other services	185		7,077	15

Total other services	**267**		**7,077**	**15**
TOTAL	**2,017**		**8,690**	**15**

26.3 Events after close of FY

There were no significant events after the close of the financial year.

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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 in Spain (see Notes 2 and 26). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
El Corte Inglés, S.A.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of El Corte Inglés, S.A. (the Parent) and Subsidiaries (the Group), which comprise the consolidated balance sheet as at 28 February 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of El Corte Inglés, S.A. and Subsidiaries in accordance 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 in Spain (identified in Note 2.1 to the accompanying consolidated financial statements) and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the preparation by the Parent's directors of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of El Corte Inglés, S.A. and Subsidiaries at 28 February 2017, and their consolidated results and their consolidated cash flows for the year then ended in accordance 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 in Spain.

Report on other Legal and Regulatory Requirements

The accompanying consolidated directors' report for the year ended 28 February 2017 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but it 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 2017. 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
23 June 2017

CONSOLIDATED FINANCIAL STATEMENTS FOR 2016 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 2017

(Thousands of euros)

ASSETS	Notes	28/02/2017	29/02/2016
NON-CURRENT ASSETS			
Property, plant and equipment	Note 5	12,304,258	12,538,086
Investment property	Note 6	177,834	166,081
Goodwill	Note 7	19,485	19,485
Other intangible assets	Note 8	552,610	526,685
Non-current credits and other financial assets		21,669	36,215
Investments accounted for using the equity method	Note 10	291,658	296,900
Non-current financial assets	Note 11	1,023,246	1,016,640
Deferred tax assets	Note 22	1,025,288	1,017,708
Total non-current assets		**15,415,598**	**15,617,800**
CURRENT ASSETS			
Inventories	Note 12	1,860,880	1,897,925
Trade and other receivables	Note 13	957,684	753,686
Receivable from associates and related parties	Note 24.1	25,444	28,320
Current tax assets		1,477	1,498
Investments in associates and related parties	Note 24.1	234	121
Current financial assets	Note 11	66,941	53,950
Other current assets		26,649	34,137
Cash and cash equivalents	Note 14	154,139	171,406
Total current assets		**3,093,448**	**2,941,043**
TOTAL ASSETS		**18,509,046**	**18,558,843**

The accompanying Notes 1 to 26 are an integral part of the consolidated balance sheet at 28 February 2017.

EQUITY AND LIABILITIES	Notes	28/02/2017	29/02/2016
EQUITY	Note 15		
Share capital		486,864	486,864
Reserves		8,269,918	8,251,209
—Legal reserve		97,373	97,373
—Other reserves		8,172,545	8,153,836
Profit for the year attributable to the Parent		160,633	155,928
Other equity instruments		1,000,000	1,000,000
Total shareholders' equity		**9,917,415**	**9,894,001**
Translation differences		(1,361)	2,857
Treasury shares		(1,241,568)	(1,176,667)
Valuation adjustments		(31,516)	(79,491)
—Available-for-sale financial assets		31,732	33,280
—Hedges		(63,248)	(112,771)
Non-controlling interests		15,845	14,662
Total equity		**8,658,815**	**8,655,362**
NON-CURRENT LIABILITIES			
Non-current provisions	Note 16	900,566	938,631
Debt instruments and other non-current marketable securities	Note 17	2,010,273	2,077,091
Non-current bank borrowings	Note 17	1,856,688	1,759,067
Non-current payables with associates and related parties	Note 24.1	48,657	60,699
Other financial liabilities	Note 17	228,874	272,686
Payable to non-current asset suppliers		93,665	114,927
Deferred tax liabilities	Note 22	936,168	931,723
Total non-current liabilities		**6,074,891**	**6,154,824**
CURRENT LIABILITIES			
Current provisions	Note 16	37,127	37,607
Debt instruments and other current marketable securities	Note 17	149,857	132,887
Current bank borrowings	Note 17	56,959	71,277
Current payables with associates and related parties	Note 24.1	64,426	60,367
Other current financial liabilities	Note 17	20,241	33,741
Payable to non-current asset suppliers		125,024	133,440
Trade and other payables	Note 21	3,277,941	3,238,484
Payable to suppliers—associates and related parties	Note 24.1	23,210	20,643
Current tax liabilities		8,841	6,690
Accrued expenses and deferred income		11,714	13,521
Total current liabilities		**3,775,340**	**3,748,657**
TOTAL EQUITY AND LIABILITIES		**18,509,046**	**18,558,843**

The accompanying Notes 1 to 26 are an integral part of the consolidated balance sheet at 28 February 2017.

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED INCOME STATEMENT FOR 2016

(Thousands of euros)

	Notes	2016 Financial year	2015 Financial year
Revenue	Note 23.1	**15,504,573**	**15,219,842**
—Sales		12,415,808	12,153,240
—Services		3,088,765	3,066,602
Changes in inventories of finished goods		**(55)**	**(27)**
In-house work on non-current assets		**129,187**	**153,640**
Procurements	Note 23.2	**(11,000,011)**	**(10,760,014)**
Other operating income		**282,055**	**221,009**
Staff costs	Note 23.3	**(2,521,950)**	**(2,607,906)**
Other operating expenses	Note 23.4	**(1,412,864)**	**(1,314,038)**
Depreciation and amortisation charge	Notes 5, 6 and 8	**(519,153)**	**(522,389)**
Excessive provisions, impairment and gains or losses on disposals of non-current assets and other results	Notes 5 and 8	**68,968**	**(4,943)**
Employee benefit contributions	Note 16.1	**(211,296)**	**(86,043)**
OPERATING PROFIT		**319,454**	**299,131**
Finance income	Note 23.5	**10,614**	**11,309**
Finance costs	Note 23.5	**(207,413)**	**(268,804)**
Change in the fair value of financial instruments	Notes 11 and 19	**(7,521)**	**(10,358)**
Result of companies accounted for using the equity method	Note 10	**38,744**	**30,929**
Exchange differences		**839**	**17,045**
Impairment and gains or losses on disposals of financial instruments	Note 10	**22,621**	**(2,246)**
PROFIT BEFORE TAX		**177,338**	**77,006**
Income tax	Note 22	(15,479)	81,127
PROFIT FROM CONTINUING OPERATIONS		**161,859**	**158,133**
PROFIT FOR THE YEAR		**161,859**	**158,133**
Profit attributable to non-controlling interests	Note 15.6	**(1,226)**	**(2,205)**
PROFIT ATTRIBUTABLE TO THE PARENT		**160,633**	**155,928**

The accompanying Notes 1 to 26 form an integral part of the consolidated income statement for the year ended 28 February 2017.

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR 2016

(Thousands of euros)

	Notes	2016 Financial Year	2015 Financial Year
I. PROFIT PER INCOME STATEMENT (I)		**161,859**	**158,133**
Income and expenses recognised directly in equity			
—From revaluation of financial instruments	Note 15.5	(1,563)	(14,219)
—From cash flow hedges	Note 19	32,305	(89,709)
—Translation differences		(4,218)	(897)
—Tax effect	Note 22.2	(7,509)	29,100
—Effect of change in tax rate		—	(2,253)
TOTAL Income and expenses recognised directly in equity (II)		**19,015**	**(77,978)**
Transfers to profit or loss			
—From revaluation of financial instruments	Note 15.5	(500)	(1,572)
—From cash flow hedges	Note 19	33,488	35,352
—Tax effect		(8,247)	(9,458)
TOTAL Transfers to profit or loss (III)		**24,741**	**24,322**
TOTAL COMPREHENSIVE INCOME (I+II+III)		**205,615**	**104,477**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE PARENT		**204,389**	**102,272**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO THE NON-CONTROLLING INTERESTS		**1,226**	**2,205**

The accompanying Notes 1 to 26 form an integral part of the consolidated statement of comprehensive income for the year ended 28 February 2017.

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY FOR 2016

(Thousands of euros)

		Reserves									
	Share capital	Legal	Other Reserves	Total	Other Equity Inst.	Treasury Shares	Reserves in Consolidated Companies	Consolidated Profit for the Year	Valuation Adjustments and Translation Differences	Non-Controlling Interests	Total
ADJUSTED BALANCE AT THE START OF 2015	**486,864**	**97,373**	**6,700,647**	**6,798,020**	**—**	**(1,064,168)**	**1,470,227**	**115,269**	**(22,978)**	**19,690**	**7,802,924**
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**155,928**	**(53,656)**	**2,205**	**104,477**
Transactions with shareholders	**—**	**—**	**142,823**	**142,823**	**—**	**(112,499)**	**(52,554)**	**(115,269)**	**—**	**—**	**(137,499)**
—Distribution of 2014 profit	—	—	142,823	142,823	—	—	(52,554)	(115,269)	—	—	(25,000)
To dividends	—	—	—	—	—	—	—	(25,000)	—	—	(25,000)
To reserves	—	—	142,823	142,823	—	—	(52,554)	(90,269)	—	—	—
—Treasury shares transactions (net)	—	—	—	—	—	(112,499)	—	—	—	—	(112,499)
Other changes in equity—Please see Note 4.2.8.c and 15.8	—	—	(24,712)	(24,712)	1,000,000	—	(82,595)	—	—	(7,233)	885,460
BALANCE AT THE END OF 2015	**486,864**	**97,373**	**6,818,758**	**6,916,131**	**1,000,000**	**(1,176,667)**	**1,335,079**	**155,928**	**−76,634**	**14,662**	**8,655,362**
ADJUSTED BALANCE AT THE START OF 2016	**486,864**	**97,373**	**6,818,758**	**6,916,131**	**1,000,000**	**(1,176,667)**	**1,335,078**	**155,928**	**(76,634)**	**14,662**	**8,655,362**
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**160,633**	**43,756**	**1,226**	**205,615**
Transactions with shareholders	**—**	**—**	**115,863**	**115,863**	**—**	**(64,901)**	**5,065**	**(155,928)**	**—**	**—**	**(99,901)**
—Distribution of 2015 profit	—	—	115,863	115,863	—	—	5,065	(155,928)	—	—	(35,000)
To dividends	—	—	—	—	—	—	—	(35,000)	—	—	(35,000)
To reserves	—	—	115,863	115,863	—	—	5,065	(120,928)	—	—	—

—Operations with treasury shares (net) ...	—	—	—	—	—	(64,901)	—	—	—	—	(64,901)
Other changes in equity—Please see Note 4.2.8.c and 15.8	—	—	(52,572)	(52,572)	—	—	(49,647)	—	—	(43)	(102,261)
BALANCE AT THE END OF 2016	**486,864**	**97,373**	**6,882,049**	**6,979,422**	**1,000,000**	**(1,241,568)**	**1,290,496**	**160,633**	**(32,878)**	**15,845**	**8,658,815**

The accompanying Notes 1 to 26 form an integral part of the consolidated statement of changes in total equity for the year ended 28 February 2017.

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS FOR 2016

(Thousands of euros)

	Notes	2016 Financial Year	2015 Financial Year
CASH FLOWS FROM OPERATING ACTIVITIES (I)		**234,363**	**497,627**
Profit for the year before tax		177,338	77,006
Adjustments for:		**589,101**	**709,774**
—Depreciation and amortisation charge	Notes 5, 6 and 8	519,153	522,389
—Impairment losses	Note 5	(42,330)	(65,448)
—Changes in provisions		120,392	79,880
—Gains/Losses on derecognition and disposals of non-current assets	Note 5	(187,267)	(57,178)
—Gains/Losses on derecognition and disposals of financial instruments		(24,328)	39
—Finance income	Note 23.5	(10,614)	(11,309)
—Finance costs	Note 23.5	(207,413)	268,804
—Exchange differences		(839)	(17,045)
—Changes in the fair value of financial instruments	Notes 11 and 19	7,521	(10,358)
Changes in working capital		**(141,666)**	**(15,291)**
—Inventories		37,045	(109,574)
—Trade and other receivables		(198,797)	(31,978)
—Other current assets		9,475	148,090
—Trade and other payables		12,462	217,113
—Other current liabilities		(1,807)	(4,577)
—Other non-current assets and liabilities		(44)	(234,365)
Other cash flows from operating activities		**(390,411)**	**(273,862)**
—Interest paid		(180,133)	(275,293)
—Dividends received		617	410
—Interest received		9,996	11,101
—Income tax recovered (paid)		(6,690)	(10,080)
—Other collections (payments)		(214,201)	—
CASH FLOWS FROM INVESTMENT ACTIVITIES (II)		**(56,929)**	**(286,369)**
Payments due to investments		**(368,111)**	**(371,517)**
—Associates and related parties		(113)	(16,133)
—Intangible fixed assets	Note 8	(104,160)	(99,993)
—Property, plant and equipment	Note 5	(255,787)	(255,391)
—Investment property	Note 16	(75)	—
—Other financial assets		(7,976)	—
Proceeds from disposals		**311,182**	**85,148**
—Associates and related parties		42,408	—
—Intangible assets, property, plant and equipment and property assets		268,774	68,419
—Other financial assets		—	16,729
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**(195,540)**	**(182,674)**
Proceeds and payments relating to equity instruments		**(46,692)**	**(113,395)**
—Acquisition of own equity instruments		(42,474)	(112,499)
—Translation differences		(4,218)	(896)
Proceeds and payments relating to financial liability instruments		**(38,848)**	**(1,019,567)**
—Redemption of debt instruments and other marketable securities		(67,889)	—
—Repayment of bank borrowings		(219,072)	(1,292,915)
—Repayment of borrowings from Group companies and associates		(12,042)	(12,551)
—Repayment of other borrowings		(80,777)	(3,864)
—Proceeds from issue of debt instruments and other marketable securities		16,971	163,789
—Proceeds from issue of bank borrowings		319,902	34,288
—Proceeds from issue of borrowings from Group companies and associates		4,059	—
—Proceeds from issue of other borrowings		—	91,686
Dividends and returns on other equity instruments paid		**(110,000)**	**950,288**
—Dividends		(35,000)	(25,000)
—Returns on other equity instruments		(75,000)	975,288
EFFECT OF FOREIGN EXCHANGE RATE CHANGES (IV)		**839**	**17,045**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		**(17,267)**	**45,629**

Cash or equivalents at the start of the financial year......................................	171,406	125,777
Cash or equivalents at the end of the financial year......................................	154,139	171,406

The accompanying Notes 1 to 26 are an integral part of the consolidated statement of cash flows for the year ended 28 February 2017.

CONTENT OF THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EL CORTE INGLÉS CONSOLIDATED GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2017

1. GROUP ACTIVITIES AND IDENTIFICATION DATA

The Parent, El Corte Inglés, S.A. (henceforth 'the Company'), is a company incorporated in Spain in accordance with the Public Limited Companies Law. Its registered office is in Madrid, at Calle Hermosilla, 112.

The main activity of El Corte Inglés, S.A. and its consolidated subsidiaries is the retailing of consumer goods, as well as the provision of a wide range of services (travel agency, insurance brokerage, insurance, IT consultancy, etc.), for which it has a network of department stores, hypermarkets, supermarkets, convenience stores and offices.

The Parent is the head of a group of subsidiaries and, in accordance with current legislation, it is obliged to prepare separate consolidated financial statements, which likewise include the stakes in joint businesses and associated investments. The consolidated financial statements of the El Corte Inglés Group (henceforth 'the Group') for the year ending on 28 February 2017 were drawn up by the Parent's directors in a meeting of the Board of Directors held on the 31st of May 2017 and they will be submitted for approval by the General Meeting of Shareholders, which it is believed will approve them without any modification whatsoever. The consolidated financial statements for 2015 were approved by the General Meeting of Shareholders of El Corte Inglés, S.A. held on the 28th of August 2016 and filed at the Registry of Companies of Madrid.

The financial year of El Corte Inglés, S.A. and the majority of the subsidiaries (see page 15) begins on the 1st of March each year and ends on the 28th of February of the following year (29th of February in leap years). However, there are some subsidiaries and associates whose financial years coincide with the calendar year. The most relevant are Seguros El Corte Inglés, Vida, Pensiones y Reaseguros, S.A. and Centro de Seguros y Servicios. Correduría de Seguros, S.A., for which the financial year has been determined in accordance with Royal Legislative Decree 6/2004, which approves the revised text of the Law on the Regulation and Supervision of Private Insurance. In these financial statements, the period of 12 months ending on 28 February 2017 is referred to as "2016", the 12 months ending on 29 February 2016 are referred to as "2015", and so on.

The information on the companies (none of which are listed on a stock exchange) which comprise the El Corte Inglés Group included in the consolidation, at 28 February 2017, is as follows:

FINANCIAL YEAR 2016 COMPANY		ACTIVITY	LOCATION	AUDITOR	PERCENTAGE STAKE DIRECT	PERCENTAGE STAKE 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., EL CORTE INGLÉS INSURANCE GROUP........	(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	—
SUPERCOR, S.A.	(a)	Supermarkets	Madrid	Deloitte	100.00	—
CANAL CLUB DE DISTRIBUCIÓN DE OCIO Y CULTURA, S.A.	(a)	Direct mail-order and tele-shopping sales	Madrid	—	75.00	—
EL CORTE INGLÉS-GRANDES ARMAZÉNS, S.A...............	(a)	Department Stores	Portugal	Deloitte	100.00	—
BRICOR, S.A.	(a)	DIY products sales	Madrid	Deloitte	100.00	—
URÍA 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	—
INGONDEL, S.L.......................	(a)	Holding company	Madrid	—	100.00	—
OPTICA 2000 SUBGROUP						
ÓPTICA 2000, S.L.	(a)	Sale of optical products and services	Barcelona	Deloitte	100.00	—
GALLERY DA VISAO—SERVIÇOS DE ÓPTICA UNIPESSOAL, L.D.A..................................	(a)	Sale of optical products and services	Portugal	—	—	100.00
SFERA 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	—
CDV SENIOR, S.L	(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	Deloitte	—	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	Deloitte	—	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	—	—	95.00
TOURMUNDIAL URUGUAY, S.A.	(b)	Travel agency	Uruguay	—	—	100.00
VIAJES EL CORTE INGLÉS PANAMÁ, S.A............	(b)	Travel agency	Panama	—	—	100.00
VIAJES EL CORTE INGLÉS ECUADOR, S.A...........	(b)	Travel agency	Ecuador	—	—	100.00
OPERADORA DE TURISMO, S.A.	(b)	Travel agency	Chile	—	—	100.00
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	Deloitte	—	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
INFORMÁTICA EL CORTE INGLÉS COSTA RICA, S.A.S. ..	(b)	Sale of computer products and services	Costa Rica	—	—	100.00
INFORMÁTICA EL CORTE INGLÉS (USA) CORPORATION..........	(b)	Sale of computer products and services	USA	—	—	100.00
INFORMÁTICA EL CORTE INGLÉS (UK) LIMITED	(b)	Sale of computer products and services	United Kingdom	—	—	100.00
HIKU DOCUMENT SERVICES S.A.P.I. DE C.V..............................	(b)	Sale of computer products and services	Mexico	—	—	50.00
KIO NETWORKS ESPAÑA	(a)	Sale of computer products and services	Murcia	—	—	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. Auditors	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
ASSOCIATES						
GESTIÓN DE PUNTOS DE VENTA, GESPEVESA, S.A.	(b)	Service stations and convenience stores	Madrid	Deloitte	50.00	—
SEPHORA COSMÉTICOS ESPAÑA, S.L.	(b)	Sale of perfumes and cosmetics	Madrid	Deloitte	50.00	—
FST HOTELS, S.A...................	(b)	Hotel management	Palma de Mallorca	Deloitte	—	50.00
CITOREL, S.L.	(a)	Marketing of jewellery and watches	Madrid	—	50.00	—
FINANCIERA EL CORTE INGLÉS E.F.C., S.A.	(b)	Finance	Madrid	Deloitte	49.00	—
TAGUS BOOK, S.L.................	(b)	Distribution of electronic books	Madrid	—	24.00	—
LECIUS, S.L.	(b)	Marketing of jewellery and watches	Barcelona	—	50.00	—
IBERIAFON, S.A.....................	(b)	Real Estate	Madrid	B.D.O.	40.00	—

Amounts in thousands of euros.

(a) Financial year ending on 28/02/2017.

(b) Financial year ending on 31/12/2016.

(c) Stake sold during the financial year ending on 28/02/2017

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 for 2016 were prepared on the basis of the accounting records held by El Corte Inglés, S.A. (the Parent) and the other Group companies, and they were formulated by the Parent's directors in a meeting of its Board of Directors held on the 31st of May 2017, in order to give a true and fair view of the consolidated assets and financial position of the Group at 28 February 2017 and the results of its operations, the changes in equity and the consolidated cash flows of the Group during the financial year ending on that date.

These financial statements were prepared in accordance with the applicable regulatory financial reporting framework and in particular that established by the International Financial Reporting Standards, as adopted by the European Union, in accordance with EC Regulation no. 1606/2002 of the European Parliament and the Council. Note 4.2 outlines the most significant obligatory accounting principles and valuation criteria applied and the alternatives permitted by the regulations in this regard, as well as the issued standards and interpretations not in force on the date of preparation of these financial statements.

Given that the accounting principles and valuation criteria applied in the preparation of the consolidated financial statements of the Group for 2016 (International Financial Reporting Standards) differ from those used by the entities integrated into it (local regulations), in the consolidation process the necessary adjustments and reclassifications were made in order to harmonise those principles and criteria and to adapt them to the International Financial Reporting Standards adopted in Europe.

These consolidated financial statements are, unless otherwise indicated, presented in thousands of euros, as that is the functional currency of the main economic environment in which the Group operates. Operations abroad are incorporated in accordance with the policies established in note 4.2.9.

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND BASIS OF CONSOLIDATION

2.2 Accountancy principles applied

The Parent's directors have prepared these consolidated financial statements taking into consideration all of the applicable, obligatory accounting standards and principles and valuation criteria which have a significant effect on the consolidated financial statements, as well as the alternatives which the regulations permit in this regard and which are specified in note 4.2.

2.3. Accounting Estimates and Judgements

The information contained in these consolidated financial statements is the responsibility of the Parent's directors.

In the preparation of these consolidated financial statements, estimates made by the Parent's directors have been used to value some of the assets, liabilities, income, expenses and commitments recorded in them. Those estimates refer basically to the following:

- The assessment of possible impairment losses of certain assets, including the goodwill.
- The valuation of the inventories using the "retail" method.
- The useful lifetimes of intangible assets, property, plant and equipment and investment property.
- The fair value of certain financial instruments.
- The determination of the value of provisions.
- The recoverability of deferred tax assets.
- The estimation of commitments arising from onerous contracts.

Despite the fact that these estimates were made in accordance with the best information available at 28 February 2017 regarding the facts under analysis, future events may require them to be modified (upwards or downwards) in future financial years. This would be carried out in accordance with the provisions set out in IAS 8, prospectively recognising the effects of the changed estimation in the corresponding consolidated income statement.

2.4 Comparison of information

In accordance with that required by IAS 1, the information contained in this notes to the consolidated financial statements referring to 2015 is presented, for comparative purposes, alongside the information related to 2016, and it does not therefore constitute the consolidated financial statements of the Group for 2015.

2.5 Grouping of items

Certain items of the consolidated balance sheet, the consolidated income statement, the consolidated statement of changes in equity and the consolidated statement of cash flows are presented grouped together in order to facilitate understanding, though, to the extent to which it is significant, the individualised information has been included in the corresponding notes to the financial statements.

2.6 Changes in accounting criteria, accounting policies and correction of errors

During 2016, there were no significant changes in accounting criteria compared to the criteria applied in 2015.

In the preparation of these financial statements, no significant errors were detected which would have made it necessary to restate the amounts included in the consolidated financial statements for 2015.

2.7 Basis of consolidation

2.7.1 Integration methods

The consolidation was carried out applying the global integration method for those companies over which, in accordance with IFRS 10, the Parent has control. In those cases in which there are joint agreements for the management of the part-owned company by the Group and one or more non-related third parties, in which the parties act jointly in order to direct the relevant activities and the decisions about those activities require the unanimous consent of the parties, the Group evaluates whether it has direct rights and obligations for its proportional part of the assets and liabilities of the agreement (joint operation) or whether it has rights only to the net assets of the agreement (joint business). The Group does not have entities classified as “joint operations” (fundamentally temporary joint ventures) with a significant impact on these consolidated financial statements.

Those companies which are joint businesses or companies in which the Group has a significant ability to influence the management (associates) are valued using the “equity method” (see notes 2.7.3 and 2.7.4).

2.7.2 Subsidiaries

Subsidiaries are those in which the Parent has the ability to exercise effective control, which is generally manifested by the fulfilment of the following three criteria: it has power over the part-owned company; the exposure or the right to the variable results of the investment; and the ability to use that power in a way which could influence the amount of those returns.

Financial statements of subsidiaries are consolidated with those of the Company through the global integration method. Consequently, all balances and notes made between the consolidated companies that are significant have been eliminated in the consolidation procedure.

For the accounting of acquisitions of subsidiaries by the Group from third parties (business combinations), the acquisition method is used. The cost of acquisition (the consideration transferred) is the fair value of the assets handed over, the liabilities incurred or assumed on the acquisition date that brought about the taking control, as IFRS 3 indicates—Business Combinations, and, where applicable, the stakes in the equity issued by the Group. The consideration includes the fair value of any asset or liability which comes from a contingent consideration agreement. Acquisition-related costs are recognised as expenses in the years in which they are incurred. The identifiable assets acquired and the identifiable liabilities and contingencies assumed in a business combination are initially valued at their fair value on the acquisition date. For each combination of businesses, the Group may choose to recognise any non-controlling interest in the investee at either fair value or the proportional part of the non-controlling interest in the investee’s identifiable net assets.

Any excess in the acquisition cost with regard to the fair values of the identified net assets is acknowledged as goodwill. If the acquisition cost is lower than the fair value of the identifiable net asset, in the event of dealing with a purchase with advantageous terms, the difference is attributed to the results on the acquisition date.

Consolidation of the results generated by companies acquired in a financial year is done by only taking into consideration those relating to the period included between the acquisition date and the close of that financial year. Correpondingly, the results generated by the divested companies in a financialyear is done by only taking into consideration those relating to the period included between the beginning of the financial year and the divestment or sales date.

Interest of third parties in the equity of their part-owned companies is shown in the heading “non-controlling interests” of the consolidated balance sheet, within the chapter of Group Equity. Through analogy, its interest in the profit for the year is shown in the heading “profit attributable to non-controlling interests” of the consolidated income statement.

In purchases of non-controlling interests (interests held by non-controlling interests), the difference between the price paid and the applicable proportion of the book value of the subsidiary’s net assets is recognised in equity. Gains or losses from the disposal of non-controlling interests are likewise recognised in equity.

2.7.3 Joint Ventures

A “Joint Venture” is a contractual agreement whereby two or more entities participate in entities in such a way that any strategic decision of a financial or operating nature which affects them requires the unanimous consent of all the participants, provided those joint agreements give rights to the net assets of the agreement.

The companies considered “joint ventures” are accounted for using the equity method (see Note 2.7.4).

2.7.4 *Associates*

"Associates" are companies over which the Group exercises a significant influence in their management, understood as the power to intervene in decisions regarding the financial and operating policies of the part-owned company, but without having control or joint control.

In the consolidated financial statements, the associates (as well as the joint ventures defined in note 2.7.3) are accounted for using the equity method, i.e. for the portion of their equity represented by the Group's participation in their capital, after having considered the dividends received from them and other equity eliminations.

The part of the acquisition cost which exceeds the Group's percentage stake in the fair value of the net assets of the associate is recorded implicitly as goodwill. The goodwill related to an associate is included in the book value of the investment and it is not depreciated. Any amount which exceeds the Group's percentage stake in the fair value of the net assets of the associate on the purchase date, over the acquisition cost, is recorded in results.

The results of the associates, net of taxes, are incorporated into the consolidated income statement of the Group, in the "Result of companies accounted for using the equity method" line, in accordance with the percentage stake.

If, as a result of the losses incurred in an associate, its accounting equity is negative, in the consolidated balance sheet of the Group it will be indicated as zero, unless the Group is obliged to give it financial support.

Note 1 gives further details of these entities.

2.7.5 *Intra-group eliminations*

All the debit and credit balances and transactions carried out among subsidiaries, with associates and joint ventures, and among themselves, have been eliminated in the consolidation process.

2.7.6 *Uniformity of valuation*

The consolidation of the entities included in the scope of consolidation was carried out based on their individual financial statements, which are prepared in accordance with the Spanish General Accountancy Plan for those companies residing in Spain and in accordance with their own local regulations for foreign companies. All the significant adjustments necessary to adapt them to the International Financial Reporting Standards and/or to bring them into line with the Parent's accounting criteria, have been considered in the consolidation process.

2.7.7 *Companies with close dates different from that of the Group*

The companies with close dates different from that of the consolidated financial statements have been consolidated with the financial statements at their close dates (31 December 2016, see note 1). Any significant operations carried out between the close dates of those subsidiaries and that of the consolidated financial statements are temporarily harmonised if they are significant.

2.7.8 *Translation of financial statements in foreign currencies*

2.7.8.1 Functional and presentation currency

The transactions and balances of each of the companies in the group are valued using the currency of the main economic environment in which the company operates ("functional currency"). The consolidated financial statements are presented in euros, which is the functional and presentation currency of the Parent and the main Subsidiaries.

2.7.8.2 Transactions and balances

Transactions in foreign currencies are converted into the functional currency using the exchange rates on the dates of the transactions. The gains and losses in foreign currency resulting from the settlement of these transactions and the conversion at closing exchange rates of the monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

2.7.8.3 Group Entities

The results and financial position of all the companies in the group (none of which has the currency of a hyper-inflationary economy) with a functional currency different from the presentation currency are translated into the presentation currency as follows:

- The assets and liabilities of each balance sheet presented are converted at the closing exchange rate on the date of the balance sheet.

- The income and expenses of each income statement are converted at the average exchange rates (unless that average is not a reasonable approximation of the cumulative effect of the exchange rates on the dates of the transactions, in which case the income and expenses are converted on the dates of the transactions).

- The difference resulting from applying the closing exchange rates to the assets and liabilities at close of each accounting period and the average exchange rates to the income and expenses (or where applicable, those on the dates of the transactions) is recognised in equity, in the 'Translation Differences' section.

When a foreign business is disposed of, the corresponding translation difference is recognised in the income statement as part of the loss or gain from the sale.

The goodwill and the fair value adjustments to the acquired net assets which arise in the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing exchange rate.

2.7.9 Changes in the scope of consolidation

During 2016, Lecius S.L and Kio Networks España were incorporated into the scope of consolidation. Additionally, the stake in Iberiafon S.A. was sold off.

3. DISTRIBUTION OF THE PARENT'S PROFIT

The proposal for the distribution of profit drawn up by the Directors of the Parent, El Corte Inglés, S.A., which will be submitted for approval by the general meeting of shareholders, is as follows:

Item	Thousands of euros
Dividends	50,000
Voluntary reserves	71,524
TOTAL	121,524

4. MAIN ACCOUNTING POLICIES

4.1. Adoption of new standards and interpretations issued

4.1.1 Standards and interpretations effective in the present financial year

During 2016, the following accounting standards, amendments and interpretations came into effect, and these were therefore taken into account in preparing the accompanying consolidated financial statements:

Standards, amendments and interpretations	Description	Obligatory application in financial years starting from
Amendment of IAS 19—Employees' contributions to defined benefit plans (published in November 2013)	The amendment is issued in order to facilitate the possibility of deducting these contributions from the cost of the service in the same period in which they are paid if they meet certain requirements.	01 February 2015
Improvements of IFRSs, cycle 2010 – 2012 (published in December 2013)	Minor amendments of a series of standards.	01 February 2015
Amendment of IAS 16 and IAS 38—Acceptable methods of depreciation and amortisation (published in May 2014)	It clarifies the acceptable methods for the amortisation and depreciation of property, plant and equipment and intangible assets, which do not include those based on revenue.	01 January 2016
Modification of IAS 16 IAS 41: Bearer Plants (published in June 2014)	Bearer plants will start being maintained at cost, instead of at fair value.	01 January 2016
Amendment of IFRS 11—Accounting for acquisitions of interests in joint operations (published in May 2014)	It specifies how to account for the acquisition of an interest in a joint operation whose activity constitutes a business.	01 January 2016
Improvements of IFRSs, cycle 2012 – 2014 (published in September 2014)	Minor amendments of a series of standards.	01 January 2016
Amendment of IAS 27—Equity method in separate financial statements (published in August 2014)	The equity method will be permitted in the individual financial statements of an investor.	01 January 2016
Amendment of IAS 1: disclosure initiative (December 2014)	Clarifications in relation to disclosures (materiality, aggregation, order of notes, etc.)	01 January 2016
Amendment of IFRS 10, IFRS 12 and IAS 28—Investment entities (December 2014)	Clarification of the consolidation exception of investment entities.	01 January 2016

These standards and amendments were applied without having any significant impacts on the figures reported or on the presentation and breakdown of information, either because they do not represent major changes or because they refer to economic circumstances which do not affect the Group.

4.1.2 Standards and interpretations issued but not yet in force

At the time of preparation of these financial statements, the following are the most significant standards and interpretations published by the IASB but which have not yet come into effect, either because their date of application is after the date of the consolidated financial statements or because they have not yet been adopted by the European Union:

Approved for use in the EU

Standards, amendments and interpretations	**Description**	**Obligatory application in financial years starting from**
IFRS 15—Revenue from contracts with customers (published in May 2014)	New standard for the recognition of revenue (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31).	01 January 2018
IFRS 9—Financial instruments (published in July 2014)	It replaces the classification, valuation, recognition and removal requirements in accounts of financial assets and liabilities, the accountancy of hedges and impairment of IAS 39.	01 January 2018

Not approved for use in the EU

Standards, amendments and interpretations	**Description**	**Obligatory application in financial years starting from**
Clarifications of IFRS 15 (published in April 2016)	They refer to performance obligations, principal versus agent, the granting of licences and their accrual at a particular moment or over time, as well as clarifications of the transition rules.	01 January 2018
IFRS 16—Leases (published in January 2016)	New standard on leases (replaces IAS 17 and the associated interpretations). The change is that the new standard proposes a single accountancy model for lessees, which will include all leases in the balance sheet (with some, limited exceptions) with an impact similar to that of the current financial leases (there will be amortisation of the asset for the right of use and a financial expense for the amortised cost of the liability).	01 January 2019
Amendment of IAS 7: disclosure initiative (published in January 2016)	It proposes the breakdown of initial and final balances of the financial statements of items whose cash flows are classified as financing activity.	01 January 2017
Amendment of IAS 12: Recognition of deferred tax assets for unrealised losses (published in January 2016)	Clarification of the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value.	01 January 2017
Amendment of IFRS 2—Classification and measurement of share-based payment transactions (published in June 2016)	It clarifies specific issues such as the effects of the accrual conditions on share-based payments to be made in cash, the classification of share-based payments when they are settlement clauses for the net and some aspects of the modifications of the type of share-based payment.	01 January 2018
Amendment of IFRS 4—Insurance Contracts (published in September 2016)	It permits entities within the scope of IFRS the option of applying IFRS 9 or their temporary exemption.	01 January 2018
Amendment of IAS 40—Reclassification of investment property (published in December 2016)	It clarifies that a reclassification of an investment from or to investment property is only permitted if there is evidence of a change of use.	01 January 2018
Improvements of IFRSs, cycle 2014 – 2016 (published in December 2016)	Minor amendments of a series of standards (different dates of entry into effect).	01 January 2017 and 2018

IFRIC 22—Foreign currency transactions and advance consideration (published in December 2016)	This interpretation establishes the “transaction date” for the purposes of determining the applicable exchange rate in transactions with advance considerations in foreign currencies.	01 January 2018
Amendment of IFRS 10 and IAS 28—Sale or contribution of assets between an investor and its associate or joint venture (published in September 2014)	Clarification in relation to the result of these operations if they are businesses or assets.	Indefinitely postponed.

We will now indicate those standards that would affect the financial statements of the Group at the time of their application:

IFRS 9—Financial Instruments:

IFRS 9 will in the future replace IAS 39. There are very considerable differences compared to the current standard in relation to financial assets, including the approval of a new classification model based on just two categories, amortised cost and fair value, the disappearance of the current classifications of “Held-to-maturity investments” and “Available-for-sale financial assets”, a new impairment model based on expected losses instead of incurred losses, and also the accountancy of hedges which seeks to align the accountancy with the economic management of the risk. With regard to the insurance activity, the Group, by virtue of that indicated in the standard itself, is considering adopting the deferral envisaged for the insurance sector, though the effect of applying that standard would not be very significant because the majority of the financial assets are recorded at fair value.

The Group is currently analysing all the future impacts of the adoption of this standard, and it is not possible to give a reasonable estimation of its effects until that analysis has been completed.

IFRS 15—Revenue recognition:

It is the new standard for recognition of revenue from customers, which, in financial years starting from the 1st of January 2018, will replace the following standards and interpretations currently in force: IAS 11—Construction contracts, IAS 18—Revenue from ordinary activities, IFRIC 13—Customer loyalty programmes, IFRIC 15—Agreements for the construction of real estate, IFRIC 18—Transfers of assets from customers, and SIC 31—Revenue—Barter transactions involving advertising services. This standard establishes a new model for the recognition of revenue based on the concept of control, which means that revenue must be recognised as and when the obligations contracted with customers are fulfilled through the delivery of goods and services. For this, IFRS introduces a recognition approach based on five steps, as well as broader information breakdown requirements. In addition, certain clarifications of the standard issued by the IASB are pending adoption.

As is explained in Note 1, the main activities for which the Group recognises revenue are retailing through its commercial network. The Group management has, preliminarily, determined that the above activities represent, mainly, the obligation to deliver certain goods to customers, the income from which is recognised when the control of the aforementioned products is transferred, which is not significantly different from the current identification of independent price components carried out in accordance with IAS 18.

The Group is currently in the phase of analysis and diagnosis of the potential effects of this standard on its different businesses, mainly its computer consultancy activities, as well as evaluation of the possible need to alter its internal policies, information systems and controls in order to establish objective criteria in relation to its future application, though the quantitative analysis of the impacts and the impact of the first application in the Group’s financial statements which will derive from the new standard is not yet available at the time of writing. The main aspects which could potentially be the object of further analysis are related to the evaluation of the revenue recognition model in IT consulting projects and the level of acceptance by customers in relation to the work carried out, and the identification of different obligations in long-term contracts, among others.

The obligatory date of application is 2018 and the Group does not envisage its early application.

IFRS 16—Leases:

IFRS 16—Leases will, from the 1st of January 2019, replace IAS 17—Leases. This new standard proposes a single model for the lessee in which all leases (non-significant leases and those with a lease period of less than twelve months can be excluded) are recorded in the balance sheet in a similar way to current financial leases (allocating finance costs for the amortised cost of the liability and amortisation for the right of use). A dual model for the lessor is maintained, based on the current IAS 17, and the leases will be financial or operating.

The Group has not yet completed the analysis of the effects of this standard. The expected theoretical impact will potentially be in line with the analyses published by different accountancy experts in relation to increases in financial assets and liabilities due to the future payment obligations associated with operating leases. The obligatory date of application is 2019 and the Group does not envisage its early application.

With the exception of the impacts of the standards mentioned in the previous paragraphs, the Group's directors do not anticipate any major changes due to the introduction of the rest of the standards, amendments and interpretations which have been published but are not yet in force, as they are applications of a prospective nature, changes in presentation and breakdown, and/or they address aspects not applicable to the Group's operations.

4.2. Registration and valuation standards

4.2.1 Goodwill

The positive differences between the cost of stakes in the capital of consolidated entities compared to the corresponding theoretical book values, adjusted on the date of first consolidation, are allocated in the following manner:

- If they can be assigned to specific asset elements of the part-owned companies, increasing the value of the assets (or reducing that of the liabilities) whose fair values are higher (lower) than the net book values stated in their balance sheets and whose accounting treatment is similar to that of the assets (liabilities) of the Group: depreciation, accrual, etc.

- If they can be assigned to specific intangible assets, recognising them explicitly in the consolidated balance sheet provided that their fair value on the date of acquisition can be reliably determined.

- The remaining differences are registered as goodwill, which is assigned to one or more specific cash generation units.

The goodwills are only recorded if they have been acquired in return for payment and they therefore represent advance payments made by the acquiring entity of the future economic benefits deriving from the assets of the acquired entity which are not individual, separately identifiable and recognisable.

At the time of transfer of a subsidiary or a jointly controlled entity, the attributable amount of the goodwill is included in the determination of the profits or losses deriving from that transfer.

The goodwill which arises in the acquisition of companies with functional currencies other than the euro is valued in the functional currency of the acquired company, the conversion to euros being made at the exchange rate on the date of the balance sheet.

The goodwill is not depreciated, but rather it is subjected to an "impairment test" at least once a year (see note 4.2.5).

4. MAIN ACCOUNTING POLICIES

4.2.2 Other intangible assets

Other intangible assets are considered to be the non-monetary and non-physical, specifically identifiable assets which were acquired from third parties or developed by the Group. Only those whose cost can be objectively estimated and from which it is expected that economic benefits will be obtained are recorded in accounts.

The intangible assets are initially recognised at their acquisition or production cost and, subsequently, they are valued at their cost minus, where applicable, the corresponding cumulative depreciation and any impairment losses they have suffered.

The interim interest accrued during the financing period of projects in progress for investment in new computer applications, whose execution period is greater than one year, is recorded as greater value of the fixed assets until that project goes into operation.

An “indefinite useful lifetime” is considered to be when, on the basis of the analyses carried out of all the relevant factors, it is concluded that there is no foreseeable limit to the period during which it is expected that net cash flows will be generated in favour of the Group; in all other cases, they will be considered to have “defined useful lifetimes”.

The only assets with indefinite useful lifetimes held by the Group correspond to the goodwill and the value of certain brands, whose values at the close of 2016 and 2015, included in the “Goodwill” and “Other intangible assets” section, were 10.69 million euros and 27.70 million euros, respectively.

On the basis of an analysis of all the relevant factors, the Group has established that there is no foreseeable limit to the period during which it is expected that the brands will generate net cash flows for the entity, and therefore those brands are assigned indefinite useful lifetimes.

The company applies the linear depreciation method to its intangible assets with fixed useful lifetimes, applying annual depreciation percentages calculated in accordance with the estimated years of useful life of the respective assets.

The intangible assets with indefinite useful lifetimes are not depreciated, so they are subjected to an “impairment test” at least once a year, following the same criteria as those for goodwill (see note 4.2.5).

The Group recognises in accounts any loss in the registered value of these assets due to impairment, using as the counterpart the “Impairment and gains or losses on disposals of assets” section of the consolidated income statement. The criteria for the recognition of the impairment losses of these assets and, where applicable, any recoveries of these which take place subsequently are detailed in note 4.2.5.

a) Development costs

The costs of research activities are recognised as expenses in the year in which they are incurred.

Development costs are only recognised as intangible assets if they fulfil all the conditions indicated below:

- they are specifically individualized by projects;
- the cost of the development of the asset can be reliably evaluated; and
- it is likely that the asset created will generate future economic benefits.

The assets thus generated are depreciated on a linear basis over the course of their useful lifetimes (over a maximum period of five years).

At 28 February 2017 and 29 February 2016, these assets were fully depreciated.

If there are doubts about the technical success or the financial profitability of the project, the amounts recorded in the assets are allocated directly to the income statement of the financial year.

b) Industrial Property

This account records the amounts paid for the acquisition of an industrial property or the right of use of the different manifestations of it (patents, brands, licences), or the expenses incurred for the registration of the industrial property developed by the Group.

Patents and brands are initially valued at their acquisition price and they are depreciated on a linear basis throughout their estimated useful lifetimes, with the exception of brands considered to have indefinite useful lifetimes, which are subjected to an annual impairment test.

The rest of the assets classified as "Industrial Property", considered of defined useful lifetime, are depreciated on a linear basis, generally over a period of 5 years.

c) Administrative concessions

Concessions can only be included in the assets if they were acquired by the Company in return for payment in those concessions which may be transferred, or for the amount of the expenses incurred for their direct obtainment from the corresponding Body.

The administrative concessions registered by the Group reflect the amounts paid for the acquisition of the construction and operation rights of certain premises and they are depreciated on a linear basis over their term of validity between 20 and 99 years.

d) Computer applications

The acquisition and development costs incurred in relation to computer systems which are basic for the Group management are charged to the "Other intangible assets" section of the consolidated balance sheet.

The maintenance costs of computer applications are recognised in the consolidated income statement of the financial year in which they are incurred.

The depreciation of computer applications is carried out applying the linear method over a period of 5 years from the time when each application goes into operation.

e) Transfer rights

Transfer rights are valued at the amount paid for their acquisition and they are depreciated over 10 years, which is the estimated period during which they will contribute to generating income.

4.2.3 Property, plant and equipment

The items of property, plant and equipment acquired for use in the production or supply of goods or services, or for administrative purposes, are presented in the consolidated balance sheet at acquisition or production cost minus cumulative depreciation and any impairment losses they have suffered. In addition, and as a result of applying the First Application Standard (IFRS 1) in 2013, certain properties and other elements of the fixed assets were recorded at fair value (based on appraisals by independent experts) as attributed costs.

The costs of expansion, modernisation or improvements which represent an increase in the productivity, capacity, efficiency or useful lifetime of the assets are recorded as a greater cost of those assets. The acquisition cost includes the professional fees and the finance costs incurred during the financing period of work in progress on investments in new department stores, whose execution period was greater than one year and until that work is transferred to the corresponding item of property, plant and equipment.

The interest rate used is the average rate of financing of the Group.

The conservation and maintenance costs are recognised in the consolidated income statement for the year in which they are incurred.

Assets and elements which have been removed, whether as a result of a modernisation process or any other reason, are recorded in accounts by removing their balances in the corresponding cumulative depreciation and cost accounts.

The Group recognises in-house work on non-current assets at the cumulative cost resulting from adding to the external costs those other costs determined in accordance with the internal consumptions of warehouse materials and the manufacturing costs incurred.

Property, plant and equipment are depreciated following the linear method, the cost of the assets being distributed across the years of estimated useful lifetime, as shown in the following table:

Item	**Years**
Constructions	33 – 85
Machinery, installations and tooling	3.5 – 17
Furniture and effects	3.5 – 15
Information processing equipment	4 – 6
Transport elements	5 – 15

The gain or loss on the disposal or removal of an asset is calculated as the difference between the profit from the sale and the book value of the asset, and it is recognised in the consolidated income statement.

4.2.4 Investment property

The ‘Investment property’ section of the consolidated balance sheet includes the values of lands, buildings and other constructions which are held either to lease them out or to obtain a capital gain from their sale as a result of future increases in their respective market prices.

Investment property is presented at their acquisition cost, following, for all effects, the same criteria as elements of the same class of property, plant and equipment (see note 4.2.3).

The income accrued during 2016 deriving from the rental of that investment property was approximately 1.68 million euros (1.30 million euros in 2015), and they are registered in the “Other operating income” section of the accompanying income statement.

4.2.5 Value impairment of non-current assets

In each financial year, and whenever there are indications of a loss of value, the Group evaluates the book values of its plant, property and equipment, investment property and intangible assets, including the goodwill and the intangible assets with indefinite useful lifetimes, by means of an “impairment test”, in order to determine whether their recoverable value is lower than their book value (impairment loss). In the case of the goodwill and intangible assets with indefinite useful lifetimes, the impairment test is carried out at least once a year and more frequently if there are indications of impairment.

If the asset does not itself generate cash flows independent from other assets, the Group calculates the recoverable amount of the cash generation unit to which the asset belongs.

The Group defines as basic cash generation units (CGUs) each one of the commercial premises (department stores, hypermarkets, supermarkets and offices) which make up its distribution network. However, when determining the CGU, those units may be aggregated at the geographical area level depending on the real management of their operations.

With regard to the Group’s assets (offices, warehouses, logistics centres, etc.) which do not fulfil the criteria outlined above, they have their own treatment in accordance with that mentioned in this note.

The recoverable amount is determined as either the fair value minus the estimated sales costs or the value in use, whichever is higher.

If it is estimated that the recoverable amount of an asset (or cash generation unit) is lower than its book value, the latter is reduced to its recoverable amount, recognising a value impairment loss as an expense, using as the counterpart the “Impairment and gains or losses on disposals of assets” section of the consolidated income statement.

When a value impairment loss is subsequently reverted, the book value of the asset (or cash generation unit) is increased to the revised estimation of its recoverable value, but in such a way that the increased book value does not exceed the book value that would have been determined if no value impairment loss had been recognised for the asset (or cash generation unit) in previous financial years.

In the case of goodwill, at each accountancy close an estimation is made of whether it has suffered any impairment which reduces its recoverable value to an amount which is lower than the registered net cost and, if so, the appropriate write-down is applied. Impairment losses related to goodwill are not subject to subsequent reversion.

At the close of 2016, the Group recorded 20.31 million euros (20.16 million euros in 2015) as impairment of property, plant and equipment, intangible assets and investment property.

Finally, in the case of brands with indefinite useful lifetimes, the recoverable amount was determined as their value in use, using cash flow forecasts which, as a general rule, are based on the company forecasts, which cover a period of five years.

4.2.5.1 Value in use

For each cash generation unit (mainly Supercor supermarkets, Bricor stores and offices of Viajes El Corte Inglés), the value in use is calculated based on the estimated future cash flows, discounted at a rate which reflects the current market valuations with regard to the value of money, adjusted by the specific risks associated with the asset that were not taken into account when estimating the future cash flows.

The Group generally prepares the cash flow forecasts of the cash generation units for a period of 5 years, incorporating the best available estimations of income and expenses, using sectoral forecasts, past experience and future expectations (the entity's forecasts, business plans, etc.), as well as the macro-economic indicators which reflect the current and foreseeable economic situation of each market. Likewise, another estimation to be taken into consideration is the margin, depending on the CGU and the nature of the business or product. The main business hypotheses used by the Group (mainly for Supercor Supermarkets and Bricor) are the following:

- Average annual weighted growth rate in sales of 3.1% over the 5 years forecast by Supercor.
- Average annual weighted growth rate in sales of 2.5% over the 5 years forecast by Bricor.
- Average annual growth rates of the purchase margin of 0.16% and 0.15% for Supercor and Bricor, respectively.

The Group's management considers that the average weighted growth rate of sales for the next five years is consistent with past experience, taking into account the expansion plans, conversions of stores to new formats and the evolution of the macroeconomic indicators (population, inflation, GDP, etc.).

In addition, a residual value is calculated depending on the standardised cash flow of the last year of the forecast, to which a growth rate in perpetuity is applied (in the majority of cases, it is zero), which in no case exceeds the growth rates of previous years. The cash flow used for the calculation of the residual value takes into account the investments for replacement which are necessary for the future continuity of the business at the estimated growth rate.

For the discounting of the cash flows, the weighted average cost of capital is used, which is determined before taxes and is adjusted by the country risk, the corresponding business risk and other variables influenced by the current market situation. The average discount rate applied depends on the business and the country in which the activity is carried out. For the main assets of the Group it was 7.00% for 2016.

4.2.5.2 Fair value

For the present year, the Group has determined the recoverable amount of the main assets (Department Stores and Hypermarkets) as the fair value based on the appraisals carried out by independent experts. For operating assets, the valuation was carried out in accordance with the valuation principles, methodology and criteria contained in Ministerial Order ECO/805/2003 of 27 May, amended by Orders EHA/3011/2007 and EHA/564/2008. For real estate which is intended to generate rent, the reasonable value has been determined in accordance with the updating method, in accordance with the methodology described in articles 24 to 28 and 31 to 33 of Ministerial Order ECO/805/2003, depending on the most probable cash flows which its remaining useful lifetime will generate.

4.2.6 Leases

Leases are classified as financial leases whenever their conditions indicate that the risks and benefits inherent in the ownership of the asset which is the object of the contract are substantially assumed by the lessee. Other leases are classified as operating leases.

a) Financial Leasing

In financial leasing operations in which the Group acts as the lessee, the cost of the leased assets is presented in the consolidated balance sheet in accordance with the nature of the asset which is the object of the contract and, simultaneously, a liability for the same amount. That amount will be either the fair value of the leased asset or the current value at the start of the lease of the minimum quantities agreed, including the purchase option if there are no reasonable doubts regarding its exercise, whichever is lower.

The property, plant and equipment acquired under financial leasing are recorded in the asset category to which the leased asset corresponds, depreciated over its forecast useful lifetime, following the same method as that for assets in ownership (see note 4.2.3) or, if they are shorter, during the relevant term of the lease.

The calculation does not include the charges of a contingent nature, the cost of the services and the taxes payable by the lessor.

Finance costs originating from these lease contracts are allocated to the consolidated income statement so that the financial cost is maintained constant over the course of the lifetimes of the contracts.

Contingent charges are recognised as expenses of the financial year in which they are incurred.

b) Operating Leases

In operating lease operations, the ownership of the leased asset and substantially all the risks and advantages of the asset remain with the lessor, and the lessor registers those assets at their acquisition cost.

When the consolidated entities act as lessors, they present the acquisition cost of the leased assets in the "Property, plant and equipment" section. These assets are depreciated using a policy consistent with the lessor's normal depreciation policy for similar items (see note 4.2.3) and the income from the lease contracts is recognised in the income statement on a linear basis.

When the consolidated entities act as lessees, the costs of the lease, including any incentives granted, where applicable, by the lessor, are charged to their income statements on a linear basis.

The profit collected and to be collected due to incentives for the formalisation of an operating lease are also distributed linearly over the course of the duration of the lease.

4.2.7 Inventories

For the Group's main activity, retail sales, inventories are valued using the "retail" method, given that the result of applying it does not produce significant differences compared to their real costs.

The retail method determines the cost of inventories starting from the sale price minus an estimated gross margin percentage, in which the sale price, possible discounts to be made on those sale prices and the age of the merchandise are considered, as well as the changes in seasons and trends, mainly in fashion items. This method is applied consistently for all the Group's product families.

With this method, the inventory is valued at all times at the cost or the net production value, whichever is lower.

On the other hand, the activity inventories of the Technological Group (mainly comprising Informática El Corte Inglés S.A.) are valued at their acquisition price or net realisable value, whichever is lower. Likewise, the inventories section of the aforementioned Group includes the amounts incurred in projects in progress, valued at their cost price in accordance with the degree of progress criterion. Those costs include both services provided by third parties and internal costs.

4.2.8 Financial instruments

a) Financial assets

Valuation and classification

Financial assets are recognised in the Group's balance sheet when they are acquired. Financial assets are initially recorded at their fair value, including, in general, the costs of the operation.

The subsequent valuation will depend on the classification assigned by the Group to each financial asset. The financial assets held by the companies of the Group are classified into the following categories:

- Trade and other receivables and credits granted to third parties: these correspond to credits deriving from the sale of products or the provision of services for trade operations of the Group, or those which do not have a commercial origin and are not equity instruments or derivatives and whose amounts receivable are fixed or can be determined and are not traded in an active market.

Trade and other receivables with due dates in the short term are recorded at their nominal values, which are considered equivalent to their fair values.

The El Corte Inglés store card is accepted as a means of payment by the majority of the Group companies indicated in note 1, and Financiera El Corte Inglés E.F.C., S.A. is the holder of almost all of those cards. Likewise, Financiera El Corte Inglés E.F.C., S.A. is responsible for the management and administration of the billing and payment collection of sales made with that card.

- Held-to-maturity financial assets: they correspond to assets with fixed maturity, receivable amounts which are fixed or can be determined, and for which the Group has declared its intention and ability to hold to the date of maturity. These instruments are recorded at their amortised cost.

With regard to guarantees and deposits, assets classified under this heading which fundamentally refer to the amounts paid out by Group companies to the owners of the leased units are valued at the amounts paid out, which do not significantly differ from their fair value.

- Available-for-sale financial assets: these include securities representing debt and financial stakes in other companies that are not classified in any of the preceding categories.

They are valued at their fair value when it is possible to reliably determine it, whether from the listed value or, failing that, the value established in recent transactions, or at the current value after discounting the future cash flows. The profits and losses deriving from variations in the fair value are recognised directly in equity until the asset is transferred, at which time the cumulative profits or losses previously recognised in equity are included in the consolidated income statement for the year. If the fair value is lower than the acquisition cost, and if there is objective evidence that the asset has suffered an impairment which cannot be considered temporary, the difference is registered directly in the consolidated income statement.

If the fair value cannot be reliably determined, these assets are valued at their acquisition cost, corrected by any evidence of impairment which may exist.

At 28 February 2017, the valuations at fair value made on available-for-sale financial assets were calculated by reference to prices listed in the market (unadjusted).

- Other financial assets of the insurance business: the financial assets deriving from insurance, co-insurance and re-insurance operations are valued at their amortised cost. The interest accrued is recorded in the consolidated income statement, applying the effective interest rate method.

- Cash and cash equivalents: the treasury includes both cash and sight bank deposits. Cash equivalents are short-term investments, with maturities of less than three months and which are not subject to a relevant risk of changes in their value.

As established by IFRS 7, the Group classifies financial instruments (see Note 11.6) in accordance with the following hierarchy:

- Level 1: The fair value of financial instruments traded on active markets (such as derivatives listed on a stock exchange and securities available for sale and negotiation) is based on market listing prices at the end of the year in question. The market listing price used for financial assets held by the Group is the current buyer price. These instruments are included in level 1.

- Level 2: The fair value of financial instruments which are not traded on an active market (for example, OTC derivatives) is determined using valuation techniques which maximise the use of observable market variables and are based on the smallest possible measurement in specific estimations of the entity. If all the significant variables required to calculate the fair value of an instrument are not observable, the instrument is included in level 2.

- Level 3: If one or more of the significant variables are not based on observable market data, the instrument is included in level 3. This is the case of equity securities without official listings.

Derecognition of financial assets

The Group derecognises financial assets when they expire or the rights over the cash flows of the corresponding asset have been transferred and the risks and benefits inherent in its ownership have also been substantially transferred.

On the other hand, the Group does not derecognise financial assets, and it recognises a financial liability for an amount equal to the consideration received, in transfers of financial assets in which the risks and benefits inherent in its ownership are substantially retained.

Losses due to Value Impairment of Financial Assets

On each balance sheet date, the Group evaluates whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and an impairment loss has taken place if there is objective evidence of the impairment as a result of one or more events which have occurred after the initial recognition of the asset (an "event which causes the loss") and that event or events causing the loss has/have an impact on the estimated future cash flows of the financial asset or group of assets, which can be reliably estimated.

- Assets registered at amortised cost: For loans and items payable, the amount of the loss is the difference between the book value of the asset and the current value of the estimated future cash flows (excluding the future credit losses which have not been incurred), discounted at the original effective interest rate of the financial asset. The book value of the asset is reduced and the amount of the loss is recognised in the profit for the year. If a loan or a held-to-maturity investment has a variable interest rate, the discount rate to value any value impairment loss is the current effective interest rate, determined in accordance with the contract. As a practical measure, the Group can estimate the impairment in accordance with the fair value of an instrument, using an observable market price.

If, in a later period, the amount of the value impairment loss decreases and the decrease can objectively be attributed to an event that has taken place since the impairment was recognised (such as an improvement in the debtor's credit rating), the reversion of the previously-recognised impairment will be recognised in the profit for the year.

- Assets classified as available for sale: If there is objective evidence of a value impairment of available-for-sale financial assets, the cumulative loss, determined as the difference between the acquisition cost and the current fair value minus any loss through impairment of the value of that financial asset previously recognised in the results, is eliminated from equity and recognised in the results. The value impairment losses in equity instruments which were recognised in the profit for the year are not reverted through the profit for the year in a later reporting period.

If, in a later period, the fair value of a debt instrument classified as available for sale increases and that increase can be objectively attributed to an event which occurred after the impairment loss was recognised in the results, the impairment loss is reverted through the profit.

b) Financial liabilities

Valuation and classification

The financial liabilities held by Group companies are classified as:

- Bank borrowings: loans obtained from banking entities are recorded at the amount received, after deducting the costs and commissions deriving from their formalisation. Those formalisation costs and the finance costs generated by the loans are recorded in the income statement using the effective interest rate method and they are incorporated at the book amount of the liability, to the extent to which they are not settled, in the period in which they are accrued. In subsequent periods, these liabilities are valued at their amortized cost, using the effective interest rate method.

- Debt instruments and other marketable securities, trade payables and other financial liabilities are initially recorded at their fair value and subsequently in accordance with their amortised cost.

Trade payables which do not explicitly accrue interest are recorded at their nominal values, which do not significantly differ from their fair values.

Derecognition of financial liabilities

The Group derecognises financial liabilities when the obligations which generated them no longer exist.

c) Equity instruments

An equity instrument represents a residual stake in the Parent's equity, once all its liabilities have been deducted.

The capital instruments issued by the Parent are registered in equity at the amount received, net of issue costs.

The Company records a loan convertible into shares as "Other equity instruments" because it will be repaid by means of a fixed number of treasury shares of the Company and any additional compensation to be paid will be decided by the General Meeting of Shareholders (see Note 15.8).

Likewise, the interest accrued on that loan is payable in shares. Therefore, the variations in that instrument, as well as the associated issue costs (which were 24.7 million euros in 2015), and the accrued interest (which were 52.5 million euros in 2016) are recorded directly in equity.

4. MAIN ACCOUNTING POLICIES

Treasury shares

Treasury shares are recorded at the value of the consideration given in exchange, directly as lower value of the equity. The results deriving from the purchase, sale, issue or amortisation of own equity instruments are recorded directly in equity, and in no case is any result whatsoever recorded in the consolidated income statement.

d) Derivative financial instruments

The Group uses derivative financial instruments to cover the risks to which its activities, operations and future cash flows are exposed. Fundamentally, these risks are in regard of variations in exchange rates and interest rates. In the framework of those operations, the Company contracts derivative financial instruments, which, because they meet the requirements established by IAS 39, have been designated as cash flow hedges.

So that these financial instruments can be classified as accounting hedges, they are initially designated as such, the hedging relation being documented. Likewise, the Group verifies, initially and periodically throughout its lifetime, and at least at each accounting close, that the hedging relation is effective, i.e. that it can be prospectively expected that the changes in the fair value or in the cash flows of the hedged item (attributable to the hedged risk) are offset almost entirely by those of the hedge instrument and that, retrospectively, the results of the hedge have oscillated within a variation range of 80% to 125% compared to the result of the hedged item.

The derivative financial instruments which the Group held at the close of 2016 are mainly cash flow hedges. These hedges are initially recorded at their fair value in the consolidated balance sheet, and subsequently the necessary valuation adjustments are made in order to reflect their fair value at each moment, recorded in the "Non-current financial assets" or "Current financial assets" sections of the consolidated balance sheet if they are positive, and as "Non-current bank borrowings" or "Current bank borrowings" if they are negative.

The changes in the fair value of these derivatives are recorded in the "Equity-Valuation adjustments, hedges" section of the consolidated balance sheet.

The cumulative loss or gain in that section is transferred to the income statement as and when the underlying has an impact on the income statement, netting both effects.

The fair value of financial derivative instruments incorporates the adjustment for bilateral credit risk (taking into account both our own credit risk and the counterparty's credit risk).

The adjustment for bilateral credit risk, which amounts to 0.68 million euros at 28 February 2017 (1.7 million euros at 29 February 2016), was calculated applying a technique based on calculation through simulations of the total expected exposure (which incorporates both the current exposure and the potential exposure), adjusted by the probability of non-fulfilment over time and the severity (or potential loss) assigned to the Company and to each one of the counterparties.

The total expected exposure of the derivatives is obtained using observable market inputs such as interest rate curves, exchange rate curves and volatilities in accordance with the market conditions on the date of valuation.

The inputs applied for the obtainment of our own credit risk and those of the counterparties (determination of the probability of default) are based mainly on the application of our own credit spreads or those of comparable companies currently negotiated in the market (CDS curves, IRRs of debt issues). In the absence of our own credit spreads or those of comparable companies, and in order to maximise the use of relevant observable variables, the listed references considered most appropriate have been used, depending on the case (global CDS curve). For the counterparties with available credit information, the credit spreads used are obtained from the CDSs (Credit Default Swaps) listed in the market.

Likewise, for the adjustment of the fair value to the credit risk, we have taken into account the credit improvements related to guarantees or collaterals when it comes to determining the level of severity to be applied for each one of the positions.

Hedges are removed from accounts when the hedge instrument expires or is sold or exercised, or the criteria for the recording of hedges in accounts are no longer met. At that moment, any accumulated profit or loss corresponding to the hedge instrument which has been recorded in equity is maintained in equity until the envisaged operation takes place. When it is not expected that the operation which is the object of the hedge will not take place, the net accumulated profit or loss recognised in equity is transferred to the net results of the period.

Derivatives are not considered hedges for accountancy purposes if they do not pass the effectiveness test, which requires that the changes in the fair value or in the cash flows of the hedged item, directly attributable to the hedged risk, are offset by the changes in the fair value or in the cash flows of the derivative hedging instrument. If it does not pass the effectiveness test, the variations in the fair value of those instruments are allocated to the income statement for the year.

As of 28 February 2017, the fair value assessments made on different derivative financial instruments, including the data used for calculating the adjustments by own and counterparty credit risk, are included in level 2 of the fair value hierarchy framework established by IFRS 7, since the entries are based on the prices quoted for similar instruments in active markets (not included in level 1), prices quoted for identical or similar instruments in markets that are not active, and techniques based on valuation models for which all significant inputs are observable in the market or can be corroborated by observable market data. Although the Group has determined that most of the entries used to assess the derivatives fall within level 2 of the fair value hierarchy, adjustments for credit risk use level 3 entries, such as credit estimates according to credit rating or from comparable companies to assess the probability of the company or of the counterpart defaulting. The Group has evaluated the importance of the credit risk adjustments in the total valuation of derivative financial instruments and concludes that they are not significant.

4.2.9 Balances and transactions in currencies other than the euro

Transactions in currencies other than each company's functional currency are recorded in the company's functional currency at the rate of exchange prevailing at the time of the transaction. During the financial year, the differences between the accounting exchange rate and the one in force at the date of receipt or payment are recorded as financial results in the consolidated income statement.

Likewise, the conversion of balances receivable or payable as of 28 February of each year in a currency other than the functional currency in which the financial statements of the companies forming part of the scope of consolidation are set out, is carried out at the closing exchange rate. Any differences in valuation are recorded as financial results in the consolidated income statement.

4.2.10 Income tax

The income tax expense represents the sum of the tax burden to be paid during the financial year plus the changes in deferred tax assets and liabilities.

The expense arising from the income tax of the financial year is calculated using the sum of the current tax resulting from the application of the tax rate on the tax base for the year, after applying any fiscally permissible deductions, plus the variation in deferred tax assets and liabilities.

Deferred tax assets and liabilities include temporary differences which are identified as the amounts expected to become payable or recoverable deriving from the differences between the book values of assets and liabilities and their taxable values, as well as the negative tax bases pending offsetting and credits for tax deductions which have not been applied. These amounts are recorded by applying the tax rate at which it is expected they will be recovered or settled to the corresponding temporary difference or credit.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the temporary difference arises from the initial recognition of the goodwill, whose depreciation is not deductible for tax purposes, or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction affecting neither the tax result nor the accounting result.

Deferred tax assets, identified with temporary differences, are only recognised when it is considered probable that the consolidated entities will in future have sufficient taxable profits against which they can be made effective and where they do not arise from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction affecting neither the tax result nor the accounting result. The remaining deferred tax assets (negative taxable amounts and deductions pending offsetting) are only recognised if it is deemed likely that the consolidated entities will in future have sufficient taxable profits against which to make them effective.

Income tax and variations in deferred tax assets and liabilities not arising from business combinations are recognised fully in the consolidated income statement or in the equity accounts of the consolidated balance sheet, depending on where the profit or loss which gave rise to them was recorded.

Deferred tax assets and liabilities are not updated and they are classified as non-current assets/liabilities in the consolidated balance sheet.

At each accountancy close, any recorded deferred tax (both assets and liabilities) is reviewed, in order to ensure that it is up-to-date, and the appropriate corrections are made in accordance with the results of the analyses carried out.

El Corte Inglés, S.A. is taxed in accordance with the tax consolidation system, together with the Spanish subsidiaries in which it owns at least 75% of the capital, excluding those which have a different financial year to that of the Parent for reasons of their sectoral regulation, in accordance with the legal regulations currently in force in this matter.

Since the 1st of January 2008, El Corte Inglés, S.A., as the Parent, has applied the Special Group of Entities System regulated in Chapter IX of Section IX of Law 37/1992 on Value Added Tax, together with certain Spanish subsidiaries.

4.2.11 Revenue recognition

The recognition of the revenue from sales takes place when the significant risks and benefits inherent in the ownership of the sold goods have been substantially transferred to the buyer.

Income from the sale of goods or services is recognised at the fair value of the consideration received or to be received deriving from those goods or services. Discounts for prompt payment, volume or other types of discounts are registered as a decrease in that income.

The discounts granted to customers are recognised as a reduction in revenue from sales when it is likely that the conditions which determined their granting will be met.

The Group has customer loyalty programmes which do not generate credits because they consist of the granting of discounts which are materialised at the time of sale and which are recorded as a lower amount of the transaction in which they are applied.

4.2.11.1 Retail sales of consumer goods

Income from retail sales correspond to the sale of goods, products through the commercial formats of department stores, hypermarkets, supermarkets, Sfera, Bricor and other lines of business.

Income from the sale of goods or services is recognised at the fair value of the consideration received or to be received deriving from those goods or services. These sales are recognised at the time of delivery to the customer, which generally takes place at the stores and warehouses owned by the Group.

4.2.11.2 Provisions of services

Income from "provision of services" corresponds mainly to the services of Travel Agencies, Information and Communication Technologies and Insurance.

- Information Technologies

The Group records the income from its sales once it has received the formal conformity of its clients in relation to the goods delivered or the services provided and once all the conditions stipulated in the contracts and agreements with clients have been fulfilled.

The goods delivered and the services provided which are pending billing to clients or are still under preparation at close of the financial year are recorded at their cost in the "Inventories" section of the balance sheet at 28 February 2017.

In the case of services provided, the income deriving from projects in progress is recognised by means of the application of the percentage of completion method from the start of the project, the completion percentage being determined on the date of close of the financial statements in accordance with the technical estimation of the degree of progress. The estimations of ordinary income from provisions of services, costs or degree of completion are reviewed if the circumstances change. Any resulting increase or decrease in the ordinary income or estimated costs is reflected in the result of the financial year in which the circumstances which give rise to the revision are known by the Management.

- Travel Agency

The income is allocated in accordance with the accrual criterion, i.e. when the effective provision of the services which it represents takes place. In general, that coincides with the delivery of transport or travel documents corresponding to the customers, independently of the time when the monetary or financial flow deriving from them takes place. Specifically, the income represents the amounts receivable for the services provided in the ordinary framework of the activity, minus discounts, VAT and other taxes related to sales.

In particular, the Company's directors consider that, as the Company assumes—partially at least—the risks and benefits of the provision of services, it acts as the principal agent in the provision of those services. For this reason, the income and expenses deriving from the provision of services as part of the Company's activity are recognised at their gross amounts in the income statement.

- Insurance and insurance brokerage services

The El Corte Inglés Group is present in the Spanish and Portuguese insurance markets through two companies: Centro de Seguros y Servicios, Correduría de Seguros S.A., dedicated to brokerage; and Seguros El Corte Inglés, the insurance entity which operates in the life and accidents branches and which is a pension fund manager.

With regard to the brokerage activity, the income corresponds basically to the commissions accrued for the premium receipts issued by the intermediate insurance operations.

With regard to the life insurance and pensions activity, it focuses on the issue of risk and savings insurance policies in which the majority of the income corresponds to premiums accrued for risk insurance policies. Those premiums are allocated to results as and when they are accrued over the course of the coverage period of the insurance.

The savings premiums are corrected by the mathematical provision recorded in the liabilities of the consolidated balance sheet (See Note 16). Their allocation to the income statement takes place over the course of the life of the operation in accordance with the variables considered in order to determine the premium (expectation of survival, interest rate, etc.).

- Income from rentals

Income from rentals is classified as operating income because the assets are not transferred, and it is recognised linearly in accordance with the duration of the contracts.

4.2.12 Provisions and contingencies

a) General criteria

The Group follows the practice of providing projected income to meet liabilities arising from ongoing litigation, compensation or any obligations, as well as for any guarantees and warranties granted which entail a probable payment obligation for the Group, provided the amount can be reliably estimated.

Provisions are quantified on the basis of the best available information about the situation and the evolution of the events which gave rise to them, and they are re-estimated at each accountancy close, leading to their total or partial reversion when the aforementioned obligations cease to exist or decrease.

Contingent liabilities, except in business combinations, are not recognised in the consolidated financial statements, rather they are reported in the report notes, in accordance with the requirements of IAS 37.

The Group considers onerous those contracts in which the inevitable costs of complying with the obligations they impose exceed the economic benefits expected to be derived from them.

The Group follows the criterion of recording a provision for the current value of the aforementioned difference between the costs and the benefits of the contract.

The discount rates used reflect current valuation of money in the market, as well as the specific risks of these contracts.

b) Technical provisions

Technical provisions cover the amounts of any obligations undertaken arising from insurance and reinsurance contracts currently in force, in order to ensure, in accordance with reasonable and prudent criteria, the obligations arising from those contracts.

Provisions for unearned premiums and for ongoing risks

The unearned premiums provision aims to reflect the accretion of premiums accrued at year end and it comprises the fraction of the premiums accrued during the financial year which should be attributed to the period between the closing date and the end of the coverage period. The unearned premiums provision has been determined, for each type, by applying the "policy by policy" approach, on the basis of the premium rate, in accordance with the Technical Bases, and pursuant to the Management and Supervision of Private Insurance Regulations.

Commissions and other acquisition costs corresponding to the premiums issued are recognised as an expense using the same criteria, which recognises as income any premiums for insurance contracts currently in force. That part of commissions and other acquisition costs corresponding to the unused coverage period from insurance policies currently in force is recorded under the "Non-current provisions" heading of the liabilities in the balance sheet. As of 28 February 2017, those commissions amounted to 7.2 million euros (6.6 million euros at 29 February 2016).

The ongoing risks provision supplements the unearned premiums provision insofar as that amount is insufficient to reflect the valuation of all the risks and expenses to be covered, corresponding to the unelapsed coverage period at the close of the financial year. Its calculation is carried out in accordance with the existing Management and Supervision of Private Insurance Regulations. As of 28 February 2017 and 29 February 2016, it has not been necessary to set aside this provision.

Life insurance provisions

They represent the value of the Group's obligations, net of the policyholder's obligations, arising from life insurance policies at the end of the financial year. The life insurance provision includes:

- Insurance policies whose coverage period is equal to or less than the year, the "unearned premiums provision" and, where appropriate, the "ongoing risks provision", whose aim and calculation method are the same as those set out in the preceding paragraph.

- Regarding other insurance policies, there is a "mathematical provision". This provision represents the difference between the present actuarial value of the Group's future obligations and those of the policyholder, or as the case may be, the insured party. The basis for calculating this provision is the inventory premium accrued throughout the financial year; this is understood to mean the pure premium increased by extra administration cost charges as foreseen in the Technical Bases. The calculation is made policy by policy, through a system of individual capitalisation and the implementation of a prospective approach, in accordance with the Technical Bases and pursuant to the Management and Supervision of Private Insurance Regulations.

The technical interest rates used during 2015 and 2016 are essentially between 1.25% and 6.03%. However, for the main insurance policies which have a guaranteed high technical interest rate, the Group has assigned portfolios of specific financial investments whose profitability can cover the aforesaid guaranteed interest rates.

- For those insurance policies for which the policyholder assumes the investment risk, the corresponding life insurance technical provisions are determined depending on the specific assets covered, or the indices or assets, which have been set as a reference to determine the economic value of their rights.

Correction of accounting asymmetries

For insurance transactions that have been financially backed (those whose surrender value has been referenced to the value of specifically allocated assets), which provide for a share in the profits of a linked portfolio of assets or, in the case of transactions for which the policyholder assumes the investment risk or similar, at the transition date, the Group has recognised through its equity, symmetrically, the variations experienced in the fair value of the assets which are classified in the categories of "Available-for-sale financial assets" or "Negotiable financial assets" and those occurring in the provision of life insurance; either with a credit to these technical provisions, when required to do so by the Regulations and other applicable standards, or with a credit to a liability account (with a positive or negative balance), by the non-registered party as a life insurance provision.

Technical provisions for compensation

They cover the projections made by the Group to meet its commitments originating from claims occurring prior to the end of the financial year and pending declaration, settlement or payment on the aforesaid date. Likewise, any maturities and redemptions requested, pending settlement or payment to year end are included. This provision will be comprised by providing compensation pending settlement or payment, the provision of claims pending declaration and the provision of internal expenses for the payment of claims. It will be calculated in accordance with the corresponding regulations.

Provisions for shares in benefits and rebates

These provisions cover accrued, but not yet assigned, benefits in favour of policyholders, insured parties or beneficiaries, as well as the projected amount of the premiums that it is appropriate to return to policyholders or insured parties, if necessary, in accordance with the performance of the insured risks. Such provisions are calculated on the basis of the corresponding clauses of the contracts in force at year end.

Technical provisions of accepted and assigned reinsurance

The corresponding provisions are reflected in the balance sheet in accordance with the terms in the relevant contracts and regulations.

4.2.13 Severance payments and other payments to personnel

In accordance with current labour regulations, the Group is obliged to pay compensation to employees with whom, under certain conditions, its severs its labour relations.

The Company's directors estimate that the provisions recorded at 28 February 2017 to cover situations of this nature are sufficient (see Note 16.1).

4.2.14 Official subsidies

Official subsidies are recognised as income once all their terms have been met and during the periods for which they cover the related costs. They are deducted upon presentation of the corresponding expense.

Official subsidies relating to property, plant and equipment and intangible assets are considered deferred income and are classified under the heading "Other non-current liabilities" and any profits are distributed over the expected useful lives of the relevant assets.

4.2.15 Discontinued operations and non-current assets and liabilities held for sale

The Group classifies as "non-current assets held for sale" property, plant and equipment, intangible assets, other non-current assets or those included under the heading "Investments accounted for using the equity method" and disposal groups (groups of assets to be disposed of along with their directly associated liabilities), for which, at the date of closure of the consolidated balance sheet, active business negotiations have begun and at a fair sale price and it is projected that the sale will take place within the twelve months following the aforesaid date.

Likewise, the Group considers discontinued operations to be those business lines that have been sold or which have been disposed of by other means or which meet the conditions to be classified as being held for sale, including, where appropriate, those other assets that, together with the business line, are part of the same sale plan or as a result of assumed commitments. Likewise, any entities acquired solely for resale are considered discontinued operations.

These assets or disposal groups are valued at the lesser of either the amount of their book value or the projected sale value, the costs thereby entailed having been deducted. They cease to be amortised from the moment they are classified as non-current assets held for sale.

Non-current assets held for sale and the components of the groups classified as held for sale are shown in the accompanying consolidated balance sheet in the following manner: the assets in a single line called "non-current assets held for sale and discontinued activities", and the liabilities also in a single line called "liabilities associated with non-current assets held for sale and discounted activities".

The profit after tax from discontinued operations is presented in a single line of the consolidated income statement named "profit after tax from discontinued activities".

At the close of 2016 and 2015, the Group does not have classified non-current assets and liabilities as held for sale, as well as for discontinued activities.

4. MAIN ACCOUNTING POLICIES

4.2.16 Assets of an environmental nature

Assets of an environmental nature are considered to be those which are used in a lasting manner in the Group's activity whose main purpose is the minimisation of the environmental impact and the protection and improvement of the environment, including the reduction or elimination of future contamination.

The Group's activity, due to its nature, does not have a significant environmental impact, though the details of the assets and expenses of an environmental nature are given in note 25.

4.2.17 Current and non-current items

The Group presents the consolidated balance sheet classifying assets and liabilities as current and non-current. Current items include those balances that the Group expects to sell, consume, turn into cash over the course of the normal operation cycle, or which are expected to be cashed in within the period of the twelve months following the closing date. Should this not be the case, they will be classified as non-current.

Assets are not offset by liabilities unless offsetting is required or permitted by any standard or interpretation.

4.2.18 Consolidated statement of cash flows

In the consolidated statement of cash flows, which is prepared according to the indirect method, the following expressions are used in the following ways:

- Cash flows: entries and outlays of money in cash and equivalents, these being understood as short-term, highly liquid investments with a low risk of alterations in their value.

- Operating activities: typical activities of the entity, as well as other activities that cannot be classified either as investment or financing.

- Investment activities: the acquisition, transfer or disposal by other means of non-current assets and other investments not included in cash and cash equivalents.

- Financing activities: activities which produce changes in the size and composition of the equity and liabilities that are not part of operating activities.

4.2.19 Working capital

As is usual in the sector in which the Group operates, due to the existing lag between the payment and receipt dates of commercial transactions, and as a result of applying the cash flows of the operating activities to the acquisition of assets of a non-current nature (see statement of cash flows), the current liabilities in the accompanying consolidated balance sheets at 28 February 2017 and 29 February 2016 are greater than the current assets. The Group's Management considers that that lag does not represent any risk whatsoever of a lack of liquidity, because the current income makes it possible to meet the short-term payment commitments with complete normality.

4.2.20 Information by Segments

The information by segments is presented in accordance with that set forth in IFRS 8 "Operating Segments". Note 23.1 outlines the reporting requirements in detail.

5. PROPERTY, PLANT AND EQUIPMENT

The changes in the different accounts of the property, plant and equipment section of the consolidated balance sheet in the years ending on 28 February 2017 and 29 February 2016 were as follows:

2016

Item	Balance at 1 March 2016	Additions or provisions	Removals	Transfers	Balance at 28 February 2017
Land and constructions	**10.527.055**	6.323	(64.370)	37.522	**10.506.530**
Machinery, installations and tooling	**5.984.648**	29.028	(53.732)	94.109	**6.054.053**
Furniture and effects	**2.030.545**	10.442	(10.363)	63.807	**2.094.431**
Information processing equipment	**485.307**	12.067	(17.673)	16	**479.717**
Transport elements	**6.764**	212	(633)	(6)	**6.337**
Work in progress	**378.913**	197.715	(609)	(224.403)	**351.616**
Total cost	**19.413.232**	**255.787**	**(147.380)**	**(28.955)**	**19.492.684**
Cumulative depreciation and impairment	**(6.875.146)**	(458.548)	137.143	8.125	**(7.188.426)**
Net balance	**12.538.086**	**(202.761)**	**(10.237)**	**(20.830)**	**12.304.258**

Amounts in thousands of euros.

2015

Item	Balance at 1 March 2015	Changes in the scope of consolidation	Additions or provisions	Removals	Transfers	Balance at 29 February 2016
Land and constructions	**10.436.394**	—	10.209	(16.423)	96.875	**10.527.055**
Machinery, installations and tooling	**5.827.503**	13	31.086	(11.095)	137.141	**5.984.648**
Furniture and effects	**1.965.033**	11	9.162	(3.091)	59.430	**2.030.545**
Information processing equipment	**476.980**	10	16.968	(8.850)	199	**485.307**
Transport elements	**6.686**	—	139	(3.511)	3.450	**6.764**
Work in progress	**392.746**	—	187.827	(1.215)	(200.446)	**378.912**
Total cost	**19.105.342**	**34**	**255.391**	**(44.185)**	**96.649**	**19.413.231**
Cumulative depreciation and impairment	**(6.429.930)**	(17)	(494.439)	185.186	(135.945)	**(6.875.145)**
Net balance	**12.675.412**	**17**	**(239.048)**	**141.001**	**(39.296)**	**12.538.086**

Amounts in thousands of euros.

Property, plant and equipment additions in 2016 and 2015 correspond basically to the costs of expansion and modernization of several stores as well as other formats.

The removals of property, plant and equipment during 2016 basically correspond to fully depreciated elements and the sale of certain properties both in Spain and abroad. The "Excessive provisions, impairment and gains or losses on disposals of non-current assets" section of the accompanying income statement includes mainly the capital gains obtained from the sale of certain properties.

At close of financial year 2016, the Group recorded 27.76 million euros (72.05 million euros in 2015) as impairment of property, plant and equipment, intangible assets and investment property

The Group owns real estate whose net book value separate from the construction and the land at the close of 2016 and 2015 is as follows:

Item	2016	2015
Land	5,520,296	5,529,551
Constructions	3,929,388	3,996,971
TOTAL	9,449,684	9,526,522

Amounts in thousands of euros.

During 2016, the Company capitalised finance costs in the constructions section of the property, plant and equipment for the sum of 10.8 million euros (9.69 million euros at close of 2015).

At the close of 2015 and 2016, the Group had the following investments in property, plant and equipment located outside Spanish territory:

Item	2016		2015	
	Cost	Depreciation and impairment	Cost	Depreciation and impairment
Land and constructions	365,858	(53,770)	372,824	(54,063)
Machinery and installations	179,959	(98,995)	183,151	(96,619)
Other fixed and ongoing assets	97,064	(68,523)	97,398	(65,689)
TOTAL	642,881	(221,288)	653,373	(216,371)

Amounts in thousands of euros.

Likewise, the assets constructed on lands obtained as concessions are the following:

Item	2016	2015
Constructions	138,165	154,050
Machinery and installations	67,617	112,505
Other fixed assets	51,381	51,448
Cumulative depreciation	(131,239)	(127,060)
TOTAL	125,924	190,943

Amounts in thousands of euros.

As is indicated in note 9.1, at the close of 2016 and 2015 the Group had contracted different financial leasing operations on its property, plant and equipment.

At the close of 2016 and 2015, the Group had fully depreciated items of property, plant and equipment that continued in use, pursuant to the following table:

Item	2016	2015
Constructions	43,203	44,208
Machinery, installations and tooling	2,160,366	1,972,266
Furnitures and effects	526,774	443,041
Information processing equipment	351,259	340,835
Transport elements	3,706	3,956
TOTAL	3,085,308	2,804,306

Importes en miles de euros.

At the close of 2016 and 2015 the Group kept its investment commitments firm for a total amount of 60,757 and 51,533 thousand euros, respectively.

The Group follows the criterion of insuring the value of its fixed asset elements by means of insurance policies taken out with third parties. The Parent's directors consider that the insurance coverage for 2016 and 2015 is appropriate.

6. INVESTMENT PROPERTY

The Group's investment property mainly include properties which are earmarked for leasing. The movement of this heading in the consolidated balance sheet during 2016 and 2015 was as follows:

2016

Item	Balance at 1 March 2016	Additions or provisions	Disposals	Transfers	Balance at 28 February 2017
Land and constructions	**201,719**	75	—	(47)	**201,747**
Total cost	**201,719**	**75**	**—**	**(47)**	**201,747**
Cumulative Depreciation and Impairment	**(35,638)**	(3,820)	158	14,937	**(24,363)**
Net balance	**166,081**	**(3,745)**	**158**	**14,890**	**177,384**

Amounts in thousands of euros.

2015

Item	Balance at 1 March 2015	Additions or provisions	Disposals	Transfers	Balance at 29 February 2016
Land and constructions	**150,843**	—	—	50,876	**201,719**
Total cost	**150,843**	**—**	**—**	**50,876**	**201,719**
Cumulative Depreciation and Impairment	**(20,529)**	(3,671)	—	(11,438)	**(35,638)**
Net balance	**130,314**	**(3,671)**	**—**	**39,438**	**166,081**

Amounts in thousands of euros.

Regarding the use of such investments, at the end of 2016 and 2015 they were distributed in the following manner:

Item	2016	2015
Offices	116,592	104,362
Premises	38,034	38,245
Others	22,585	23,474
TOTAL	177,211	166,081

Amounts in thousands of euros.

The Group follows the criterion of insuring the value of its investment property by means of insurance policies taken out with third parties. The Parent's directors consider that the insurance coverage for 2016 and 2015 is appropriate.

7. GOODWILL

The breakdown of goodwill during 2016 and 2015 was as follows:

Item	Balance at 28 February 2017	Balance at 29 February 2016
Merger Goodwill	10,688	10,688
Consolidation Goodwill	8,797	8,797
TOTAL	19,485	19,485

Amounts in thousands of euros.

Impairment tests carried out on 28 February 2017, for each of the cash-generating units have not demonstrated the need to make a provision for any impairment.

8. OTHER INTANGIBLE ASSETS

The movements in this section of the consolidated balance sheet in the years ending on 28 February 2017 and 29 February 2016 were as follows:

2016

Item	Balance at 1 March 2016	Additions or provisions	Disposals	Transfers	Balance at 28 February 2017
Development costs	**35,415**	—	—	—	**35,415**
Transfer rights	**30,061**	—	(6,369)	4,983	**28,675**
Computer applications	**808,252**	101,631	(8,809)	(101)	**900,873**
Concessions	**164,512**	—	—	—	**164,512**
Industrial property	**41,484**	908	—	—	**42,392**
Other fixed assets	**23,150**	1,621	(530)	—	**24,121**
Total cost	**1,102,776**	**104,160**	**(15,708)**	**4,882**	**1,196,110**
Cumulative depreciation and impairment	**(576,091)**	(82,371)	20,274	(5,312)	**(643,500)**
Net balance	**526,685**	**21,789**	**4,566**	**(430)**	**552,610**

Amounts in thousands of euros.

2015

Item	Balance at 1 March 2015	Additions or provisions	Disposals	Transfers	Balance at 29 February 2016
Development costs	**35,415**	—	—	—	**35,415**
Transfer rights	**31,133**	2,792	(511)	(40)	**30,061**
Computer applications	**714,011**	94,516	(350)	(239)	**808,152**
Concessions	**164,526**	143	—	(140)	**164,512**
Industrial property	**40,401**	1,145	—	(61)	**41,484**
Other fixed assets	**18,542**	1,397	—	(101)	**23,150**
Total cost	**1,004,028**	**99,993**	**(861)**	**(581)**	**1,102,776**
Cumulative depreciation and impairment	**(502,734)**	(74,285)	706	441	**(576,091)**
Net balance	**501,294**	**25,708**	**(156)**	**(140)**	**526,685**

Amounts in thousands of euros.

The additions recorded in the "Computer Applications" account for years 2015 and 2016 correspond mainly to developments of applications necessary for the Group's activity.

During financial year 2016, the Group capitalised financial expenses within the intangible fixed assets section for the sum of 4.97 million euros.

As of 28 February 2017, assets with indefinite useful lifetimes other than those presented as commercial funds, mainly corresponding to various brands acquired in the preceding years by El Corte Inglés, S.A., amounted to 27.70 million euros (27.70 million euros for 2015). These brands are not systematically depreciated, but their possible impairment is verified annually.

At the close of 2016 and 2015 the Group had fully depreciated intangible fixed assets that continued in use, pursuant to the following table:

Item	2016	2015
Development costs	35,415	35,415
Administrative concessions	720	720
Transfer rights	11,193	11,115
Computer applications	351,313	287,763
Patents, licences and others	1,925	1,035
TOTAL	400,566	336,048

Amounts in thousands of euros.

9. LEASES

9.1 Financial leases (as the lessee)

The Group has financial lease contracts, corresponding mainly to premises.

The assets leased under these contracts are recorded in the property, plant and equipment and investment property sections of the consolidated balance sheet (notes 5 and 6) and the corresponding debt is recorded as a financial liability (note 17).

At the close of 2016 and 2015, the Group, in its capacity as a financial lessee, has leased assets in accordance with the following details:

	2016		2015	
Item	Cost	Cumulative depreciation and impairment	Cost	Cumulative depreciation and impairment
Land and constructions	222,441	(69,322)	270,712	(87,833)
Information processing equipment	2,972	(928)	2,972	(474)

Amounts in thousands of euros.

The minimum leasing charges (including, where applicable, the purchase options), in accordance with the current contracts in force, without taking into account the impact of shared costs, future increases due to the CPI, nor contractually-agreed future updates of rents, which the Group holds with its lessors, are the following:

Item	2016	2015
Less than one year	22,285	26,639
Between one and five years	39,445	62,973
TOTAL	61,730	89,612

Amounts in thousands of euros.

The main data of the financial leasing contracts which the Group held at close of the year are the following:

Item	
DURATION OF THE CONTRACTS (YEARS)	10
YEARS ELAPSED	6 - 9
VALUE OF THE PURCHASE OPTIONS	2,638
CHARGES PAID IN PREVIOUS FINANCIAL YEARS	189,769

Amounts in thousands of euros.

9.2 Operating leases

As the lessor

The main operating lease contracts of the El Corte Inglés Group as a lessor cover the spaces in department stores, shops and premises attached to these that are rented out in order to complete the range of products on offer in its stores, as well as the rental of offices.

At the close of 2016 and 2015, the Group had the following minimum rental payments contracted with the lessees, in accordance with the current contracts in force, without taking into account the impact of shared costs, future increases due to the consumer price index, or contractually-agreed future updates of rents:

Item	2016	2015
Received in the financial year	17,071	12,150
Less than one year	21,459	12,409
Between one and five years	90,532	75,020
More than five years	112,095	93,509
TOTAL	241,157	193,088

Amounts in thousands of euros.

As the lessee

Part of the premises used by the Group for its main business activities are leased from third parties. These rentals are classed as operating leases because, regardless of the term of the rental agreement and the amounts paid or agreed upon with the owners of the leased properties, there is no transfer of the risks and benefits inherent in their ownership.

Due to the varying nature and financial position of the owners and other factors, there is a wide variety of clauses regulating how the rental agreements work. Most of the lease contracts establish a fixed rent which is normally paid monthly and updated in accordance with an index that corrects the rent for inflation.

Rental contracts generally have a minimum duration of between 1 and 10 years.

At the close of 2016 and 2015, the Group had the following minimum rental payments contracted with the lessors, in accordance with the current contracts in force, without taking into account the impact of shared costs, future increases due to the consumer price index, nor future updates of rents contractually agreed:

Item	2016	2015
Paid in the financial year	145,945	139,911
Less than one year	142,130	136,624
Between one and five years	477,232	472,279
More than five years	524,418	496,385
TOTAL	1,289,725	1,245,199

Amounts in thousands of euros.

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

At 28 February 2017 and 29 February 2016, the most significant stakes in Group associates were as follows:

2016

	Balance at 1 March 2016	Changes in the scope of consolidation	Other Changes	Stake in results of companies by the equity method	Balance at 28 February 2017
Financiera El Corte Inglés E.F.C., S.A.	162,224		(25,780)	32,672	169,116
Iberiafon. S.A.	20,913	(22,193)		1,280	—
Gestión de Puntos de Venta, Gespevesa, S.A	25,855		(856)	1,501	26,500
Sephora Cosméticos España, S.L.	5,563		38	376	5,977
Citorel, S.L.	1,450		(129)	344	1,665
FST Hotels, S.L.	80,894		(314)	2,515	83,095

Tagus Book, S.L.	1		36	(143)	(106)
Kio Networks Espa.........................	—	5,500	(788)	219	4,931
Lecius, S.L.....................................		500	—	(20)	480
TOTAL..	296,900	(16,193)	(27,793)	38,744	291,658

Amounts in thousands of euros.

2015

	Balance at 1 March 2015	Other Changes	Stake in results of companies by the equity method	Balance at 29 February 2016
Financiera El Corte Inglés E.F.C., S.A.	159,766	(23,642)	26,100	162,224
Iberiafon. S.A..	20,018	—	895	20,913
Gestión de Puntos de Venta, Gespevesa, S.A.	24,534	369	952	25,855
Sephora Cosméticos España, S.L..................................	6,343	(428)	(352)	5,563
Citorel, S.L.	1,060	21	369	1,450
FST Hotels, S.L.	78,699	(898)	3,093	80,894
Tagus Book, S.L.	22	107	(128)	1
TOTAL..	290,442	(24,471)	30,929	296,900

Amounts in thousands of euros.

The investment of Financiera El Corte Inglés E.F.C., S.A., accounted for using the equity method since 2013, includes implicit goodwill of 31.1 million euros.

The amounts reflected within "Other Changes" mainly correspond to the dividends given from each one of the part-owned companies to the Group during the year.

On the 27th of February 2017, the 40% stake in the company Iberiafon S.A. was sold. As a result of that operation, a capital gain was obtained, recorded in accounts in the "Impairment and gains or losees on disposals of financial instruments" section of the consolidated income statement.

The main figures of the Group's joint ventures and associates are as follows:

2016

	Assets	Liabilities	Operating profit (loss)	Profit (loss) for the year	Percentage stake
Financiera El Corte Inglés E.F.C., S.A................................	1,873,479	1,591,702	11,274	66,887	49.00%
Gestión de Puntos de Venta, Gespevesa, S.A	63,391	10,392	4,000	3,002	50.00%
Sephora Cosméticos España, S.L...	59,206	47,761	1,579	752	50.00%
Citorel, S.L.	3,982	878	917	689	50.00%
FST Hotels, S.L.	208,181	76,906	5,538	5,031	50.00%
Tagus Book, S.L.	1,211	1,654	(776)	(598)	24.00%
Kio Networks España	15,242	5,380	715	439	50.00%
TOTAL..	2,224,692	1,734,673	23,247	76,202	

Amounts in thousands of euros.

2015

	Assets	Liabilities	Operating profit (loss)	Profit (loss) for the year	Percentage stake
Financiera El Corte Inglés E.F.C., S.A................................	1,402,896	1,135,266	(6,490)	53,267	49.00%
Iberiafon, S.A................................	91,216	38,937	3,032	2,235	40.00%
Gestión de Puntos de Venta, Gespevesa, S.A	60,509	8,798	2,667	1,903	50.00%
Sephora Cosméticos España, S.L...	51,241	40,624	12	(704)	50.00%
Citorel, S.L.	3,748	1,107	1,043	738	50.00%

FST Hotels, S.L.	198,010	71,133	3,671	2,438	50.00%
Tagus Book, S.L.	1,329	1,325	(722)	(533)	24.00%
TOTAL	1,808,949	1,297,190	3,213	59,344	

Amounts in thousands of euros.

10.1 Investments in Joint Ventures

The tables below show 100% of the financial information of the joint ventures considered most significant by the Group:

	Gespevesa		FST Hoteles	
	2016	2015	2016	2015
Fixed assets	35,829	37,084	194,110	185,043
Financial investments	—	17	1,908	1,988
Deferred tax assets	468	527	—	—
Inventories	431	473	368	367
Trade and other receivables	18,672	16,316	7,496	5,893
Current financial assets	3,001	5	15	340
Short-term accruals	—	—	101	58
Cash and cash equivalents	4,990	6,087	4,183	4,321
Total Assets	63,391	60,509	208,181	198,010
Shareholders' equity	52,999	51,710	131,253	126,853
Subsidies and donations	—	—	22	24
Long-term debts	37	31	53,102	58,140
Deferred tax liabilities	—	—	131	176
Short-term debts	—	—	14,037	508
Debts with group companies	—	—	1,470	4,743
Trade payables, accruals, provisions and accounts payable	10,355	8,767	8,166	7,566
Total liabilities and equity	63,391	60,509	208,181	198,010

Amounts in thousands of euros.

	Gespevesa		FST Hoteles	
	2016	2015	2016	2015
Revenue	53,052	50,270	49,375	43,346
Procurements	(25,014)	(23,549)	(3,686)	(3,343)
Other income and expenses	(21,942)	(21,842)	(33,742)	(30,098)
Depreciation, impairment and result from transfer	(2,096)	(2,211)	(6,409)	(6,233)
Operating profit	4,000	2,667	5,538	3,671
Financial profit	3	—	(507)	(1,234)
Profit before tax	4,003	2,667	5,031	
Income tax	(1,001)	(764)	—	—
Profit for the year	3,002	1,903	5,031	2,438

Amounts in thousands of euros.

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

10.2. Investments in associates

We will now show the financial information of the associates considered most significant by the Group:

	Financiera El Corte Inglés	
	2016	2015
Fixed assets	4,041	2,713
Financial investments	3	3
Deferred tax assets	11,399	10,912
Trade and other receivables	1,353,972	1,361,879
Current financial assets	8,884	15,605
Short-term accruals	4	112
Cash and cash equivalents	495,176	11,672
Total Assets	1,873,479	1,402,896
Shareholders' equity	281,778	267,630
Long-term provisions	1,056	—
Long-term debts	600,000	600,000
Deferred tax liabilities	2	2
Short-term provisions	1,082	1,775
Short-term debts	855,192	379,365
Debts with group companies	64,023	65,079
Trade payables, accruals, provisions and accounts payable	70,346	89,045
Total liabilities and equity	1,873,479	1,402,896

Amounts in thousands of euros.

	Financiera El Corte Inglés	
	2016	2015
Procurements	(301)	(232)
Other income and expenses	12,992	(5,368)
Depreciation, impairment and result from transfer	(1,417)	(890)
Operating profit	11,274	(6,490)
Financial profit	84,430	82,646
Profit before tax	95,704	76,156
Income tax	(28,817)	(22,890)
Profit for the year	66,887	53,267

Amounts in thousands of euros.

11. CURRENT AND NON-CURRENT FINANCIAL ASSETS

The breakdown of the balance of this section of the consolidated balance sheet is as follows:

	2016		2015	
Item	Current	Non-current	Current	Non-current
Loans and items receivable	3,053	234,876	3,101	209,795
Held-to-maturity investments	24,819	—	25,304	—
Assets at fair value with changes in income statement		22,000		17,628
Available-for-sale assets	13,907	766,370	15,359	789,217
Derivatives (Note 19)	25,162	—	10,186	—
TOTAL	66,941	1,023,246	53,950	1,016,640

Amounts in thousands of euros.

With regard to the financial assets detailed in the table above, the majority of the investments are related to the business of Seguros El Corte Inglés, Vida, Pensiones y Reaseguros, S.A., as indicated below:

	2016		2015	
Item	**Current**	**Non-current**	**Current**	**Non-current**
Loans and items receivable	41	149,943	74	131,520
Assets at fair value with changes in income statement	—	22,000	—	17,628
Available-for-sale assets	13,984	697,833	15,359	722,219
TOTAL	14,025	869,776	15,433	871,367

Amounts in thousands of euros.

Most of the insurance business investments are to cover technical provisions (see note 16).

11.1 Loans and items receivable

The breakdown of the balance of this section of the consolidated balance sheet is as follows:

	2016		2015	
Item	**Current**	**Non-current**	**Current**	**Non-current**
Securities representing debt				
—Fixed-interest securities	—	148,164	—	128,842
—Deposits in credit entities	—	1,544	—	2,443
Credits, derivatives and others				
—Loans	1,703	48,865	1,768	41,721
—Guarantees and deposits	1,350	36,303	1,333	36,789
TOTAL	3,053	234,876	3,101	209,795

Amounts in thousands of euros.

The fixed-interest securities correspond mainly to long-term deposits which are not traded on active markets. These investments are associated with the activity of Seguros El Corte Inglés, S.A. The maturities of those deposits extend from 2017 to 2043.

The "Loans" section includes mainly the credits granted to employees for the purchase of El Corte Inglés S.A. shares, with maturities of between 1 and 5 years, as well as other long-term credits granted to third parties.

The maturity of the heading "Loans and receivables—loans" is as follows:

2016

Item	**2018**	**2019**	**2020**	**2021**	**From 2022**	**Total**
Loans	8,203	7,219	6,860	5,692	20,891	48,865

Amounts in thousands of euros.

2015

Item	**2017**	**2018**	**2019**	**2020**	**From 2021**	**Total**
Loans	9,374	6,205	5,081	4,597	16,464	41,721

Amounts in thousands of euros.

11.2 Held-to-maturity investments

The breakdown of the balance of this section of the consolidated balance sheet is as follows:

	2016		2015	
Item	**Current**	**Non-current**	**Current**	**Non-current**

Equity instruments	2,161	—	2,823	—
Securities representing debt	22,658	—	22,481	—
TOTAL	24,819	—	25,304	—

Amounts in thousands of euros.

The securities representing debt correspond mainly to short-term deposits in certain entities which accrue market interest rates.

11.3 Assets at fair value with changes in income statement

The breakdown of the balance of this section of the consolidated balance sheet is as follows:

	2016		2015	
Item	**Current**	**Non-current**	**Current**	**Non-current**
Equity instruments	—	16,926	—	17,628
Securities representing debt	—	5,074	—	—
TOTAL	—	22,000	—	17,628

Amounts in thousands of euros.

The "Equity instruments" section corresponds entirely to investments in collective investment schemes (CISs) deriving from the activity of Seguros El Corte Inglés, S.A.

11.4 Available-for-sale assets

The breakdown of the balance of this section of the consolidated balance sheet is as follows:

	2016		2015	
Item	**Current**	**Non-current**	**Current**	**Non-current**
Equity instruments				
—Valued at fair value	—	42,353	—	56,201
—Valued at cost	—	63,956	—	49,923
Securities representing debt				
—Valued at fair value	13,907	660,061	15,359	683,093
—Valued at cost	—	—	—	—
TOTAL	13,907	766,370	15,359	789,217

Amounts in thousands of euros.

The equity instruments valued at fair value include 16,836 thousand euros which correspond to variable-interest securities, almost all of which are listed on regulated markets of the OECD, as well as stakes in collective investment schemes (CISs) for the sum of 25,517 thousand euros (25,678 thousand euros in 2015), in both cases deriving from the activity of Seguros El Corte Inglés.

The "Equity instruments valued at cost" section includes 38 million euros (36 million euros in 2015) corresponding to the 11.1% stake (10.3% in 2015) which Viajes El Corte Inglés S.A. holds in Grupo Real Turismo, S.A.B de Capital Variable, a Mexican company dedicated to hotel and catering activities, as well as the 9.9% stake (9.9% in 2015) which Parinver S.A. holds in Grupo Financiero Multiva for the sum of 18.5 million euros (19.6 million euros in 2015).

The securities representing debt correspond to fixed-interest securities of the activity of Seguros El Corte Inglés, specifically securities which are listed on active markets, and they are therefore valued at fair value. The maturities of those securities extend from 2017 to 2043. With regard to the fixed-interest securities classified as Loans and items receivable (see Note 11.1), the total amount of fixed-interest securities is 813.2 million euros, 468.5 million euros of which are public fixed-interest securities and 344.7 million euros are private fixed-interest securities.

11.5 Derivatives

The breakdown of the balance of this line of the consolidated balance sheet is as follows:

2016	2015

Item	Current	Non-current	Current	Non-current
Credit, derivatives and others (Note 19)	25,162	—	10,186	—
TOTAL	25,162	—	10,186	—

Amounts in thousands of euros.

11.6 Hierarchy of recognised fair values

The judgements and estimations made in order to determine the fair values of the financial instruments which are recognised in the consolidated financial statements are listed below. The Group classifies its financial instruments in the three levels envisaged in IFRS 7, as described in Note 4.2.8:

Recurrent valuations at fair value	Notes	Level 1	Level 2	Level 3	Total
At 28 February 2017		—	—	—	—
Financial Assets at Fair Value with Changes in Results	11.3				
Equity instruments		—	16,926	—	16,926
Available-for-sale financial assets	11.4				
Equity instruments		16,836	25,517	63,956	106,308
Debt securities		660,061	—	—	660,061
Loans and items receivable	11.1				
Debt securities		148,164	—	—	148,164
Total financial assets		825,061	42,443	63,956	931,460

Amounts in thousands of euros

Recurrent valuations at fair value	Notes	Level 1	Level 2	Level 3	Total
At 29 February 2016		—	—	—	—
Financial Assets at Fair Value with Changes in Results	11.3				
Equity instruments		—	17,628	—	17,628
Available-for-sale financial assets	11.4				
Equity instruments		30,523	25,678	49,923	106,124
Debt securities		683,093	—	—	683,093
Loans and items receivable	11.1				
Debt securities	18	128,842	—	—	128,842
Total financial assets		842,458	42,306	49,923	935,687

Amounts in thousands of euros

12. INVENTORIES

The details of the “Inventories” section of the accompanying consolidated balance sheet are as follows:

Item	2016	2015
Goods held for resale	1,837,286	1,876,702
Consumables	23,594	21,223
TOTAL	1,860,880	1,897,925

Amounts in thousands of euros.

In the heading “Goods held for resale” the amounts corresponding to the Informática El Corte Inglés, S.A. ongoing projects in the amount of 19.2 and 25.4 million euros are included, as outlined in valuation standard 4.2.7.

In accordance with the normal practice in the distribution sector, El Corte Inglés, S.A. and Hipercor, S.A. formalise the purchase orders with certain suppliers some months in advance of the delivery date of the merchandise. For this reason, they had firm purchase orders for an approximate sum of 1,154.38 and 1,131.40 million euros at 28 February 2017 and 29 February 2016, respectively.

Likewise, El Corte Inglés, S.A. had sales commitments with its customers at the close of 2016 and 2015 for the sum of 124.31 and 120.00 million euros, respectively.

The Group’s policy is to take out insurance policies to cover the risks to which its inventories are exposed. At 28 February 2017 and 29 February 2016, the Parent’s directors considered that the coverage of the insurance policies on its inventories was adequate.

13. TRADE AND OTHER RECEIVABLES

The composition of the balance at 28 February 2017 and 29 February 2016 is as follows:

Item	2016	2015
Trade receivables	437,853	412,549
Doubtful trade receivables	37,535	42,055
Invoices pending issue	1,948	1,143
Value impairment in commercial credits and provisions	(42,072)	(45,882)
Sub-total, trade receivables for sales and services	435,264	409,865
Sub-total, sundry receivables	522,420	343,821
TOTAL	957,684	753,686

Amounts in thousands of euros.

At 28 February 2017 and 29 February 2016, there were no balances of “trade and other receivables” that were in arrears and no significant impairments.

In 2016, the net charge for the provision for trade and other receivables was 2.33 million euros (0.34 million in 2015).

14. CASH AND CASH EQUIVALENTS

The breakdown of this heading of the consolidated balance sheet at 28 February 2017 and 29 February 2016 is as follows:

Item	2016	2015
Cash balances	58,596	62,203
Bank balances	95,543	109,203
TOTAL	154,139	171,406

Amounts in thousands of euros.

The cash and bank balances include cash and sight accounts in credit entities that are compensated at market rates.

15. EQUITY

15.1 Subscribed capital

The share capital of El Corte Inglés, S.A. is represented by 81,144,000 shares with a face value of 6 euros each at 28 February 2017 and 29 February 2016, all of them registered and fully subscribed and paid out. The Company’s shares are not listed on a Stock Exchange.

The only legal entities with a stake of over 10% in the company’s share capital are Fundación Ramón Areces (37.39%) and Cartera de Valores IASA, S.A. (22.18%).

15.2 Legal reserve

Pursuant to the Capital Companies Law, 10% of the profit for the year must be allocated to the legal reserve until this reaches at least 20% of the corporate capital.

The part of the legal reserve exceeding 10% of the already-increased capital may be used to increase the capital.

Except for that purpose, and as long as it does not exceed 20% of the share capital, the legal reserve may only be used to compensate for losses, provided that there are no other sufficient available reserves for that purpose.

The Group's Parent has a total legal reserve amounting to 97,373 thousand euros at 28 February 2017.

15.3 Other reserves

The other reserves heading includes 2,188 million euros in non-disposable reserves for the legal reserves of the consolidated companies and other restricted reserves (basically reappraisal due to the application of IFRS, goodwill, etc.).

15.4 Treasury shares

At the close of 2016 and 2015, the Group had treasury shares in its possession, held only temporarily and intended for disposal in the immediate future, in accordance with the following details:

Item	No. of Shares	Nominal value (euros)
Type-A treasury shares at the close of 2016	11,506,916	6
Type-A treasury shares at the close of 2015	11,548,321	6

In the course of 2016 and 2015, company shares were acquired for an effective value of 49.82 and 47.53 million euros, and shares for the sum of 59.91 and 10.04 million euros were transferred, respectively, 52.57 million euros of which correspond in 2016 to the payment of accrued interest of the convertible loan (see Note 15.8).

In addition, deriving from the second tranche of the sale option granted in favour of the investor of the loan convertible into shares, the Company recorded the sum of 75 million euros as a greater amount of its treasury shares, with the total registered figure amounting to 150,000 thousand euros for this item on February 28, 2017.

15.5 Valuation adjustments

Available-for-sale financial assets

This heading of the consolidated balance sheet includes the net amount of the fiscal impact of changes in fair value of assets classed as available for sale. These differences are recorded in the consolidated income statement when the asset that gives rise to them is sold, or if there is an impairment.

The movements in the balance of this heading in 2016 and 2015 were as follows:

Item	2016	2015
Balance at 1 March	33,280	45,123
Increases in value in the year	24,150	23,939
Decreases in value in the year	(25,322)	(34,176)
Transfer to results of the year	(376)	(1,132)
Change in tax rate	—	(474)
Balance at 28 February and 29 February	31,732	33,280

Amounts in thousands of euros.

Cash flow hedges

This section of the consolidated balance sheet includes the net amount of the fiscal impact of changes in the value of financial derivatives designated as cash flow hedging instruments (see note 19).

The movements in the balance of this heading during 2016 and 2015 are shown below:

Item	2016	2015
Balance at 1 March	(112,771)	(71,854)
Increases in value in the year	39,533	16,445
Decreases in value in the year	(15,304)	(81,035)
Transfer to results of the year	25,294	25,453
Change in tax rate	178	(1,780)
Balance at 28 and 29 February	(63,248)	(112,771)

Amounts in thousands of euros.

15.6 Non-controlling interests

This heading of the consolidated balance sheet shows the stakes of the minority shareholders of the companies listed below at the end of 2016 and 2015:

2016

		Stake in:		
Company	**% Stake**	**Capital and reserves**	**Profit (loss) for the year**	**Total**
Canal Club de Distribución de Ocio y Cultura, S.A	25.00	18	25	43
Moda Sfera Joven México, S.A. de C.V.	49.00	14,413	1,192	15,605
Viajes El Corte Inglés, S.A. de C.V.	4.00	138	15	153
Viajes El Corte Inglés, S.A. Colombia	5.00	49	(6)	44
Operadora Turismo, S.A	0.1	—	—	—
TOTAL		14,618	1,226	15,845

Amounts in thousands of euros.

2015

		Stake in:		
Company	**% Stake**	**Capital and reserves**	**Profit (loss) for the year**	**Total**
Canal Club de Distribución de Ocio y Cultura, S.A.	25.00	18	27	45
Moda Sfera Joven México, S.A. de C.V.	49.00	12,281	2,148	14,429
Viajes El Corte Inglés, S.A. de C.V.	4.00	116	22	138
Viajes El Corte Inglés, S.A. Colombia	5.00	42	8	50
TOTAL		12,457	2,205	14,662

Amounts in thousands of euros.

The movements of Group non-controlling interests in 2016 and 2015 were as follows:

2016

Company	**Balance at 29 February 2016**	**Valuation adjustments and others**	**Profit (loss) for the year**	**Balance at 28 February 2017**
Canal Club de Distribución de Ocio y Cultura, S.A.	45	(27)	25	43
Moda Sfera Joven México, S.A. de C.V.	14,429	(16)	1,192	15,605
Viajes El Corte Inglés, S.A. de C.V.	138	—	15	153
Viajes El Corte Inglés, S.A. Colombia	50	(1)	(5)	44
OperadoraTurismo,S.A	0.1	—	—	
TOTAL	14,662	(44)	1,226	15,845

Amounts in thousands of euros.

2015

Company	**Balance at 1 March 2015**	**Changes in the scope of consolidation**	**Valuation adjustments and others**	**Profit (loss) for the year**	**Balance at 29 February 2016**
El Corte Inglés-Grandes Armazéns, S.A.	2,512	(2,512)	—	—	—
Canal Club de Distribución de Ocio y Cultura, S.A.	65	—	(47)	27	45
Moda Sfera Joven México, S.A. de C.V	17,030	—	(4,749)	2,148	14,429
Viajes El Corte Inglés, S.A. de C.V	83	—	33	22	138

Viajes El Corte Inglés, S.A. Colombia	—	42	—	8	50
TOTAL	19,690	(2,470)	(4,763)	2,205	14,662

Amounts in thousands of euros.

We will now provide financial information for Moda Sfera Joven México, S.A. de CV:

Balance Sheet	Moda Joven Sfera México 2016	2015
Fixed assets	27,249	29,325
Deferred tax assets	3,553	3,033
Inventories	16,882	8,789
Trade and other receivables	1,919	1,470
Cash and cash equivalents	2,428	369
Total Assets	52,031	42,986
Shareholders' equity	31,845	29,447
Valuation adjustments	3,484	8,469
Debts, trade and other payables	16,702	5,070
Total liabilities and equity	52,031	42,986

Amounts in thousands of euros.

Income Statement	Moda Joven Sfera México 2016	2015
Revenue	57,094	54,019
Procurements	(31,059)	(24,670)
Other income and expenses	(18,027)	(17,637)
Depreciation, impairment and results from transfer	(4,218)	(4,360)
Operating profit	3,790	7,352
Financial profit	(601)	(1,464)
Profit before tax	3,189	5,888
Income tax	(759)	(1,504)
Profit for the year	2,430	4,384

Amounts in thousands of euros.

15.7 Capital management

With respect to capital management, the Group's objectives are to ensure the capacity to continue as a going concern, so that the group continues to provide a return for shareholders and benefit other stakeholders, as well as maintaining an optimum financial structure to reduce the cost of capital.

With a view to maintaining and adjusting the capital structure, the Group may adjust the amount of the dividends to be paid out to shareholders, it may reimburse capital, issue shares or sell assets to reduce its debt.

The Parent's directors consider the leverage ratio as an indicator of fulfilment of the capital management objectives set. This ratio is calculated as the coefficient of dividing net debt by equity. Net debt is calculated as the sum of the current and non-current bank borrowings, excluding the corresponding held-for-sale assets, minus current financial investments and cash and cash equivalents.

The level of leverage at 28 February 2017 and 29 February 2016 is shown below:

Item	2016	2015
Net financial debt:	**3,877,861**	**3,825,151**
Debt instruments and other non-current marketable securities	2,010,273	2,077,091
Debt instruments and other current marketable securities	149,857	132,887
Long-term bank borrowings	1,856,688	1,759,067
Short-term bank borrowings	56,959	71,277
Current financial assets, cash and cash equivalents (not including derivatives)	(195,917)	(215,171)
Equity (discounting dividends):	**8,681,190**	**8,620,362**
Of the Parent	8,592,970	8,605,700
Of non-controlling interests	15,845	14,662
Leverage	45.1%	44.4%

Amounts in thousands of euros.

15.8 Other equity instruments

On the 13th of July 2015, the Company formalised a loan contract obligatorily convertible into shares with the Luxembourg company PrimeFin, S.A. for the sum of one billion euros; this is recorded in the "Other equity instruments" section. That loan has a maturity of three years, and it must be repaid in the form of treasury shares of the El Corte Inglés Group. The shares handed over as a result of the repayment of the principal of the loan represent 10% of the share capital of El Corte Inglés, S.A. Likewise, the loan accrues interest payable in treasury shares which in total will represent an additional 2.25%.

15. EQUITY

In addition, the aforementioned contract establishes that, if certain situations occur in relation to the evolution of certain financial figures of the consolidated financial statements of the El Corte Inglés Group or the occurrence of certain operations related to the corporate capital of El Corte Inglés, S.A., the latter must be able to compensate the investor by means of the delivery of additional treasury shares. However, those compensations are conditional upon the General Meeting of Shareholders of El Corte Inglés, S.A. previously agreeing a distribution of dividends charged to freely-available reserves within a given time. If the Meeting of Shareholders has not agreed that distribution of dividends, the investor's right to be compensated will cease to exist.

In addition, on that same date, the Company signed an agreement with PrimeFin, S.A. which granted it an exit sale option on all of the shares held by El Corte Inglés, S.A. That exit sale option will be executable from the tenth year after the signing of the contract and its execution depends on certain conditions whose fulfilment is optional for the Company.

Likewise, the Company agreed a sale option with PrimeFin, S.A. on those company shares which are transferred in payment of the interest of the loan, which represent 2.25% of the share capital of El Corte Inglés, S.A. As is stipulated in the contract, PrimeFin S.A. may request cash advances from El Corte Inglés, S.A. on account of the aforementioned sale option. The valuation of that sale option is 225 million euros, which are recorded linearly during the lifetime of the loan, as and when the interest accrues.

At the close of 2015, the Company recorded 75 million euros for the sale option, and in 2016 PrimeFin S.A. requested the first advance payment, and that amount was paid out in July 2016. At 28 February 2017, the Company again recorded a liability of 75 million euros for the sale option.

16. PROVISIONS AND CONTINGENT LIABILITIES

16.1 Current and non-current provisions

The details of the provisions corresponding to this section of the accompanying consolidated balance sheet, as well as the changes registered during the financial year, were the following:

Non-current provisions	Initial Balance	Provisions	Reversion, application and others	Final Balance
2016				
Employee benefit contributions	49,297	29,698	(32,644)	46,351
Technical provision	687,543	(7,701)	—	679,842
Others	201,791	33,727	(61,145)	174,373
Total long term	938,631	55,724	(93,789)	900,566
2015				
Employee benefit contributions	—	49,297	—	49,297
Technical provision	693,644	—	(6,101)	687,543
Others	201,925	53,722	(53,856)	201,791
Total long term	895,569	103,019	(59,957)	938,631

Amounts in thousands of euros.

Current provisions	Initial Balance	Provisions	Reversion, application and others	Final Balance
2016				
Employee benefit contributions	36,747	181,598	(181,553)	36,792
Others	860	155	(680)	335
Total short term	36,607	181,753	(182,233)	37,127
2015				
Employee benefit contributions	—	36,747	—	36,747
Others	789	71	—	860
Total short term	789	36,818	—	37,607

Amounts in thousands of euros.

Technical provisions

The "Non-current provisions" heading basically includes the technical provisions of the Insurance business. By category, this is as follows:

Item	2016	2015
Provisions for unearned premiums—Non-life insurance	15,091	13,702
Provisions for unearned premiums—Life insurance	19,765	18,449
Life insurance provisions	508,896	470,185
Technical provisions related to life insurance, the investment risk is carried by the policyholders	16,229	17,008
Technical provisions for benefits	25,132	25,549
Provisions for share in profits and returns	79,911	79,419
Technical provisions for reinsurance	(51,523)	(3,209)
Accounting asymmetry	66,341	66,440
TOTAL	679,842	687,543

Amounts in thousands of euros.

The composition, by types, of the balance of the "Provisions for unearned premiums—Life Insurance—Provisions for life insurance—Technical provisions related to life insurance, the investment risk is carried by the policy holders" section of the above table is shown below:

Item	2016	2015
Individuals, savings	224,097	164,407
Individuals, risk	22,349	20,895
Groups, savings	27,985	28,664
Groups, risk	6	5
Groups, annuities	256,266	276,493
Policyholder carries the investment risk	14,188	15,178
TOTAL	544,891	505,642

Amounts in thousands of euros.

The composition, by branches and types, of the balance of the "Technical provisions for compensation" and "Provisions for share in profits and returns" sections is as follows:

2016

Item	Direct insurance and reinsurance accepted	Reinsurance granted
Provision for benefits, non-life:		
Accidents	4,238	792
	4,238	792
Provision for benefits, life:		
Individuals, savings	95	—
Individuals, mixed	58	—
Individuals, risk	11,373	342
Groups, savings	968	—
Groups, risks	7,656	—
GBP	9	—
Individuals, annuities	1	—
Groups, annuities	726	—
Accepted Reinsurance	8	—
	20,894	342
Provisions for share in benefits and returns:		
Accidents	57,188	—
Individuals, savings	5,048	—
Individuals, risk	16,998	—
Groups, savings	664	—
Groups, risk	13	—

	79,911	—

Amounts in thousands of euros.

2015

Item	Direct insurance and reinsurance accepted	Reinsurance granted
Provision for benefits, non-life:		
Accidents	3,287	833
	3,287	833
Provision for benefits, life:		
Individuals, savings	69	—
Individuals, mixed	109	—
Individuals, risk	12,271	508
Groups, savings	706	—
Groups, risks	6,480	—
GBP	1	—
Groups, annuities	2,627	—
	22,263	508
Provision for share in benefits and returns:		
Accidents	56,969	—
Individuals, savings	5,075	—
Individuals, risk	16,814	—
Groups, savings	541	—
Groups, risk	20	—
	79,419	—

Amounts in thousands of euros.

Employee benefit contributions

At 28 February 2017, the company had provisioned, in the “Employee benefit contributions” section, the impacts deriving from those employment termination agreements within the partial retirement plan communicated at the close of this year to employees aged 61. The corresponding part to be paid out in the short term is recorded at 28 February 2017 in the “Current provisions” section. The total amount of the provision at 28 February 2017 was 83.1 million euros (86.0 million euros at 29 February 2016).

In addition, in March 2016, the Company established a Voluntary Redundancy Plan for those employees who may be interested in terminating their employment with El Corte Inglés, S.A. The employees will receive seventy per cent of their net salaries until they reach the age of 63 plus a one-off severance payment equivalent to 6 months’ net salary. In order to qualify for this plan, the workers must have been born in 1956, 1957 or 1958, have served at least 15 years in the Company and have paid social security contributions for at least 35 years. The application period began on the 15th of March and ended on the 5th of April 2016.

In this regard, the Company took out an insurance policy with Seguros El Corte Inglés, Vida, Pensiones, y Reaseguros, S.A., which is responsible for making the payments described above.

During 2016, the Group recorded a provision of 178.4 million euros charged to the “Employee benefit contributions” section of the income statement for 2016, having applied all of that provision in that year.

Other provisions

The rest of the amount in this heading includes provisions of a highly diverse nature, including those related to the amount the Group may be liable to for certain local taxes and onerous contracts.

16.2 Guarantees Committed with Third Parties and Contingent Liabilities

The guarantees presented by the Group stood at 371.82 and 395.00 million euros at 28 February 2017 and 29 February 2016, respectively. Of those amounts, 151.82 million at 28 February 2017 and 148.20 million at 29 February 2016 are related to matters of a legal and fiscal nature (local and national). The rest, deposited with different entities, guarantee trade operations.

The Parent's directors estimate that the unforeseen liabilities at 28 February 2017 which could arise from the guarantees provided, if they were to occur, would not be significant.

17. BANK BORROWINGS AND DEBT INSTRUMENTS AND OTHER CURRENT AND NON-CURRENT MARKETABLE SECURITIES

The composition of the balance of these headings of the consolidated balance sheet is as follows:

	2016		2015	
Item	**Current**	**Non-current**	**Current**	**Non-current**
Debt instruments and other marketable securities	149,857	2,010,273	132,887	2,077,091
Bank borrowings	34,674	1,817,243	44,638	1,696,094
Debts for financial leases (note 9.1)	22,285	39,445	26,639	62,973
Derivatives (note 19)	—	213,765	4,538	258,213
Other financial liabilities	20,241	15,109	29,203	14,473
TOTAL	227,057	4,095,836	237,905	4,108,844

Amounts in thousands of euros.

17.1 Debt instruments and other marketable securities

The details of the "Debt instruments and other marketable securities" section are as follows:

	2016		2015	
Item	**Current**	**Non- current**	**Current**	**Non- current**
Promissory notes	—	1,415,541	—	1,483,430
MARF promissory notes	149,857	—	132,887	—
Bonos Hipercor, S.A	—	594,732	—	593,661
TOTAL	149,857	2,010,273	132,887	2,077,091

Amounts in thousands of euros.

The Group has debt in the form of promissory notes in the amount of 1,415.5 million Euros, which was recorded as non-current financial liabilities, given that virtually all of them are automatically renewed at their maturity date.

The aforementioned promissory notes accrue a market interest rate.

In January 2015, the Group made two simple bond issues, through Hipercor, S.A., for the sum of 500 and 100 million euros respectively. The nominal value of each bond is 100 thousand euros. Both issues, recorded under the "Debt instruments and other marketable securities" heading, mature in 2022 and accrue an annual coupon of 3.875%. These issues are underwritten by El Corte Inglés, S.A. The funds obtained were used to pay down the long-term debt.

The initial issue costs stemming from these issues amount to 7,500 thousand euros, of which the pending balance of 5,268 thousand euros to be amortised on 28 February 2017 is recorded as a reduction of the debt.

Arising from the bond issues, the Group to which the Company belongs to is required to meet certain ratios. The directors of the Group's Parent estimate that all commitments arising from those ratios are met at 28 February 2017. Moreover, non-fulfilments are not envisaged for 2017.

Likewise, the MARF promissory notes have short-term maturities and they accrue market interest rates.

17.2 Bank borrowings

On the 14th of November 2013, the Group signed with various banks a syndicated credit of all the bank borrowings which it maintained at that time for a maximum amount of 4,909.2 million euros. That contract consists of two parts, one of 850 million euros aimed at the working capital that matures in 5 years, while the other part is long-term debt for the sum of 4,060.4 million euros that matures in 8 years.

On the 27th of July 2015, a contract for the renewal of the previous funding was signed, modifying certain clauses related to the applicable margin, obligatory financial ratios, the working capital tranche and dividends. At 28 February 2017, the balance drawn down of the aforementioned funding was 1,582.3 million euros (1,696.1 million euros for 2015).

At 28 February 2017, the average rate of the debt, considering bank borrowings, was within a market range.

Likewise, the aforementioned funding contract contemplates the mortgaging of certain assets of some department stores whose net book value at the close of the present year is 2,744.20 million euros.

As stipulated in the syndicated funding contract, the Group is obliged to meet certain financial ratios calculated on the basis of the consolidated financial statements of the El Corte Inglés Group. The fulfilment of the aforementioned ratios, together with the payment schedule, are considered for the distribution of dividends.

At 28 February 2017, the Group fulfilled the financial ratios calculated on the basis of the accompanying consolidated financial statements. Likewise, no non-fulfilments are expected in 2017.

Finally, during 2016, the Company contracted the following loans with financial entities:

- Loan signed in June 2016 with various entities for the sum of 185 million euros maturing in June 2020. The balance disposed of at 28 February 2017 is 118,929 thousand euros. The interest rates are market ones.

- Loan signed with the European Investment Bank in December 2016 for the sum of 116 million euros maturing in February 2027. At 28 February 2017, this loan was fully disposed. The interest rates are market ones.

At 28 February 2017 and 29 February 2016, Group companies had been granted additional financing that had not been drawn down, as follows:

	2016		2015	
Item	**Limit**	**Undrawn amount**	**Limit**	**Undrawn amount**
Discount facilities	21,000	19,453	26,000	21,992
Credit facilities[(a)]	850,000	659,982	850,000	679,803
TOTAL	871,000	679,436	876,000	701,795

Amounts in thousands of euros.

(a) It is part of the syndicated financing contract.

The Group Management considers that the sum of these facilities, and ordinary cash flow generation, together with the realisation of current assets, will be sufficient to cover the short-term payment obligations.

There were no defaults or any other breach of the principal in 2016 and 2015, nor any non-compliance with respect to interest payments or amortisations of bank borrowings.

Part of the Group's debt is hedged with financial derivatives aimed at reducing the volatility of the interest rates paid by the El Corte Inglés Group (see notes 18 and 19).

17.3 Breakdown by maturity of non-current financial liabilities

The details of the items forming part of the "Non-current bank borrowings" section, by maturity dates, are as follows:

2016

Item	2018	2019	2020	2021	2022 and later	Total
Financial leasing (note 9.1)	17,206	12,603	7,105	2,531	—	39,445
Bank loans and credits	242,875	288,931	265,859	936,719	82,859	1,817,243
TOTAL	260,081	301,534	272,964	939,250	82,859	1,856,688

Amounts in thousands of euros.

2015

Item	2017	2018	2019	2020	2021 and later	Total

Financial leasing (note 9.1)	22,631	17,565	13,010	7,236	2,531	62,973
Bank loans and credits	—	245,133	248,691	248,691	953,579	1,696,094
TOTAL	22,631	262,698	261,701	255,927	956,110	1,759,067

Amounts in thousands of euros.

18. RISK MANAGEMENT POLICIES

The Group's activities are exposed to various types of financial risk: market risk (including exchange-rate risk, interest-rate risk and price risk), credit risk and liquidity risk. The Group's risk management is performed by the Parent's management, which has the necessary mechanisms in place. It focuses on the uncertainty of financial markets, attempting to minimise potentially adverse effects on the profitability of the Group. To this end, it uses certain financial instruments described in Note 19 below.

This note presents information on the Group's exposure to each one of the risks mentioned above, the objectives, policies and processes defined by the Group for risk management, and the methods used to measure those risks and the changes that have occurred compared to last year.

Credit risk

Credit risk consists of the probability of a counterparty to a contract failing to meet its payment obligations, thereby causing a financial loss for the Group.

The Group, mainly in the activity of Seguros El Corte Inglés, is governed by a prudence criterion in its investments policy, whose main aims are to mitigate the credit risk of investment products. In this regard, the credit quality of the financial assets of the activity of Seguros El Corte Inglés can be evaluated by reference to external credit ratings, as indicated below:

Item	2016	2015
Loans and items receivable—Fixed Interest (Note 11.1)	148,164	128,842
A	—	128,842
BBB	144,336	—
BB	3,828	—
Available-for-sale assets—Fixed Interest (Note 11.4)	660,061	683,094
AAA	52,448	59,943
AA	20,694	25,339
A	34,542	31,302
BBB	479,490	500,988
BB	44,475	47,888
B	3,950	3,998
NR	24,462	15,436

Amounts in thousands of euros.

In general, the Group keeps its cash and cash equivalents in highly credit-worthy financial institutions.

The Group has no significant concentrations of credit risks with third parties, as retail sales constitute the largest share of its revenue. Essentially, everything is paid for in cash or by credit card.

With regard to the credit risk of other commercial operations (mainly deriving from corporate retail operations, IT consultancy and the services of the travel agency to the corporate network), provisions are set aside to cover impairment losses on trade receivables when there is objective evidence that the Group will not be able to collect all the amounts due, in accordance with the original terms of the receivables. The amount of the provision is the difference between the book value of the asset and the present value of the estimated effective cash flows. The amount of the provision is recorded in the consolidated income statement (see note 13). The provision for insolvency of the Group is 41 million euros (45.8 million in 2015), on accounts receivable of 957.7 million euros (753.7 million in 2015).

At 28 February 2017 and 29 February 2016, there were no balances due of any significant amount. In accordance with available historic experience, the Group does not consider it necessary to make valuation corrections with regard to receivables not yet due. The fair value of the accounts receivable does not differ significantly from their book value.

18. RISK MANAGEMENT POLICIES

Liquidity risk

The El Corte Inglés Group maintains a prudent liquidity risk management policy. It maintains the appropriate level of cash and marketable securities, as well as contracting committed credit facilities for a sufficient amount to meet any anticipated needs (see note 17).

Final responsibility for liquidity risk management lies with the Parent's Management, which prepares an appropriate framework for controlling the Group's liquidity needs in the short, medium and long term. The Group manages liquidity by keeping adequate reserves, appropriate banking services and the availability of credits and loans by continually monitoring both actual fund flows and forecasts and pairing these with financial asset and liability maturity profiles.

Interest-rate risk

Changes in interest rates modify future flows of assets and liabilities indexed to a variable interest rate. The financial instruments that are exposed to interest-rate risk are basically funding contracts at a variable interest rate and derivative financial instruments.

According to the estimations of the El Corte Inglés Group regarding interest rate performance and the performance of the objectives of the long-term debt structure, hedging transactions are undertaken by contracting derivatives which mitigate these risks (see note 19). Specifically, the percentage of the syndicated loan not subject to interest-rate volatility represents 100% in 2016 (89.56% in 2015), and it is therefore not necessary to carry out a analysis of sensitivity and its impact on the losses account.

The analysis of sensitivity to upward or downward movements in the long-term interest rate curve compared to the fair value of the interest-rate hedges that form part of the cash-flow hedging relations, contracted by the Group at 28 February 2017, and irrespective of the consolidation method used, taking into account the percentage of the El Corte Inglés Group's stake in each company, means a reduction in the debt stemming from financial derivatives, due to a 0.1% increase in the interest rate curve, of 7.94 million euros. By the same token, a 0.1% fall in interest rates would trigger a 7.94 million euro increase in the debt stemming from financial derivatives.

In the case of the new loans taken out (see details in Note 17), interest-rate fluctuations of +0.5% and −0.5% would increase and decrease the finance costs by 1,174 thousand euros and 595 thousand euros, respectively.

Price risk

The Group's exposure to price risk is reflected through its investments in equity instruments listed on markets, which are classified as assets at fair value with changes in the income statement at the sum of 16,926 thousand euros (17,628 thousand euros in 2015) (Note 11.3) and available-for-sale assets at fair value for the sum of 42,353 thousand euros (56,201 thousand euros in 2015) (Note 11.4).

To manage the price risk arising from those investments, the Group, in relation to the activity of Seguros El Corte Inglés, applies an investment policy based on a strategy of diversification, with the aim of minimising the impacts of price variations. The majority of those investments are listed on the stock exchange or they are investments in collective investment schemes (CISs).

In the case of price variations of the aforementioned financial assets, there would be no significant impacts on the income statement or the equity of the consolidated financial statements.

Exchange-rate risk

The Group operates internationally and it is therefore exposed to exchange-rate risk from currency transactions denominated in US dollars.

Exchange-rate risk is managed in accordance with the guidelines laid down by the Group Management, which, essentially, contemplate the establishment of natural or financial hedges, the constant monitoring of fluctuations in exchange rates, and the adoption of other measures aimed at mitigating this risk. The Group's policy is to contract financial instruments (exchange-rate insurance) in order to reduce the exchange-rate differences arising from transactions in foreign currency (see note 19).

Details of the most significant balances and transactions in foreign currency of national companies of the Group, mainly denominated in US dollars, valued at the closing exchange rate and the average exchange rate, respectively, are as follows:

Item	2016	2015
Accounts payable	212,636	165,782
Sales	91,421	56,708
Services provided	819	1,266
Purchases	798,673	784,358
Services received	5,104	2,441

Amounts in thousands of euros.

Details of the most significant balances and transactions in foreign currency of companies which operate in a currency other than the euro (mainly the subsidiaries located in Latin America), valued at the closing exchange rate and the average exchange rate, respectively, are as follows:

	Mexican Pesos		Other currencies		Total	
Item	2016	2015	2016	2015	2016	2015
Accounts payable	20,754	13,604	19,513	18,785	40,267	32,389
Other liabilities	—	—	267	118	267	118
Sales	90,613	63,543	22,561	21,149	113,174	84,692
Services provided	91,439	99,834	109,589	114,353	201,028	214,188
Purchases	138,853	101,584	122,165	117,160	261,018	218,744
Services received	20,900	20,194	9,507	7,517	30,407	27,712

Amounts in thousands of euros.

In this case, the impacts deriving from exchange-rate fluctuations would affect the "Translation Differences" section, within Equity, as reflected in valuation standard 2.7.8.3.

19. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to cover the risks to which its activities, operations and future cash flows are exposed. Within the framework of these operations, the Group has contracted certain financial instruments for the hedging of cash flows, mainly interest-rate and exchange-rate hedges.

The methods followed by the Group in order to calculate the fair value of its derivative financial instruments, including credit risk introduced by IFRS 13 and the level of hierarchy determined by IFRS 7, are described in note 4.2.8.

The Group has fulfilled the requirements detailed in Note 4.2.8 on valuation standards in order to be able to determine whether the derivative financial instruments meet the conditions for classification as hedging derivatives. Specifically, they have been formally designated as hedges and it has been verified that the coverage is effective.

However, the Group does keep a range of speculative hedging instruments. The effect on the statement of comprehensive income for 2016 arising from these financial instruments represents a loss of 8,838 thousand euros (a loss of 12,517 thousand euros in 2015) and these are recorded under the "Change in the fair value of financial instruments" heading.

The hedging derivative financial instruments held by the Company at 28 February 2017 and 29 February 2016 were as follows:

2016

					Fair value[a]	
	Classification	Type	Amount contracted	Maturity	Assets	Liabilities
Interest-rate hedges	Interest-rate hedges	Variable to Fixed	1,850,522[a]	2021	—	132,883
					—	132,883

Exchange-rate insurance	Exchange-rate hedges	Purchase of currency	458,937[b]	2017	19,364	—
					19,364	—

(a) Amounts in thousands of euros.

(b) Amounts in thousands of dollars.

2015

	Classification	Type	Amount contracted	Maturity	Fair value[a] Assets	Fair value[a] Liabilities
Interest-rate hedges	Interest-rate hedges	Variable to Fixed	1,956,559[a]	2021	—	176,280
					—	176,280
Exchange-rate insurance	Exchange-rate hedges	Purchase of currency	488,162[b]	2016	8,630	4,538
					8,630	4,538

(a) Amounts in thousands of euros.

(b) Amounts in thousands of dollars.

At the close of 2016 and 2015, the Group had taken out different derivative financial instruments of a speculative nature for accountancy purposes, which are registered in accordance with the following characteristics:

	Exchange-rate insurance		Interest-rate derivatives	
Item	2016	2015	2016	2015
Amount contracted	86,543[b]	105,003[b]	100,000[a]	100,000[a]
Maturity	2017	2016	2017	2017
Fair value[a]				
—Assets	5,798	1,555	—	—
—Liabilities	—	—	5,882	(6,933)
Impact recorded in the income statement[a]	—	—	1,051	(1,776)

(a) Amounts in thousands of euros.

(b) Amounts in thousands of dollars.

Since January 2016, the contracting of the exchange-rate insurance of the subsidiaries has been carried out by the Parent with the financial entities. In turn, the Parent enters into contracts with the subsidiaries in order to cover the exchange-rate risk to which they are exposed.

In addition, a sale option granted to the investor of the loan convertible into shares is recorded in this section, for the percentage of shares which exceed 10% of the capital (see Note 15.8), its value at 29 February 2016 being 75 million euros.

20. TRADE PAYABLES

"Trade and other payables" includes mainly the amounts pending payment for trade purchases and related costs. The Group Management considers that the book amount of the trade payables is close to their fair value.

20.1 Information related to terms of payment to suppliers

The table below contains the information required by additional provision number three, "Duty to Report", of Law 15/2010, of 5 July.

Item	2016	2015
Average period of payment to suppliers	49 days	50 days
Ratio of paid operations	50 days	50 days
Ratio of operations pending payment	31 days	35 days
	Amount	Amount
Total payments made	11,059,206	10,648,150
Total payments pending	613,146	431,783

Amounts in thousands of euros.

The information given in the above table on payments to suppliers refers to those which, due to their nature, are trade payables for debts with suppliers of goods and services, so they include the data related to the "Trade and other payables" items of the current liabilities of the accompanying consolidated balance sheet.

The "Average period of payment to suppliers" shall be understood to mean the time between the delivery of goods or the provision of services by the supplier and the payment of the operation.

That "Average period of payment to suppliers" is calculated as the coefficient formed in the numerator by the sum of the ratio of paid operations multiplied by the total amount of the payments made plus the ratio of operations pending payment multiplied by the total amount of payments pending and, in the denominator, by the total amount of payments made and payments pending.

The ratio of paid operations is calculated as the coefficient formed in the numerator by the sum of the products corresponding to the amounts paid, multiplied by the number of days of payment (difference between the calendar days that have elapsed between the delivery of the goods or the provision of services by the supplier and the material payment of the operation) and, in the denominator, the total amount of payments made.

Likewise, the ratio of operations pending payment corresponds to the coefficient formed in the numerator by the sum of the products corresponding to the amounts pending payment, multiplied by the number of days pending payment (difference between the calendar days that have elapsed between the delivery of the goods or provision of the services by the supplier and the day of close of the financial statements or current accounts, as applicable), and, in the denominator, the total amount of payments pending.

The Company is subject to the Organic Law on Regulation of Retail Trade (LORCOMIN). The maximum legal term for payment applicable to the Company based on that law is 60 days, as almost all the goods acquired correspond to food and mass consumer products, save express agreement which contemplates financial compensation equivalent to the extended period, to the benefit of the supplier, and in no case may a period of 90 days be exceeded.

21. OTHER CURRENT LIABILITIES

At the close of 2016 and 2015, these headings were as follows:

Item	2016	2015
Payable to suppliers and other payables	2,685,666	2,626,516
Tax payables	162,268	159,656
Personnel accounts	430,006	452,312
TOTAL	3,277,940	3,238,484

Amounts in thousands of euros.

21.1 Personnel accounts

At the close of 2016 and 2015, the composition of this section was as follows:

Item	2016	2015
Remunerations accrued and other payments to personnel	225,561	252,795
Group personnel, administration accounts and others	204,445	199,517
TOTAL	430,006	452,312

Amounts in thousands of euros.

The "Group personnel, administration accounts and others" section corresponds to the current accounts held with El Corte Inglés, S.A. by the employees of the Group companies.

22. PUBLIC ADMINISTRATIONS AND TAX SITUATION

El Corte Inglés, S.A. pays tax under the tax consolidation system with the Spanish subsidiaries in which it holds over 75% of the capital, excluding those that close their financial reporting periods at a different time from that of the Parent due to sectoral regulatory reasons, in accordance with the applicable legislation in force.

22.1 Reconciliation of accounting result and tax base

Income tax is calculated on the basis of the individual financial or accounting profit—obtained by applying generally accepted accounting principles—and this does not necessarily have to coincide with the taxable profit, which is understood to be the tax base for that tax.

The reconciliation between the accounting profit and the aggregate Income Tax base is as follows:

2016

Item	Increase	Decrease	Amount
Accounting profit for the year (before tax)			177,338
Consolidation adjustments			58,363
Permanent differences	35,455	(190,659)	(155,204)
Temporary differences:			
—Current year	98,105	(6,570)	91,535
—Previous years	3,123	(142,716)	(139,593)
Others			(12,513)
AGGREGATE TAX BASE			(19,926)

Amounts in thousands of euros.

2015

Item	Increase	Decrease	Amount
Accounting profit for the year (before tax)			77,006
Consolidation adjustments			(73,455)
Permanent differences	9,850	(65,778)	(55,928)
Temporary differences:			
—Current year	275,550	(10,616)	264,934
—Previous years	3,185	(47,239)	(44,054)
Others			(77,840)
AGGREGATE TAX BASE			90,663

Amounts in thousands of euros.

The figure for negative permanent differences of financial year 2016 includes a sum of 80.99 million euros (706 million euros in financial year 2015), whose origin is the elimination of the dividends received from companies which form part of the tax consolidation Group, as well as the elimination of the reversion of impairment losses in stakes in companies which form part of the tax consolidation Group (5.16 million euros).

Likewise, it includes the sum of 128.09 million euros for exemption for the dividends received from those companies which meet the requirements for the application of article 21 of the Corporation Tax Law.

In the same way, the figure for positive permanent differences includes a sum of 26.21 million euros corresponding to the elimination of impairment losses in stakes in companies which form part of the tax consolidation Group.

By virtue of that set forth in article 3 of Royal Decree 3/2016, of 02 December, which adopts measures in the sphere of taxation aimed at the consolidation of the public finances and other urgent social measures, the figure for permanent positive differences includes the minimum reversion of the portfolio impairment which was tax deductible on the tax base of Income Tax of the Group which pays tax on a consolidated basis in tax periods starting before 01 January 2013. That reversion results in a figure of 2.4 million euros, and the sum of 9,6 million euros remains pending reversion in the next four financial years.

In addition, the aforementioned Royal Decree establishes, with effects for periods starting from the 1st of January 2017, the non-deductibility of the impairment losses of stakes even in the case of transfer of the stake (if the deductibility is contemplated in the case of winding-up of the part-owned entity). As a result of this tax modification, the ICAC published a consultation outlining its accountancy implications. Thus, as these impairment losses become non-deductible expenses, the ICAC imposes the reclassification of the difference from temporary to permanent, at the close of 2016, removing all the deferred tax assets which were previously recorded in accounts for this item. In this way, in the figure for positive permanent differences, the sum of 14.3 million has been included for the reclassification to permanent of the cumulative adjustment of impairment losses and 4.4 million for impairment of part-owned companies of the year.

El Corte Inglés, S.A. and Hipercor, S.A. qualify for the tax benefits granted by Royal Decree-Law 3/1993, of 26 February, in relation to the depreciation of new fixed assets.

In 2001, for the profits obtained in the transfer of assets, and by virtue of that set forth in Transitory Provision number 3 of Law 24/2001, El Corte Inglés, S.A. and Hipercor, S.A. opted for the system contemplated in article 21 of Spanish Income Tax Law, not integrating in that year a sum of 34.49 million euros. Both companies reinvested the full amount of the transfer which gave rise to that profit in the same year in the Cádiz department store. The method of integration into the tax base of the tax is that established in article 21.3 of that Law and in article 34.1.b) of the Regulations of the aforementioned tax at that time.

Item	Thousands of euros
Deferred income 2001	34,489
Integrated income, from 2002 to 2015	(5,661)
Integrated income, 2016	(398)
Pending income	28,430

The pending income will be integrated into the tax base of the tax in the tax periods in which the building of the Cádiz department store is depreciated, for the sum which proportionally corresponds to the value of the depreciation of the aforementioned building in relation to its acquisition cost.

Additionally, during 2012 the revaluation of specific plots of land associated with certain property took place for an amount of 37.4 million euros.

22.2 Taxes recognised in equity

Independently of the income tax recognised in the consolidated income statement, the Group registered an expense of 15.76 million euros in 2016 directly in its equity, and an income of 17.39 million euros in 2015. These amounts correspond mainly to the tax impacts due to the valuation adjustments of the available-for-sale assets.

22.3 Reconciliation between accounting profit and income tax expense

The reconciliation between the accounting profit and the income tax expense is as follows:

Item	2016	2015
Accounting profit before tax	177,378	77,006
Permanent differences and consolidation adjustments	(97,666)	(185,591)
Base for the purposes of determination of the tax as an expense	79,672	(108,585)
Amount payable	20,921	(30,908)
Deductions		
For advertising and publicity of events	(1)	(2,555)
Due to double taxation	(323)	(92,747)
For reversion of temporary measures	(1,501)	(618)
Others	(8,615)	(7,357)
Others	4,939	45,921
Adjustment for change of tax rate	—	7,137
Changes in the scope of consolidation	—	—
Total tax expense (income) recognised in the income statement	15,420	(81,127)

Amounts in thousands of euros.

The legislation in force with regard to Income Tax establishes a deduction for double taxation on dividends and several tax incentives in order to foster investments. The deductions deriving from tax benefits envisaged in the aforementioned legislation for the year ending on 28 February 2017 were 10.4 million euros.

22. PUBLIC ADMINISTRATIONS AND TAX SITUATION

On the other hand, in fulfilment of that set forth in section 10 of article 42 of Royal Legislative Decree 4/2004, of 5 March, which approves the revised text of the Spanish Income Tax Law, the income eligible for the deduction for reinvestment of extraordinary profit, was the following:

Year	Eligible income	Reinvestment date	Deduction
2011	50	FY 2011	6
2012	78,727	FY 2012	9,447
2013	56,483	FY 2013	6,778
2014	65,746	FY 2014	7,889

Amounts in thousands of euros.

22.4 Deferred taxes

The details of the balance of deferred tax assets and liabilities at the close of 2016 and 2015 are as follows:

Deferred tax assets	2016	2015
Temporary differences (advance taxes)	341,790	365,384
Negative tax bases	385,451	365,546
Deductions pending and others	298,047	286,778
Total deferred tax assets	1,025,288	1,017,708

Amounts in thousands of euros.

Deferred tax liabilities	2016	2015
Differences associated with revaluation of assets due to application of IFRS	729,555	729,555
Temporary differences (deferred taxes).	206,613	202,168
Total deferred tax liabilities	936,168	931,723

Amounts in thousands of euros.

Temporary differences occur as a consequence of the limitation on the deductibility of finance costs and of differences stemming from accelerated depreciation, financial leases and the reversion of the adjustment made in previous years due to the limit on the tax deductibility of depreciation.

The deferred tax assets indicated above were recorded in the consolidated balance sheet because the Parent's directors consider that, in accordance with the best estimation of the future results of the Group, those assets are likely to be recouped.

The changes in temporary asset and liability differences in 2016 and 2015 were as follows:

2016

Item	Deferred tax assets	Deferred tax liabilities
Balance at 29.02.2016	365,384	931,723
Temporary differences		
—Current year	40,913	14,427
—Previous years	(64,507)	(9,982)
Others		
TOTAL	341,790	936,168

Amounts in thousands of euros.

2015

Item	Deferred tax assets	Deferred tax liabilities
Balance at 28.02.2015	314,555	947,008
Temporary differences		
—Current year	81,337	2,263
—Previous years	(22,845)	(19,071)
Others	(171)	—
Adjustment for change of tax rate	(7,492)	1,523
TOTAL	365,384	931,723

Amounts in thousands of euros.

As the head of a Group that pays tax under the tax consolidation system, the Parent records, as a result of the application of the aforementioned system, all of the tax credit generated by the aforementioned Group as rights due to deductions and rebates pending application and negative tax bases. In the current year, the Tax Group, as a result of applying the aforesaid system, generated a credit amounting to 10.4 million euros arising from deductions and rebates pending application. Similarly, it generated credits for losses to be offset in future years amounting to 20.26 million euros.

The deductions recorded and pending application are the following:

Type of deduction	Amount	Year of expiry
Deductions due to domestic double taxation	173,197	Unlimited term
Deductions due to international double taxation	3,040	Unlimited term
Deductions for investments	85,006	2017 – 2034
Deductions for donations to non-profit entities	6,501	2017 – 2026
Deductions for reinvestment	28,213	2022 – 2029
Deduction for reversion of temporary measures	2,090	Unlimited term
BALANCE AT 28 FEBRUARY 2017	298,047	

Amounts in thousands of euros.

Pursuant to Spanish Income Tax Law 27/2014, the negative tax bases may be offset without any time limitation.

22.5 Financial years pending verification and inspection actions

The tax authorities are currently carrying out the work of verification and inspection, which encompasses the years from 2011/12 to 2014/15 with regard to Income Tax, and from 2012 to 2015 for other taxes with annual periods coinciding with the calendar year. The Company directors do not expect that any considerable liabilities, not registered at 28 February 2017, will be incurred, neither from the years open for inspection, nor from the inspection actions carried out by the tax authorities in previous years.

23. INCOME AND EXPENSES

23.1 Segmentation by items

The main activity of the Group consists of the retail sale of consumer goods, as well as the provision of a wide range of services; travel agencies, insurance brokerage, insurance etc. for which the Group has a network of department stores, hypermarkets, supermarkets, convenience stores and local offices.

The following tables show the information by segments corresponding to the Group by activity type:

2016

Item	Department Stores: ECI + ECIGA	Food.: Hipercor + Supercor	Sale of products and infor. services.	Travel agency services	Insurance bokerage service and life insurance	Other activities	Consolid. adjust.	Total
Revenues	11,052,120	2,076,172	838,434	2,450,398	304,822	614,469	(1,831,842)	15,504,573
Gross Margin	3,102,525	528,560	206,129	289,313	106,738	290,746	(19,449)	4,504,562
EBIT	161,932	33,346	18,940	39,514	55,663	15,765	(5,706)	319,454

Net Profit	184,518	5,784	11,939	28,649	51,448	82,549	(203,027)	161,859
Capex	297,875	30,253	8,927	15,626	4,388	23,982	(21,104)	359,947

Amounts in thousands of euros.

2015

Item	Department Stores: ECI + ECIGA	Food.: Hipercor + Supercor	Sale of products and infor. services.	Travel agency services	Insurance bokerage service and life insurance	Other activities	Consolid. adjust.	Total
Revenues	10,715,258	2,116,491	841,835	2,477,518	215,764	593,441	(1,740,465)	15,219,842
Gross Margin	3,056,470	551,362	195,321	288,349	89,261	295,525	(16,460)	4,459,828
EBIT	130,322	26,574	8,972	49,316	53,682	28,886	1,379	299,131
Net Profit	170,032	276	14,275	36,897	47,553	50,363	(161,262)	158,133
Capex	377,355	13,174	6,860	14,312	2,684	27,501	(86,502)	355,384

Importes en miles de euros.

23. INCOME AND EXPENSES

2016

Balance	Department Stores: ECI + ECIGA	Food.: Hipercor + Supercor	Sale of products and infor. services.	Travel agency services	Insurance bokerage service and life insurance	Other activities	Consolid. adjust.	Total
Fixed Assets	6,998,292	2,155,052	22,785	86,063	16,502	351,063	3,423,980	13,053,737
Financial Assets	2,342,436	18,896	18,846	149,025	997,075	130,983	(2,320,688)	1,336,574
Defered Tax Asets	967,148	23,950	7,966	1,760	3,958	18,274	2,233	1,025,288
Inventories	1,452,704	212,424	72,580	204	—	123,173	(206)	1,860,880
Other Current Assets	1,274,018	53,030	311,496	176,254	90,733	124,752	(951,855)	1,078,428
Cash and Others	79,213	2,318	21,547	7,033	32,419	11,610	—	154,139
TOTAL ASSET	13,113,811	2,465,670	455,220	420,339	1,140,687	759,855	153,464	18,509,046
Equity	6,039,133	653,404	110,956	192,903	349,076	474,634	838,708	8,658,814
LT Provisions and others	221,306	45,389	8,363	6	686,445	22,047	10,673	994,231
Non Current Debt.	3,681,728	1,018,999	11,342	47	495	3,507	(571,626)	4,144,493
Deferred Tax Liability	43,716	30,250	654	—	14,374	1,840	845,334	936,168
Current Debt	384,417	546,849	72,714	72	—	174,229	(886,799)	291,484
Other current liabilities	2,743,511	170,779	251,191	227,311	90,297	83,598	(82,826)	3,483,856
TOTAL LIABILITIES AND EQUITY	13,113,811	2,465,670	455,220	420,339	1,140,687	759,855	153,464	18,509,046

Importes en miles de euros.

2015

Balance	Department Stores: ECI + ECIGA	Food.: Hipercor + Supercor	Sale of products and infor. services.	Travel agency services	Insurance bokerage service and life insurance	Other activities	Consolid. adjust.	Total
Fixed Assets	7,201,380	2,168,830	23,970	83,705	15,193	354,433	3,402,827	13,250,337
Financial Assets	2,348,017	18,633	18,993	138,361	888,150	146,515	(2,208,915)	1,349,755
Defered Tax Asets	948,682	29,617	7,566	2,977	3,974	19,893	5,000	1,017,708
Inventories	1,475,644	239,851	64,148	564	—	117,919	(201)	1,897,925
Other Current Assets	1,156,935	(2,283)	300,488	191,017	168,309	108,270	(1,051,025)	871,712
Cash and Others	83,631	2,151	15,191	6,676	54,062	9,694	—	171,406
TOTAL ASSET	13,214,289	2,456,799	430,356	423,300	1,129,688	756,724	147,686	18,558,843
Equity	6,070,185	645,766	114,773	185,747	336,810	463,598	838,485	8,655,362
LT Provisions and others	280,381	46,404	6,096	(4)	691,201	30,548	(1,069)	1,053,558
Non Current Debt.	3,693,148	1,033,284	10,307	90	446	2,114	(569,845)	4,169,543
Deferred Tax Liability	41,777	29,291	854	—	14,584	1,136	844,082	931,723
Current Debt	444,950	552,919	58,317	885	12	166,901	(925,712)	298,272
Other current liabilities	2,683,848	149,135	240,009	236,582	86,635	92,427	(38,255)	3,450,385
TOTAL LIABILITIES AND EQUITY	13,214,289	2,456,799	430,356	423,300	1,129,688	756,724	147,686	18,558,843

Importes en miles de euros.

Within other activities are mainly the figures corresponding to the businesses of Sfera, Optica 2000 andy Bricor.

Consolidation adjustments that affect the net result correspond mainly to the dividends received from subsidiaries.

The distribution of the consolidated revenue corresponding to 2016 and 2015, by geographical areas, is as follows:

Activity	2016	2015

Spain	14,745,715	14,498,926
European Union	444,643	422,114
Rest of the world	314,215	298,802
TOTAL	15,504,573	15,219,842

Amounts in thousands of euros.

23.2 Procurements

The breakdown of the "Procurements" section of the consolidated income statements of the years ending on 28 February 2017 and 29 February 2016 is as follows:

Item	2016	2015
Consumption of goods	10,919,122	10,676,539
Consumption of raw materials and other consumables	45,818	48,025
Work carried out by other companies	35,071	35,450
TOTAL	11,000,011	10,760,014

Amounts in thousands of euros.

The "Procurements" section of the accompanying consolidated income statement includes costs for preparing the goods for sale. During 2016, 16.90 million euros were incurred for this concept, and 17.06 million in 2015.

Likewise, that section includes 26.94 and 27.02 million euros corresponding to costs and expenses, both internal and external, incurred during 2016 and 2015, respectively, in the processing and preparation for sale of food products commercialised by El Corte Inglés, S.A.

23.3 Staff costs

The balance of the "Staff costs" account in 2016 and 2015 shows the following composition:

Item	2016	2015
Wages, salaries and compensations	1,930,778	2,020,952
Social charges		
Social Security	571,528	567,844
Uniformity	2,709	2,690
Life insurance	4,228	4,198
Other social charges	12,707	12,222
TOTAL	2,521,950	2,607,906

Amounts in thousands of euros.

The average number of people employed in 2016 and 2015, expressed in complete working days, distributed by groups of activities, was as follows:

Groupings	Average number of employees 2016	Average number of employees 2015
Directors and managers	149	182
Supervisors and coordinators	11,799	12,308
Commercial activity	57,034	54,037
Services activity	6,514	7,882
Other activities	5,144	6,521
TOTAL	80,640	80,930

In addition, the workforce at close of 2016 and 2015, distributed by sexes and categories, was as follows:

	2016		2015	
Groupings	Women	Men	Women	Men
Directors and managers	12	137	13	163
Supervisors and coordinators	4,145	8,270	4,129	8,598
Commercial activity	47,136	18,651	45,476	18,887

Services activity	3,876	3,571	5,347	2,485
Other activities	3,245	2,647	3,367	3,466
TOTAL	58,414	33,276	58,332	33,599

The number of people with disabilities equal to or greater than 33% employed by the Group in 2016 and 2015, broken down by categories, is as follows:

Groupings	2016	2015
Directors and managers	—	1
Supervisors and coordinators	101	113
Commercial activity	583	602
Services activity	103	112
Other activities	125	101
TOTAL	912	929

23.4 Other operating expenses

The balance of the "Other operating expenses" account for 2016 and 2015 shows the following composition:

Groupings	2016	2015
Leases and fees	158,292	175,812
Repairs and maintenance	66,125	62,391
Advertising	233,925	210,859
Utilities	140,339	134,439
Taxes	113,105	113,665
Others	701,078	616,872
TOTAL	1,412,864	1,314,038

Amounts in thousands of euros.

23.5 Finance income and costs

The details of the Group's finance income and costs are as follows:

Item	2016	2015
Finance income	10,614	11,309
Income from shares in capital	617	310
Income from other securities	9,996	10,999
Finance costs	207,413	268,804
From debts with group companies and associates	2,537	3,389
From debts with third parties	204,875	265,415

Amounts in thousands of euros.

24. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Transactions between the Company and its subsidiaries, which are related parties and form part of the regular business traffic insofar as their object and conditions, have been eliminated in the consolidation process, as indicated in these notes to the financial statements, and they are not broken down in this note. Transactions between the Group and its associates and other related parties are broken down below.

24.1 Balances and transactions with associates and related parties

The details of transactions carried out with related parties during 2016 and 2015 are as follows:

2016

Item	Associates	Other related parties	Total
Sales	16,234	1,743	17,977
Purchases	27,664	49,977	77,641
Disposal of fixed assets	1	—	1

Acquisitions of fixed assets	24	4,153	4,177
Provisions of services	15,687	1,225	16,912
Receipt of services	45,117	2,200	47,317
Interest paid	176	6	182
Interest charged	—	1,492	1,492
Other financial services	14,981	—	14,981

Amounts in thousands of euros.

2015

Item	Associates	Other related parties	Total
Sales	23,070	877	23,947
Purchases	21,138	38,023	59,161
Disposal of fixed assets	7	1	8
Acquisitions of fixed assets	48	3,816	3,864
Provisions of services	18,304	1,541	19,845
Receipt of services	44,957	1,246	46,203
Interest paid	234	197	431
Interest charged	—	2,638	2,638
Other financial services	17,227	—	17,227
Dividends	129	—	129

Amounts in thousands of euros.

Furthermore, the amount of the balances in the balance sheet with related parties is as follows:

2016

Item	Associates	Related parties	Total
Trade and other receivables	24,223	1,221	25,444
Current financial assets	30	204	234
Non-current payables	(3)	(48,654)	(48,657)
Current payables	(50,833)	(13,593)	(64,426)
Payable to suppliers and trade payables	(10,768)	(12,442)	(23,210)
Current administration accounts	—	(69,287)	(69,287)

Amounts in thousands of euros.

2015

Item	Associates	Related parties	Total
Trade and other receivables	26,462	1,858	28,320
Current financial assets	37	84	121
Non-current payables	(45)	(60,654)	(60,699)
Current payables	(58,454)	(1,913)	(60,637)
Payable to suppliers and trade payables	(17,888)	(2,755)	(20,643)
Current administration accounts	—	(76,273)	(76,273)

Amounts in thousands of euros.

The main transactions carried out by the Group with related parties are due to commercial operations. Those transactions were carried out at market prices.

24.2 Remunerations to the Board of Directors

The remunerations received by the members of the Parent's Board of Directors (which include the senior Executives) during 2016 and 2015, classified by items, were as follows:

Item	2016	2015
Board of Directors		
—Salaries	3,800	4,350

—Other items	9,263	6,935

Amounts in thousands of euros.

At the close of 2016 and 2015, the Group did not have any advance payments or loans, considered globally and additional to those already outlined, granted to the members of its Board of Directors, nor commitments acquired with them in relation to pensions or retirement bonuses, life insurance or special compensations.

In addition, the members of the Board of Directors did not receive any remuneration whatsoever in either 2016 or 2015 for per diem allowances, pension plans, severance payments or payments based on equity instruments.

The civil liability of the Company Directors and Executives is insured by means of two insurance policies contracted with certain entities and which provide coverage to all of the companies of the Group. The sum of the premiums paid for this concept is 185,762 euros for 2016 and 2015.

On the 11th of November 2016, the member of the board Mr. Juan Hermoso Armada presented his resignation, which was approved by the Board of Directors on the 30th of November 2016.

In view of the resulting vacancy, and in accordance with the power which article 244 of the current Revised Text of the Capital Companies Law and article 39 of the company's articles of incorporation grant to the Board of Directors, by co-option, the Board proposed and approved the appointment as the new member of the board of Mr. Jesús Nuño de la Rosa Coloma, until the holding of the next General Meeting of Shareholders, where that appointment will be submitted for ratification.

25. INFORMATION ON THE ENVIRONMENT

The Group has continued to develop its environmental management policy, in accordance with the legal provisions on the protection of the environment which currently exist in our country.

The main actions and initiatives are as follows:

25.1 Environmental assets

With regard to the current systems put in place by the Group in order to reduce the environmental impact of its facilities, it has continued with the reduction of emissions into the atmosphere, the treatment and reuse of water, the reduction of noise and vibrations, etc., incorporating the cost of those elements into that of the facilities in which they are located. At the close of 2016 and 2015, the cost of the identified environmental assets and their corresponding cumulative depreciation and impairment are listed by their composition according to their environmental nature:

2016

Item	Cost	Cumulative Depreciation	Impairment from the current year	Impairment from previous years	Net value
Water protection	2,258	(803)	(6)	—	1,449
Air protection	80,429	(43,801)	(5)	—	36,623
Noise protection	3,184	(1,764)	(73)	—	1,347
Others	31	(19)	—	—	12
TOTAL	85,902	(46,387)	(84)	—	39,431

Amounts in thousands of euros.

2015

Item	Cost	Cumulative Depreciation	Impairment from the current year	Impairment from previous years	Net value
Water protection	2,254	(728)	(20)	—	1,506
Air protection	80,415	(40,863)	(46)	—	39,506
Noise protection	3,193	(1,685)	(84)	—	1,424
Others	41	(27)	—	—	14
TOTAL	85,903	(43,303)	(150)	—	42,450

Amounts in thousands of euros.

25.2 Environmental expenses

The expenses of an environmental nature recorded during 2016 and 2015 were 17.67 and 16.37 million euros, respectively, and they are registered in the following sections of the consolidated income statement:

Item	2016	2015
Procurements	179	179
External services	14,831	14,136
Taxes	2,660	2,057
TOTAL	17,670	16,372

Amounts in thousands of euros.

The procurements refer to one-off acquisitions of consumable materials not included in the external services whose purpose is environmental improvement, such as: filters for the elimination of pollution into the atmosphere, products for the treatment of water or products for the maintenance of boilers and purifiers.

With regard to the external services, it should be noted that this item includes all contracts, both periodic maintenance and other services in general, for the protection and improvement of the environment. Particularly notable, among others, are the following actions: cleaning of air conditioning ducts, treatment of the water at our facilities (cleaning, disinfection, etc.), management of packages and waste packaging, transportation and management of waste (fluorescent tubes, machine oil, waste paper, vegetable oils, organic waste, sanitary waste, etc.) or civil liability insurance.

Finally, the “Taxes” section includes levies of an environmental nature, fundamentally that related to the use of waste dumps.

26. OTHER DISCLOSURES

26.1 Information in relation to situations of conflict of interests by the Directors

At the close of 2016 neither the members of the Parent’s Board of Directors nor anyone related to them in accordance with to the definition established in the Capital Companies Law had reported any direct or indirect conflict they may have with the interests of Group companies to the other members of the Board of Directors.

26.2 Audit Fees

During 2016, the fees in relation to audit services and other services provided by the auditor of the Group’s consolidated financial statements, Deloitte S.L., and by companies belonging to the Deloitte network, as well as the fees for services billed by the auditors of company accounts included in the consolidation and by entities linked through holding, mutual ownership or management, were the following:

	2016		2015	
Item	Main Auditor	Other Firms	Main Auditor	Other Firms
Services of auditing of financial statements	1,528	56	1,609	10
Other verification services	29	—	50	12
TOTAL AUDIT SERVICES	1,557	56	1,659	22
Tax advisory services	—	—	23	—
Other services	7,077	15	7,249	2
TOTAL OTHER SERVICES	7,077	15	7,272	2

Amounts in thousands of euros.

26.3 Events after close of FY

There were no significant events after the close of the financial year.

CONSOLIDATED DIRECTORS’ REPORT FOR 2016

ACTIVITY AND EVOLUTION OF THE BUSINESSES

The main business of El Corte Inglés, S.A. and its subsidiariesis the retail sale of consumer goods and the provision of a wide range of services (travel agency, IT, telephony, insurance brokerage, optical services, etc.). In order to conduct this business, it has a network of department stores, hypermarkets, supermarkets, convenience stores and offices.

The activity lines in which the Group operates are described below in much more detail:

- El Corte Inglés Department Stores: they have a large diversity of products and services such as leisure, educational, mobile, fashion, accessories, toys, jewellery and consumer electronic items. At the close of 2016, 94 department stores were open (including 2 stores in Portugal).

- Hipercor Hypermarkets: they offer a large variety and depth of domestic, international, regional and local products with an excellent quality-price ratio in both food and items for personal care, textil and home. At the close of 2016, 43 hypermarkets were open.

- Supercor Neighbourhood stores: designed as a chain of neighbourhood supermarkets, near the customer and capable of meeting the basic purchase needs. On 28 February 2017, 174 neighbourhood stores were open.

- Sfera: chain of specialised stores in fashion and accessories. At the close of 2016, 142 Sfera stores were open.

- Bricor: chain of home improvement, decoration and services for the home and garden. On 28 February 2017, 58 Bricor stores were open (including 2 establishments in Portugal).

- Óptica 2000: chain of optician's shops that market the main fashion frames that design frames and sunglasses. At the close of 2016, 108 Óptica 2000 shops were open (including 2 in Portugal).

- Viajes El Corte Inglés Group: professional and vacational type travel agency.

- Informática El Corte Inglés Group: it develops its activity in the sector of Information Technologies and Communications.

Insurance Group: it offers life and accident, savings, temporary and life annuities insurance as well as pension plans.

In 2016, the El Corte Inglés Group's revenue was 15,504.57 million euros, 1.9% higher than that registered in the previous year. The breakdown of that revenue, by activity, is as follows:

Revenue	**% Contribution**	**2016**	**2015**	**% Change 16/15**
Department Stores: ECI + ECIGA	71.3	11,052,120	10,715,258	3.1
Food: Hipercor + Supercor.	13.4	2,076,172	2,116,491	(1.9)
Sale of products and information services	5.4	838,434	841,835	(0.4)
Travel agency services	15.8	2,450,398	2,477,518	(1.1)
Insurance brokerage services	2.0	304,822	215,764	41.3
Other activities	4.0	614,469	593,441	3.5
Consolidation adjustments	(11.9)	(1,831,842)	(1,740,465)	(5.3)
TOTAL	100.0	15,504,573	15,219,842	1.9

Amounts in thousands of euros.

The recovery of consumption and general retail trade has been influential in this positive development, in an environment in which the economic situation is improving, thus like the attractive business and services proposal that the Group companies have made.

The three lines with the greatest business volume are the department stores, the travel agencies and the hypermarkets. The department store continues to be the main business format of the Group, with a revenue of 11,052.12 million euros.

The consolidated profit of the Group companies by activity has been the following:

Profit for the year	**% Contribution**	**2016**	**2015**	**% Change 16/15**

Department Stores: ECI + ECIGA	>100	184,518	170,032	8.5
Food: Hipercor + Supercor.	3.6	5,784	276	>100
Sale of information products and services	7.4	11,939	14,275	(16.4)
Travel agency services	17.7	28,649	36,897	(22.4)
Insurance brokerage services	31.7	51,448	47,553	8.2
Other activities	51.0	82,548	50,362	63.9
Consolidation adjustments	>100	(203,027)	(161,262)	25.9
Consolidated profit	100.0	161,859	158,133	2.4
Profit attributable to non-controlling interests	—	(1,226)	(2,205)	44.4
Profit attributable to the Parent	—	160,633	155,928	3.0

Amounts in thousands of euros.

The operating costs and expenses were 14,934.83 million euros (14,681.96 million euros in 2015), 11,000.01 million of which corresponded to procurements, 2,521.95 million to staff costs and 1,412.86 million to external services.

The value of inventories at 28 February 2017 was 1,860.88 million euros (1,897.92 million euros in 2015).

The cash flows of the operating activities were 234.36 million euros, as reflected in the statement of cash flows, which were materialised mainly in fixed asset investments and the amortisation of bank borrowings.

Investments made by the Group during 2016 totalled 368 million euros (371.52 million euros in 2015), with the breakdown described below:

Item	**Million euros**
Property, plant and equipment	255.79
Intangible fixed assets	104.16
Investment Property	0.07
Financial fixed assets	7,98

Investments in property, plant and equipment have been the following:

Item	**Million euros**
Land and constructions	6.32
Machinery, installations, tooling and others	29.24
Furniture	10.44
Information processing equipment	12.07
Property, plant and equipment in progress	197.72

FUTURE PROSPECTS

With regard to future perspectives and taking the latest macroeconomic data, in the first quarter of 2017, the Spanish economy continued developing positively. Available data indicate to us that the economic activity could be growing at an interquarterly rate of around 0.8%. The growth rate of the GDP would be positioned around 3.1%:

Quarterly evolution of GDP

[GRAPHIC]

Source: National Statistics Institute (INE)

This good information, together with the fact that the anticipated slowdown has not materialised, is implying a bias toward a rise in the growth of economic activity and thus, the different Agencies and economic Institutions, both domestic and international, are reviewing the high in their estimations for 2017.

However, it is necessary to mention that in spite of these revisions, expectations continue that a deacceleration will occur in 2017 vis-à-vis the previous year.

The growth forecast of the GDP carried out by the government of the General Government Budgets (PGD) stands at 2.7 percentage points and moreover assess the posibility that growth could be 3 percentage points.

The following table lists the growth forecast of GDP from different agents:

Agents	Date	Growth forecast
GOVERNMENT BUDGET	Mar 17	2.7
FUNCAS	Mar 17	2.5
BBVA	Apr 17	3.0
BANCO SANTANDER	Mar 17	2.5
LA CAIXA	Mar 17	2.6
BANKIA	Mar 17	2.5
IMF	Apr 17	2.6
CEOE	Mar 17	2.5
BANK OF SPAIN	Apr 17	2.8
EUROPEAN COMMISSION	Feb 17	2.3
OECD	Mar 17	2.5
CEPREDE	Mar 17	2.7
AVERAGE WITHOUT GOVERNMENT		2.6

Meanwhile, the currently existing forecast for household comsumption in 2017 indicate a slowdown in its growth rate, due mainly to the disappearace of some factors that drove it in 2016. Moreover, the inflationary upturn will coincide with a loss in purchasing power of salaries:

Quarterly evolution of household comsumption in Spain

[GRAPHIC]

Source: National Statistics Institute (INE)

Both the Government and various reputable Agencies and Institutions foresee slower growth in this variable, which could oscillate between 2.4%—2.6%, as shown in the following table:

Agents	Date	Growth forecast
GOVERNMENT BUDGET	Mar 17	2.6
FUNCAS	Mar 17	2.3
BBVA	Apr 17	2.5
BANCO SANTANDER	Mar 17	2.0
LA CAIXA	Mar 17	2.6
BANKIA	Mar 17	2.6
IMF	Jan 17	2.3
CEOE	Mar 17	2.4

BANK OF SPAIN	Apr 17	2.4
EUROPEAN COMMISSION	Feb 17	2.1
OECD	Mar 17	2.2
CEPREDE	Mar 17	2.7
AVERAGE WITHOUT GOVERNMENT		2.4

In the first quarter of 2017 internal demand has continued driving growth, through two components: consumption and investment.

Household consumption shows a positive performance even though specific indicators related to it (vehicle registration, domestic sales in consumer goods of large companies, business retails sales, etc.), indicate a certain moderation in its growth rate. It is estimated that its year-on-year growth rate is around 2.9%.

With regard to the El Corte Inglés Group, the forecasts for the next financial year are orientated towards the modernisation and refurbishment of the existing stores, continuing with the improvement of internal management in order to achieve greater efficiency of investments and spending, and also to continue strengthening the training and professional qualifications of its employees.

RISK MANAGEMENT

Just as explained in the financial statements, Group activities are exposed to diverse financial risks: market risk (including exchange rate risk, interest rate risk and price), credit risk and liquidity risk. The Parent Management carries out the risk management, which has the necessary mechanisms set up and focuses on the uncertainty of the financial markets, trying to minimise the potential adverse effects regarding the Group's profitability.

The main risks mentioned are described below:

- Credit risk: the Group does not have significant risk concentration with third parties. Upon setting up the sale for retail, the great majority of the business we do the collections for is mainly in cash or through credit cards.

The Group is governed by the criterion of prudence in its investment policy whose main objectives are to mitigate the credit risk of investment products. In a general nature, the Group maintains its treasury and equivalent liquid assets in financial entities at a high credit level.

Credit quality of financial assets that are not expired or deteriorated can be assessed by reference to outside credit scores, being positioned in general in the Group investments rating BBB.

With regard to the credit risk stemming from the business transaction (mainly stemming from the corporate retail transactions and computer science consulting), a provision is established for losses through deterioration of trade receivables when there is objective evidence that the Group would not be capable of collecting all the amounts owed to it in accordance with the original terms of the accounts receivable.

On 28 February 2017 and 29 February 2016 there was no existing expired accounts of a significant amount. Moreover, in accordance with the available historical experience, the Group deems it is not necessary to make assessment corrections with regard to the unexpired accounts receivable. The fair value of the accounts receivable does not differ significantly from its book value.

- Risk of liquidity: the Group maintains a prudent management of risk liquidity, keeping an appropriate level of cash and negotiable securities, as well as contracting credit facilities committed by a sufficient amount to support anticipated needs.

The Group manages liquidity by maintaining adequate reserves, some appropriate banking services and an availability of credit and loans, through which there is ongoing monitoring of the forecasts and the current amounts of cash flows and matching these with the profile of expiration of financial assets and liabilities.

- Interest rate risk: variations in the interest rates modify future flows of assets and liabilities with reference to a variable interest rate. Financial instruments exposed to interest rates are basically financing with a variable rate and the financial instruments stemming from them.

In accordance with the estimations of Grupo El Corte Inglés regarding the development of interest rates and the objectives of the long-term debt structure, coverage transactions are done through contracting of derivatives that mitigate these risks.

- Price risk: Group exposition to the price risk is reflected through its investments in asset instruments that they list in the markets, which are classified as assets at a reasonable value with changes in the income statement and as assets available for sale at a fair value. To manage the price risk that comes from these investments, the Group diversifies its portfolio. They list the majority of these investments on the stock exchange or they deal with investments in group investment establishments (IIC's).

The consequence of decreasing or increasing the rates where they list the prior securities on the stock market does not imply significant impacts on the income statement or in equity.

- Exchange rate risk: the Group operates in the international field and, consequently, is exposed to exchange rate risk because of transactions with foreign currency, particularly in the purchases of merchandise designated in United States dollars.

The exchange rate risk is managed in accordance with the Group Management guidelines, which provide, fundamentally, the establishment of financial and natural coverage, the ongoing monitoring of fluctuations in the exchange rate and other earmarked measurements to mitigate this risk. The Group follows the policy of contracting financial instruments (exchange insurance) that reduces the exchange differences for transactions in foreign currency.

USE OF FINANCIAL INSTRUMENTS

With the purpose of controlling and decreasing the potential negative impact of the swings of the aforementioned interest and exchange rates in the Group results, the Parent keeps a management program of those risks in the medium term through the use of specific financial instruments for coverage of interest rate and exchange rate. The amounts of the face values that the management programs for interest rate risk and exchange rate risk cover go up to 1,850,522 million euros and 458.937 thounsad US dollars, respectively.

HUMAN TEAM

At the close of the year our team is formed by a total of 91,690 persons, distributed among all the Group companies, which means a decrease of 241 persons in comparison to the previous year, that is, 0.3% fewer.

This decrease is due to the fact that a voluntary plan with incentives was put into place for those employees that might be interested in terminating their labour relationship with the Group. Employees will receive 70% of their net salary until they turn 63 years old plus a departure bonus equivalent to 6 months net salary. The staff that was assigned to the plan had to, among other requirements, have been born in the years 1956, 1957 and 1958, 15 years of seniority in the Company and have a labour life with 35 years of actual trading. The application period opened on March 15 and expired on April 5, 2016. A total of 1,349 workers have gotten the mentioned plan.

The average number of employees of the Group, calculated fulltime is 80.640 persons:

Groupings	2016	2015
Directors and managers	149	182
Supervisors and coordinators	11,799	12,308
Commercial activity	57,034	54,037
Services activity	6,514	7,882
Other activities	5,144	6,521
TOTAL	80,640	80,930

90% of the employees have a permanent contract.

In addition, the staff at the close of 2016 and 2015, distributed by sexes and categories has been the following:

	2016		2015	
Groupings	Women	Men	Women	Men
Directors and managers	12	137	13	163
Supervisors and coordinators	4,145	8,270	4,129	8,598
Commercial activity	47,136	18,651	45,476	18,887
Services activity	3,876	3,571	5,347	2,485
Other activities	3,245	2,647	3,367	3,466
TOTAL	58,414	33,276	58,332	33,599

In addition, the Board of Directors is made up of 10 directors, 3 of which are women.

Insurance and job security

During 2015 the renewal was signed for the Plans of Equality of the companies Viajes El Corte Inglés, Informática El Corte Inglés and Telecor. All Plans of Equality have been agreed to unanimously by the represented unions.

In the framework of the policy of equality, we continue coinciding during 2016 in the aspects relating to access and professional promotion, formation and the improvements in the conciliation of personal, family and labour life.

Health and job security form part of the commitments the company keeps with its employees. In addition to the care that is offered in its own work centres, health services of El Corte Inglés took numerous actions aiming at the care and health of persons that make up the Group, some in collaboration with private and public health care establishments.

With regard to the Prevention Service of Labour Risks, in 2015 an assessment of psycho-social factors set in motion, of mutual agreement with all the union organizations in Madrid. This initiative will last until 2017 and will be extendible through the national territory.

On the other hand, during 2016 the updating of the description of work positions with the Group companies has continued, specifying by duty and activities the tasks relevant to the prevention of labour risks.

Training

Training of Group workers is a fundamental factor for the strategy of human resources. The Institute of Professional Training of El Corte Inglés has developed actions and programs adapted to each work position and their different experience levels, to which it is necessary to add numerous shorter and flexible training actions guided to report about novelties that come up in each market.

The majority of the training courses done during 2016 have been aimed as staff in shopping centres in different activities in the Group. Training for recently included staff, both in business care as in administrative procedures and product knowledge has as its purpose the preparation for this group for the correct performance of the job.

With regard to ongoing training, priority for the Group is to seek to know the business and product novelties that appear in the market, learn the newly implemented administrative and management procedures, and improve abilities for the performance in different tasks and responsibility. Training in languages has been kept for both sales staff as well as central services.

Throughout 2016, there has been continuous collaboration with public as well as private universities and institutes of Professional Training to include the best students in the programs of curricular practices, so they can complete their academic preparation with the knowledge or the professional world and the company.

ENVIRONMENT

The main efforts in the subject of environment are related to the consumption of materials, energy and water, as well as those aspects relative to the control of gas emissions with a greenhousing effect and waste management.

The general policy of environmental protection and environmental awareness of the group includes the following aspects:

- Reduction of the impact of materials used, reuse and minimisation of packaging.

- Efficiency plan for energy consumption of the business centres in different aspects (lighting, commercial freezing, air conditioning, and control systems) and search for more efficient technologies.

Among the main initiatives these stand out:

Selection of lighting systems that assess aspects such as the chromatic reproduction, useful life, design, auxiliary equipment or regulatory systems, control and maintenance, which to a great degree influence energy consumption.

Technological modernisation of the existing refrigeration units, adopting their yield and improving their energy efficiency in all cases.

Measurements of water consumption reduction and improvement in the quality of waste. For that purpose, a large portion of our facilities have included new sewage treatment techniques, consisting of the microbial fermentation ecological systems.

Gradual reduction in the use of water cooling towers.

- Energy efficiency measurements for the reduction of emissions.

- Specific treatment programs for different types of waste generated by the Group.

The expenses of an environmental nature recorded during 2016 and 2015 were 17.67 and 16.37 million euros, respectively, with the following detail:

Item	2016	2015
Procurements	179	179
External services	14,831	14,136
Taxes	2,660	2,057
TOTAL	17,670	16,372

Amounts in thousands of euros.

Procurements refer to one-off acquisitions of consumable materials not included in the external services whose purpose is environmental improvement, such as: filters for the elimination of pollution into the atmosphere, products for the treatment of water, or products for the maintenance of boilers and purifiers.

With regard to the external services, it should be noted that this item includes all contracts, both periodic maintenance and other services in general, for the protection and improvement of the environment. Particularly notable, among others, are the following actions: cleaning of air conditioning ducts, treatment of the water at our facilities (cleaning, disinfection, etc.), management of packages and waste packaging, transportation and management of waste (fluorescent tubes, machine oil, waste paper, vegetable oils, organic waste, sanitary waste, etc.), and civil liability insurance.

Finally, the “Taxes” section includes levies of an environmental nature, fundamentally that related to the use of waste dumps.

At the close of 2016, the cost of the assets identified whose purpose is to reduce the environmental impact of the Group facilities and their corresponding amortisations and accumulated deterioration, are detailed, by its composition in accordance with the environmental nature below:

Item	Cost	Cumulative depreciation	Impairment from the current year	Impairment from previous years	Net value
Water protection	2,258	(803)	(6)	—	1,449
Air protection	80,429	(43,801)	(5)	—	36,623
Noise protection	3,184	(1,764)	(73)	—	1,347
Other	31	(19)	—	—	12
TOTAL	85,902	(46,387)	(84)	—	39,431

Amounts in thousands of euros.

RESEARCH AND DEVELOPMENT

The companies of the El Corte Inglés Group have pursued, as in previous years, their labour in the development of ongoing innovative processes, both in systems and in operational procedures. That has meant the inclusion and use of the latest applicable technology and also the development of intellectual models that, forming the treasured data by experience, allow an ongoing improvement in manufacturing and management systems.

The appropriate instrumentation of the ongoing assuring system of quality, is also another basic factor to be able to continue rendering customers an excellent level of services and their tailor-made care.

In 2016, the Consolidated Group undertook a number of Research, Development and Innovation projects as part of different lines of strategic action. The most important projects, due to their content and scope, include the following:

- Construction of a wifi connectivity solution aimed at users of public services.
- Development of a tool for the semantic recognition of the content of clinical documents on paper.
- Instrumentation of a new technological environment aimed at the insurance sector.
- Development of an info21rmation model based on “data intelligence” for the Travel Agency sector.
- Construction of the Assistance Scorecard for the management or risk of continuity of the business.

Likewise, the El Corte Inglés Group companies have continued working on the development of ongoing innovation processes, in both systems and operating procedures.

TREASURY SHARES

In the course of the year, shares from the Parent were acquired for an actual value of 49.82 million euros and shares were sold for an amount of 59.91 million euros.

At 28 February 2017, the Group owned 11,506,916 shares with a face value of 6 euros, from the Parent itself that are provisional in nature, earmarked for their next sale.

PAYMENT TO SUPPLIERS

The table below contains the information required by additional provision number three, “Duty to Report”, of Law 15/2010, of 5 July.

Item	2016	2015
Average period of payment to suppliers	49 days	50 days

Ratio of paid operations	50 days	50 days
Ratio of operations pending payment	31 days	35 days

	Amount	Amount
Total payments made	11,059,206	10,648,150
Total payments pending	613,146	431,783

OTHER ASPECTS

In addition, the Group remains adhered to the Code of good taxation practices, having adequately fulfilled the content thereof. The Group files the required tax returns in a timely fashion and correct form.

EL CORTE INGLÉS
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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 in Spain (see Notes 2 and 26). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
El Corte Inglés, S.A.,

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of El Corte Inglés, S.A. (the Parent) and Subsidiaries (the Group), which comprise the consolidated balance sheet as at 29 February 2016, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of El Corte Inglés, S.A. and Subsidiaries in accordance 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 in Spain (identified in Note 2.1 to the accompanying consolidated financial statements) and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation by the Parent's directors of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of El Corte Inglés, S.A. and Subsidiaries as at 29 February 2016, and their consolidated results and their consolidated cash flows for the year then ended in accordance 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 in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for the year ended 29 February 2016 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 29 February 2016. 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

24 June 2016

CONSOLIDATED FINANCIAL STATEMENTS FOR 2015 DRAWN UP IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED BALANCE SHEET AT 29 FEBRUARY 2016

(Thousands of euros)

ASSETS	Notes	29/02/2016	28/02/2015
NON-CURRENT ASSETS			
Property, plant and equipment	Note 5	12,610,443	12,747,769
Investment property	Note 6	166,081	130,314
Goodwill	Note 7	19,485	19,485
Other intangible assets	Note 8	526,705	501,294
Non-current investments in associates and related companies		36,215	24,001
Investments accounted for using the equity method	Note 10	296,900	290,442
Non-current financial assets	Note 11	1,016,640	1,050,199
Deferred tax assets	Note 22	1,017,708	862,249
Total non-current assets		**15,690,177**	**15,625,753**
CURRENT ASSETS			
Inventories	Note 12	1,897,925	1,788,351
Trade and other receivables	Note 13	753,686	721,708
Receivable from associates and related companies	Note 24.1	28,320	106,013
Current tax assets		1,498	1,605
Investments in associates and related companies	Note 24.1	121	5,143
Current financial assets	Note 11	53,950	120,944
Other current assets		34,137	32,412
Cash and cash equivalents	Note 14	171,406	125,777
Total current assets		**2,941,043**	**2,901,952**
TOTAL ASSETS		**18,631,220**	**18,527,705**

Notes 1 to 26 are an integral part of the consolidated balance sheet at 29 February 2016.

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED BALANCE SHEET AT 29 FEBRUARY 2016

(Thousands of euros)

EQUITY AND LIABILITIES	Notes	29/02/2016	28/02/2015
EQUITY	Note 15		
Share capital		486,864	486,864
Reserves		8,323,586	8,340,623
—Legal reserve		97,373	97,373
—Other reserves		8,226,213	8,243,250
Profit for the year attributable to the parent company		155,928	115,269
Other equity instruments		1,000,000	—
Total shareholders' equity		**9,966,378**	**8,942,756**
Translation differences		2,857	3,753
Treasury shares		(1,176,667)	(1,064,168)
Valuation adjustments		(79,491)	(26,731)
—Available-for-sale financial assets		33,280	45,123
—Hedges		(112,771)	(71,854)
Non-controlling interests		14,662	19,690
Total equity		**8,727,739**	**7,875,300**
NON-CURRENT LIABILITIES			
Long-term provisions	Note 16	938,631	895,569
Debentures and other non-current marketable securities	Note 17	2,077,091	2,046,188
Non-current bank borrowings	Note 17	1,759,067	3,051,983
Non-current payables to associates and related companies	Note 24.1	60,699	63,843
Other financial liabilities	Note 17	272,686	187,489
Payable to fixed asset suppliers		114,927	117,823
Deferred tax liabilities	Note 22	931,723	947,008
Total non-current liabilities		**6,154,824**	**7,309,902**
CURRENT LIABILITIES			
Short-term provisions	Note 16	37,607	789
Debentures and other current marketable securities	Note 17	132,887	—
Current bank borrowings	Note 17	71,277	36,989
Current payables to associates and related companies	Note 24.1	60,367	69,774
Other current financial liabilities	Note 17	33,741	34,709
Payable to non-current fixed asset suppliers		133,440	116,866
Other current liabilities	Note 21	3,238,484	3,026,519
Payable to suppliers—associated and related companies	Note 24.1	20,643	32,069
Current tax liabilities		6,690	10,080
Accrued expenses and deferred income		13,521	14,708
Total current liabilities		**3,748,657**	**3,342,503**
TOTAL EQUITY AND LIABILITIES		**18,631,220**	**18,527,705**

Notes 1 to 26 are an integral part of the consolidated balance sheet at 29 February 2016.

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED INCOME STATEMENT FOR 2015

(Thousands of euros)

	Notes	Financial Year 2015	Financial Year 2014
Revenue:	Note 23.1	**15,219,842**	**14,592,029**
—Sales		12,153,240	11,637,884
—Services		3,066,602	2,954,145
Changes in inventories of finished goods		**(27)**	**(472)**
In-house work on non-current assets		**153,640**	**163,528**
Procurement	Note 23.2	**(10,760,014)**	**(10,226,009)**
Other operating income		**221,009**	**198,983**
Staff costs	Note 23.3	**(2,607,906)**	**(2,556,065)**
Other operating expenses	Note 23.4	**(1,314,038)**	**(1,345,601)**
Depreciation and amortisation charge	Notes 5, 6 and 8	**(522,389)**	**(516,612)**
Excessive provisions, impairment and gains or losses on disposals of non-current assets and other results	Notes 5 and 8	**(90,986)**	**(14,073)**
OPERATING PROFIT		**299,131**	**295,708**
Finance income	Note 23.5	**11,409**	**32,240**
Finance cost	Note 23.5	**(268,804)**	**(341,924)**
Change in the fair value of financial instruments	Notes 11 and 19	**(10,358)**	**5,489**
Result of companies accounted for using the equity method	Note 10	**30,929**	**24,447**
Exchange differences		**16,945**	**3,182**
Impairment and gains or losses on disposals of financial instruments		**(2,246)**	**(4,334)**
PROFIT BEFORE TAX		**77,006**	**14,808**
Income tax	Note 22	81,127	103,270
PROFIT FROM CONTINUING OPERATIONS		**158,133**	**118,078**
PROFIT FOR THE YEAR		**158,133**	**118,078**
Profit attributable to non-controlling interests	Note 15.6	**(2,205)**	**(2,809)**
PROFIT ATTRIBUTABLE TO THE PARENT		**155,928**	**115,269**

Notes 1 to 26 are an integral part of the consolidated income statement for the year ending on 29 February 2016.

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR 2015

(Thousands of euros)

	Notes	Financial Year 2015	Financial Year 2014
I. PROFIT PER INCOME STATEMENT (I)		**158,133**	**118,078**
Income and expenses recognised directly in equity			
—Revaluation of financial instruments	Note 15.5	(14,219)	45,235
—Cash flow hedges	Note 19	(89,709)	(49,849)
—Translation differences		(897)	1,493
—Tax effect	Note 22.2	29,100	1,384
—Effect of change in tax rate		(2,253)	(1,742)
TOTAL Income and expenses recognised directly in equity (II)		**(77,978)**	**(3,479)**
Transfers to profit or loss			
—Revaluation of financial instruments	Note 15.5	(1,572)	(3,320)
—Cash flow hedges	Note 19	35,352	30,329
—Tax effect		(9,458)	(8,103)
TOTAL Transfers to profit or loss (III)		**24,322**	**18,906**
TOTAL COMPREHENSIVE INCOME (I+II+III)		**104,477**	**133,505**
TOTAL COMPREHENSIVE INCOME OF THE PARENT		**102,272**	**130,696**
TOTAL COMPREHENSIVE INCOME OF NON-CONTROLLING INTERESTS		**2,205**	**2,809**

Notes 1 to 26 are an integral part of the consolidated statement of comprehensive income for the year ending on 29 February 2016.

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY FOR 2015

(Thousands of euros)

		Reserves									
	Share Capital	Legal	Other Reserves	Total	Other Equity Inst.	Treasury Shares	Reserves of Consolidated Companies	Consolidated Profit for the Year	Valuation Adjustments and Translation Differences	Non-Controlling Interests	Total
ADJUSTED BALANCE AT THE BEGINNING OF 2014	**486,864**	**97,373**	**6,513,376**	**6,610,749**	**—**	**(1,027,820)**	**1,623,981**	**172,361**	**(38,405)**	**17,670**	**7,845,400**
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**115,269**	**15,427**	**2,809**	**133,505**
Transactions with shareholders	**—**	**—**	**241,474**	**241,474**	**—**	**(36,348)**	**(94,159)**	**(172,361)**	**—**	**—**	**(61,394)**
—Distribution of 2013 profit	—	—	241,474	241,474		—	(94,159)	(172,361)	—	—	(25,046)
Dividends	—	—	—	—	—	—	—	(25,046)	—	—	(25,046)
To reserves	—	—	241,474	241,474	—	—	(94,159)	(147,315)	—	—	—
—Treasury shares transactions (net)	—	—	—	—	—	(36,348)	—	—	—	—	(36,348)
Other changes in equity	—	—	—	—	—	—	(41,422)	—	—	(789)	(42,211)
ADJUSTED BALANCE AT THE BEGINNING OF 2015	**486,864**	**97,373**	**6,754,850**	**6,852,223**	**—**	**(1,064,168)**	**1,488,400**	**115,269**	**(22,978)**	**19,690**	**7,875,300**
Total comprehensive income	**—**	**—**	**—**	**—**		**—**	**—**	**155,928**	**(53,656)**	**2,205**	**104,477**
Transactions with shareholders	**—**	**—**	**142,823**	**142,823**	**—**	**(112,499)**	**(52,554)**	**(115,269)**	**—**	**—**	**(137,499)**
—Distribution of 2014 profit	—	—	142,823	142,823	—	—	(52,554)	(115,269)	—	—	(25,000)
Dividends	—	—	—	—	—	—	—	(25,000)	—	—	(25,000)
To reserves	—	—	142,823	142,823	—	—	(52,554)	(90,269)	—	—	—
—Treasury shares transactions (net)	—	—	—	—	—	(112,499)	—	—	—	—	(112,499)
Other changes in equity	—	—	(24,712)	(24,712)	1,000,000	—	(82,594)	—	—	(7,233)	885,461

BALANCE AT THE END OF 2015	**486,864**	**97,373**	**6,872,961**	**6,970,334**	**1,000,000**	**(1,176,667)**	**1,353,252**	**155,928**	**(76,634)**	**14,662**	**8,727,739**

Notes 1 to 26 are an integral part of the consolidated statement of changes in total equity for the year ending on 29 February 2016.

EL CORTE INGLÉS CONSOLIDATED GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS FOR 2015

(Thousands of euros)

	Notes	Financial Year 2015	Financial Year 2014
CASH FLOWS FROM OPERATING ACTIVITIES (I)		**497,627**	**45,948**
Profit for the year before tax		77,006	14,808
Adjustments for:			**708,779**
—Depreciation and amortisation charge	Notes 5, 6 and 8	522,389	516,612
—Impairment losses	Note 5	(65,448)	9,852
—Changes in provisions		79,880	(53,758)
—Gains/Losses on derecognition and disposals of non-current assets	Note 5	(57,178)	(64,940)
—Gains/Losses on derecognition and disposals of financial instruments		39	—
—Finance income	Note 23.5	(11,309)	(32,240)
—Finance costs	Note 23.5	268,804	341,924
—Exchange differences		(17,045)	(3,182)
—Change in the fair value of financial instruments	Notes 11 and 19	(10,358)	(5,5489)
Changes in working capital		**(15,291)**	**(359,485)**
—Inventories		(109,574)	(152,043)
—Trade and other receivables		(31,978)	(51,687)
—Other current assets		148,090	(94,278)
—Trade and other payables		217,113	103,075
—Other current liabilities		(4,577)	3,969
—Other non-current assets and liabilities		(234,365)	(168,521)
Other cash flows from operating activities		**(273,862)**	**(318,155)**
—Interest paid		(275,293)	(341,924)
—Dividends received		410	8,904
—Interest received		11,101	23,336
—Income tax recovered (paid)		(10,080)	(8,471)
CASH FLOWS FROM INVESTMENT ACTIVITIES (II)		**(286,369)**	**(347,478)**
Payments due to investments		**(371,517)**	**(442,061)**
—Group companies and associates		(16,133)	—
—Intangible assets	Note 8	(99,993)	(83,711)
—Property, plant and equipment	Note 5	(255,391)	(358,350)
Proceeds from disposals		**85,148**	**94,583**
—Group companies and associates		—	3,734
—Intangible assets, property, plant and equipment and property assets		68,419	84,204
—Other financial assets		16,729	6,645
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**(182,674)**	**337,247**
Receipts and payments relating to equity instruments		**(113,395)**	**(34,855)**
—Acquisition of own equity instruments		(112,499)	(36,348)
—Translation differences		(896)	1,493
Receipts and payments relating to financial liability instruments		**(1,019,567)**	**397,148**
—Repayment of bank borrowings		(1,292,915)	(358,473)
—Repayment of borrowings from Group companies and associates		(12,551)	(10,007)
—Repayment of other borrowings		(3,864)	(50,380)
—Debentures and other marketable securities		163,789	644,112
—Receipts from issue of bank borrowings		34,288	—
—Receipts from issue of borrowings form Group companies and associates		—	27,606
—Receipts from issue of other borrowings		91,686	144,290
Dividends and returns on other equity instruments paid		**950,288**	**(25,046)**
—Dividends		(25,000)	(25,046)
—Returns on other equity instruments		975,288	—
EFFECTS OF FOREING EXCHANGE RATE CHANGES (IV)		**17,045**	**3,182**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		**45,626**	**38,898**
Cash or equivalents at the beginning of the year		125,777	86,879
Cash or equivalents at the end of the year		171,406	125,777

Notes 1 to 26 are an integral part of the consolidated statement of cash flows for the year ending on 29 February 2016.

CONTENT OF THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EL CORTE INGLÉS CONSOLIDATED GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDING ON 29 FEBRUARY 2016

1. ACTIVITY AND IDENTIFICATION DETAILS OF THE GROUP

The parent company, El Corte Inglés, S.A. (henceforth, the Company), is a company incorporated in Spain in accordance with the Public Limited Companies Law. Its registered office is in Madrid, at Calle Hermosilla 112.

The main activity of El Corte Inglés, S.A. and its consolidated dependent companies is the retailing of consumer goods, and the provision of a wide range of services (travel agency, insurance brokerage, insurance, IT consultancy, etc.), for which it has a network of department stores, hypermarkets, supermarkets, convenience stores and offices.

The parent company heads a group of dependent entities; in accordance with current legislation, it is obliged to prepare separate consolidated financial statements which likewise include the stakes in joint ventures and associated investments. The consolidated financial statements of the El Corte Inglés Group (henceforth, the Group) for the financial year ending on 29 February 2016 were drawn up by the Directors of the parent company in a meeting of the Board of Directors held on the 31st of May 2016 and they will be submitted for approval by the General Meeting of Shareholders, which it is believed will approve them without any modification whatsoever. The consolidated financial statements for financial year 2014 were approved by the General Meeting of Shareholders of El Corte Inglés, S.A. held on the 30th of August 2015 and filed at the Registry of Companies of Madrid.

The financial year of El Corte Inglés, S.A. and the majority of the dependent companies (see page 15) begins on the 1st of March each year and ends on the 28th of February of the following year (29th of February in leap years). However, there are some dependent and associated companies whose financial years coincide with the calendar year. The most relevant ones are Seguros El Corte Inglés, Vida, Pensiones y Reaseguros, S.A. and Centro de Seguros and Servicios de Correduría de Seguros, S.A., for which the financial year has been determined in accordance with Royal Legislative Decree 6/2004, which approves the revised text of the Law on the Regulation and Supervision of Private Insurance. In these financial statements, the period of 12 months ending on 29 February 2016 is referred to as "financial year 2015", the 12 months ending on 28 February 2015 are referred to as "financial year 2014", and so on.

The information on the companies which comprise the El Corte Inglés Group included in the consolidation (none of them are listed on a stock exchange), at 29 February 2016, is as follows:

2015 FINANCIAL YEAR

COMPANY		LINE OF BUSINESS	LOCATION	AUDITOR	PERCENTAGE STAKE DIRECT	PERCENTAGE STAKE 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)	Constructions 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	—
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	—	75.00	—
EL CORTE INGLÉS-GRANDES ARMAZÉNS, S.A.	(a)	Department Stores	Portugal	Deloitte	100.00	—
BRICOR, S.A.	(a)	DIY product sales	Madrid	Deloitte	100.00	—
URÍA VEINTE, S.A.U.	(a)	Rental of real estate	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	—
INGONDEL, S.L.	(a)	Holding company	Madrid	—	100.00	—
OPTICA 2000 SUBGROUP						
ÓPTICA 2000, S.L.	(a)	Sale of optical products and services	Barcelona	Deloitte	100.00	—
GALLERY DA VISAO—SERVIÇOS DE ÓPTICA UNIPESSOAL, L.D.A.	(a)	Sale of optical products and services	Portugal	—	—	100.00
SFERA 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	—
CDV SENIOR, S.L	(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	Deloitte	—	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	Deloitte	—	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	—	—	95.00
TOURMUNDIAL URUGUAY, S.A. ...	(b)	Travel agency	Uruguay	—	—	100.00
VIAJES EL CORTE INGLÉS PANAMÁ, S.A.	(b)	Travel agency	Panama	—	—	100.00
VIAJES EL CORTE INGLÉS ECUADOR, S.A.	(b)	Travel agency	Ecuador	—	—	100.00
OPERADORA DE TURISMO, S.A.	(b)	Travel agency	Chile	—	—	100.00
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	Deloitte	—	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
INFORMÁTICA EL CORTE INGLÉS COSTA RICA, S.A.S.	(b)	Sale of computer products and services	Costa Rica	—	—	100.00
INFORMÁTICA EL CORTE INGLÉS (USA) CORPORATION	(b)	Sale of computer products and services	USA	—	—	100.00
INFORMÁTICA EL CORTE INGLÉS (UK) LIMITED	(b)	Sale of computer products and services	United Kingdom	—	—	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. Auditors	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
ASSOCIATES						
GESTIÓN DE PUNTOS DE VENTA, GESPEVESA, S.A.	(b)	Service stations and convenience stores	Madrid	Deloitte	50.00	—
SEPHORA COSMÉTICOS ESPAÑA, S.L.	(b)	Sale of perfume and cosmetics	Madrid	Deloitte	50.00	—
FST HOTELS, S.A.	(b)	Hotel management	Palma de Mallorca	Deloitte	—	50.00
CITOREL, S.L.	(a)	Marketing of jewellery and watches	Madrid	—	50.00	—
FINANCIERA EL CORTE INGLÉS E.F.C., S.A.	(b)	Finance	Madrid	Deloitte	49.00	—
TAGUS BOOK, S.L.	(b)	Distribution of electronic books	Madrid	—	24.00	—
IBERIAFON, S.A.	(b)	Real Estate	Madrid	B.D.O.	40.00	—

Amounts in thousands of euros.

(a) Financial year ending on 29/02/2016.

(b) Financial year ending on 31/12/2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDING ON 29 FEBRUARY 2016

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATION PRINCIPLES

2.1. Basis of presentation

The consolidated financial statements of the El Corte Inglés Group for 2015 were drawn up based on the accountancy records held by El Corte Inglés, S.A. (the parent company) and the other entities which form part of the Group and they were formulated by the Directors of the parent company in the meeting of its Board of Directors held on the 31st of May 2016, in order to give a true and fair view of the consolidated assets and financial situation of the Group at 29 February 2016 and the results of its operations, the changes in equity and the consolidated cash flows in the Group during the financial year ending on that date.

These financial statements were drawn up in accordance with the applicable financial reporting regulatory framework and in particular that established by the International Financial Reporting Standards, as adopted by the European Union, in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council. Note 4.2 outlines the most significant obligatory accounting principles and valuation criteria applied and the alternatives permitted by the regulations in this regard, as well as the standards and interpretations which had been issued but were not in force on the date these financial statements were produced.

Given that the accounting principles and valuation criteria applied in the preparation of the Group's consolidated financial statements of financial year 2015 (International Financial Reporting Standards) differ from those used by the entities integrated into it (local regulations), in the consolidation process the necessary adjustments and reclassifications were made in order to harmonise those principles and criteria and to adapt them to the International Financial Reporting Standards adopted in Europe.

These consolidated financial statements are, unless otherwise indicated, presented in thousands of euros, as that is the functional currency of the main economic environment in which the Group operates. Operations abroad are incorporated in accordance with the policies established in note 4.2.9.

2.2 Accountancy principles applied

The Directors of the parent company have drawn up these consolidated financial statements taking into consideration all of the applicable, obligatory accounting standards and principles and valuation criteria which have a significant effect on the consolidated financial statements, as well as the alternatives which the regulations permit in this regard and which are specified in note 4.2.

2.3. Accounting estimates and judgements

The information contained in these consolidated financial statements is the responsibility of the Directors of the parent company.

In preparing these consolidated financial statements, estimations made by the Directors of the parent company have been used in order to value some of the assets, liabilities, income, expenses and commitments recorded in them. Those estimations refer basically to the following:

- The evaluation of possible impairment losses of certain assets, including goodwill.
- The valuation of the inventories following the "retail" method.
- The useful lifetimes of property, plant and equipment, intangible assets and investment property.
- The fair value of certain financial instruments.
- The determination of the value of provisions.
- The recoverability of deferred tax assets.

- The estimation of the commitments due to contracts involving payments.

Despite the fact that these estimates were made in accordance with the best information available at 29 February 2015 regarding the facts under analysis, future events may require them to be modified (upwards or downwards) in future financial years. This would be carried out in accordance with the provisions set out in IAS 8, prospectively recognising the effects of the changed estimation in the corresponding consolidated income statement.

2.4 Comparison of information

In accordance with the requirements of IAS 1, the information contained in these notes to the financial statements referring to financial year 2014 is presented for the purpose of comparison with the information related to financial year 2015 and it does not therefore constitute the consolidated financial statements of the Group for financial year 2014.

2.5 Grouping of items

Certain items of the consolidated balance sheet, the consolidated income statement, the consolidated statement of changes in equity and the consolidated statement of cash flows are presented grouped together in order to facilitate understanding, though, to the extent to which it is significant, the individualised information has been included in the corresponding notes of the notes to the consolidated financial statements.

2.6 Changes in accountancy criteria, accountancy policies and correction of errors

During financial year 2015, there were no significant changes in accountancy criteria compared to the criteria applied in financial year 2014.

Likewise, in preparing these financial statements, no significant errors were detected which would have required the re-expression of the amounts included in the financial statements of financial year 2014.

2.7 Consolidation principles

2.7.1 Integration methods

The consolidation was carried out applying the global integration method for those companies over which the parent company has control, in accordance with IFRS 10. In those cases in which there are joint agreements for the management of the part-owned company by the Group and one or more non-related third parties, in which the parties act jointly in order to oversee the relevant activities and the decisions on those activities require the unanimous consent of the parties, the Group evaluates whether it has direct rights and obligations for its proportional part of the assets and liabilities of the agreement (joint operation) or whether it has rights only to the net assets of the agreement (joint venture). The Group does not have entities classified as "joint operations" (mainly temporary unions of companies) with a significant impact on these consolidated financial statements.

Those companies which are joint ventures or companies in which the Group has a significant ability to influence the management (associates) are valued using the "equity method" (see notes 2.1 and 2.7.4).

2.7.2 Dependent entities

Dependent entities are those in which the parent company has the ability to exercise effective control, which is generally manifested by the fulfilment of the following three criteria: it has power over the part-owned company; the exposure or the right to the variable results of the investment; and the ability to use that power in a way which could influence the amount of those returns.

The financial statements of dependent entities are consolidated with those of the parent company by means of the application of the global integration method. Consequently, all the balances and effects of the transactions made between the consolidated companies have been eliminated during the consolidation process.

If necessary, adjustments are made to the financial statements of the dependent companies in order to adapt the accounting policies employed to those which are used by the Group.

The participation of minority shareholders is established in proportion to the fair values of the recognised assets and liabilities of the minority stake.

The value of the stakes of third parties in the equity and the profits of the companies which have been consolidated using the global integration method are presented in the "Non-controlling interests" section of the consolidated balance sheet at 29 February 2016 and in the "Profit attributable to non-controlling interests" section of the attached consolidated income statement of financial year 2015.

2.7.3 Joint Ventures

"Joint Ventures" is understood to mean contractual agreements by virtue of which two or more entities participate in entities in such a way that any strategic decision of a financial or operating nature which affects those entities requires the unanimous consent of all the participants, provided those joint agreements give rights to the net assets of the agreement.

The companies considered "joint ventures" are integrated into the consolidated group using the equity method (see note 2.7.4).

2.7.4 Associates

"Associates" is understood to mean those companies over which the Group exercises a significant influence in their management, understood as the power to intervene in decisions regarding the financial and operating policies of the entity, but without having control or even joint control.

In the consolidated financial statements, the associates (as well as the joint ventures defined in note 2.7.3) are valued using the equity method, i.e. for the portion of their equity represented by the Group's participation in their capital, after having considered the dividends received from them and other equity eliminations. In the case of transactions with an associate, the corresponding profits or losses are eliminated in accordance with the percentage of the Group's stake in its capital.

The part of the acquisition cost which exceeds the Group's percentage stake in the fair value of the net assets of the associate is recorded implicitly as goodwill. The goodwill related to an associate is included in the book value of the investment and it is not depreciated. Any amount which exceeds the Group's percentage stake in the fair value of the net assets of the associate on the purchase date, over and above the acquisition cost, is recorded in the consolidated income statement.

The profits net of taxes of the associates are incorporated into the consolidated income statement of the Group, in the "Result of companies accounted for using the equity method" section, in accordance with the percentage stake.

If, as a result of the losses incurred in an associate, its net worth in books is negative, in the consolidated balance sheet of the Group it will be indicated as zero, unless there is an obligation on the part of the Group to back it financially.

Note 1 gives further details on these entities.

2.7.5 Intra-group eliminations

All the debit and credit balances and transactions carried out among dependent companies, with associates and joint ventures, and among themselves, have been eliminated in the consolidation process.

2.7.6 Uniformity of valuation

Consolidation of the entities which comprise the scope of consolidation was carried out based on their individual financial statements, which are prepared in accordance with the Spanish General Accountancy Plan for those companies residing in Spain and in accordance with their own local regulations for foreign companies. All the significant adjustments necessary to adapt them to International Financial Reporting Standards and/or to bring them into line with the accounting criteria of the parent company have been considered in the consolidation process.

2.7.7 Companies with close dates different from that of the Group

The companies with close dates different from that of the consolidated accounts have been consolidated with the financial statements at their close dates (31 December 2015, see note 1). Any significant operations carried out between the close dates of those subsidiaries and that of the consolidated accounts are temporarily harmonised with the latter.

2.7.8 Translation of financial statements in foreign currencies

The financial statements of companies drawn up in currencies other than the euro have been translated to euros in accordance with the following criteria:

a) Assets and liabilities: at the year-end exchange rate.

b) Capital and reserves: at the historical exchange rate.

c) Income and expenses: at the average monthly exchange rate of the financial year.

The differences resulting from the application of these criteria are included in the equity of the consolidated balance sheet, in the "Translation Differences" section.

2.7.9 Changes in the scope of consolidation

There were no significant changes during financial year 2015.

3. DISTRIBUTION OF PROFIT OF THE PARENT

The profit distribution proposal formulated by the Directors of the parent company is to pay out a dividend of 35 million euros, to be distributed proportionally for each existing share with the right to receive it. The calculation of the aforementioned distribution proposal is as follows:

Item	Thousands of euros
Dividends	35,000
Voluntary reserves	115,863
TOTAL	150,863

4. MAIN ACCOUNTING PRINCIPLES

4.1. Adoption of new standards and interpretations issued

4.1.1 Standards and interpretations effective in the present financial year

During financial year 2015, new accounting standards, amendments and interpretations have come into effect, and these were therefore taken into account in preparing the attached consolidated financial statements:

Standards, amendments and interpretations	Description	Obligatory application in financial years starting from
Approved for use in the EU		
IFRIC 21—Levies (published in May 2013)	Guidance on when to recognise a liability for a levy that is imposed by a government.	17 June 2014
Improvements of IFRSs, cycle 2011 – 2013 (published in December 2013)	Minor amendments of a series of standards.	01 January 2015

These standards and amendments were applied in these financial statements without having any significant impacts on the figures reported or on the presentation and breakdown of information, either because they do not represent major changes or because they refer to economic circumstances which do not affect the Group.

4.1.2 Standards and interpretations issued but not yet in force

At the time of preparing these financial statements, the following are the most significant standards and interpretations published by the IASB but which have not yet come into effect, either because their date of application is after the date of the consolidated financial statements or because they have not yet been adopted by the European Union:

Standards, amendments and interpretations	Description	Obligatory application in financial years starting from
Approved for use in the EU		
Amendment of IAS 19—Employees' contributions to defined benefit plans (published in November 2013)	The amendment is issued in order to facilitate the possibility of deducting these contributions from the cost of the service in the same period in which they are paid if they meet certain requirements.	01 February 2015
Improvements of IFRSs, cycle 2010 – 2012. (published in December 2013)	Minor amendments of a series of standards.	01 February 2015

Amendment of IAS 16 and IAS 38—Acceptable methods of depreciation and amortisation (published in May 2014).	It clarifies the acceptable methods for the amortisation and depreciation of property, plant and equipment and intangible assets, which do not include those based on revenue.	01 January 2016
Amendment of IFRS 11 — Accounting for acquisitions of interests in joint operations (published in May 2014).	It specifies how to account for the acquisition of an interest in a joint operation whose activity constitutes a business.	01 January 2016
Improvements of IFRSs, cycle 2012 – 2014 (published in September 2014)	Minor amendments of a series of standards.	01 January 2016
Amendment of IAS 27—Equity method in separate financial statements (published in August 2014)	The equity method will be permitted in the individual financial statements of an investor.	01 January 2016
Amendment of IAS 1: disclosure initiative (December 2014).	Clarifications in relation to disclosures (materiality, aggregation, order of notes, etc.)	01 January 2016
Not yet approved for use in the EU		
IFRS 9—Financial instruments (last phase published in July 2014)	It replaces the classification, valuation, recognition and removal requirements in accounts of financial assets and liabilities, the accountancy of hedges and impairment of IAS 39.	01 January 2018
IFRS 15—Revenue from contracts with customers (published in May 2014)	New standard for the recognition of revenue (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31).	01 January 2018
IFRS 16—Leases (published in January 2016)	New standard on leases (replaces IAS 17)	01 January 2019
Amendment of IFRS 10 and IAS 28—Sale or contribution of assets between an investor and its associate or joint venture (published in September 2014).	Clarification in relation to the result of these operations if they are businesses or assets.	Indefinitely postponed.
Amendment of IFRS 10, IFRS 12 and IAS 28—Investment entities (December 2014).	Clarification of the consolidation exception of investment entities.	01 January 2016
Amendments of IAS 12: Recognition of deferred tax assets for unrealised losses (published in January 2016)	Clarification of the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value.	01 January 2017
Amendment of IAS 7: disclosure initiative (published in January 2016).	It proposes the breakdown of initial and final balances of the financial statements of items whose cash flows are classified as financing activities.	01 January 2017

- IFRS 9—Financial Instruments:

IFRS 9 will replace IAS 39 in the future. There are very considerable differences compared to the current standard in relation to financial assets, including: the approval of a new classification model based on just two categories, amortised cost and fair value; the disappearance of the current classifications of "Held-to-maturity investments" and "Available-for-sale financial assets"; a new impairment model based on expected losses instead of incurred losses; and also the accountancy of hedges, which seeks to align the accountancy with the financial management of the risk.

The Group is currently analysing all the future impacts of the adoption of this standard, and it is not possible to give a reasonable estimation of its effects until that analysis has been completed. Likewise, it will be possible to consider all its effects once the standard has been fully completed.

- IFRS 15—Revenue recognition:

IFRS15—Revenue from contracts with customers is the new standard for recognition of revenue from customers, which, in financial years starting from the 1st of January 2018, will replace the following standards and interpretations currently in force: IAS 11—Construction contracts, IAS 18—Revenue from ordinary activities, IFRIC 13—Customer loyalty programmes, IFRIC 15—Agreements for the construction of real estate, IFRIC 18—Transfers of assets from customers, and SIC 31—Revenue—Barter transactions involving advertising services.

- IFRS 16—Leases:

IFRS 16—Leases will, from the 1st of January 2019, replace IAS 17—Leases. This new standard proposes a single model for the lessee in which all leases (non-significant leases and those with a lease period of less than twelve months can be excluded) are recorded in the balance sheet in a similar way to current financial leases (allocating finance costs for the amortised cost of the liability and amortisation for the right of use). A dual model for the lessor is maintained, based on the current IAS 17, and the leases will be financial or operating.

With the exception of that outlined in the previous paragraphs, the Directors of the Group do not anticipate any major changes due to the introduction of the rest of the standards, amendments and interpretations which have been published but are not yet in force, as they are applications of a prospective nature, changes in presentation and breakdown and/or they address aspects not applicable to the Group's operations.

4.2. Registration and valuation standards

4.2.1 Goodwill

The positive differences between the cost of stakes in the capital of consolidated entities compared to the corresponding theoretical-book values, adjusted on the date of first consolidation, are allocated in the following manner:

- If they can be assigned to specific asset elements of the part-owned companies, increasing the value of the assets (or reducing that of the liabilities) whose market values are higher (lower) than the net book values stated in their balance sheets and whose accounting treatment is similar to that of the assets (liabilities) of the Group: depreciation, accrual, etc.

- If they can be assigned to specific intangible assets, they are explicitly recognised in the consolidated balance sheet provided that their fair value on the date of acquisition can be reliably determined.

- The remaining differences are registered as goodwill, which is assigned to one or more specific cash generation units.

4. MAIN ACCOUNTING PRINCIPLES

Goodwill is only recorded if it has been acquired in return for payment and it therefore represents advance payments made by the acquiring entity of the future economic benefits deriving from the assets of the acquired entity which are not individual, separately identifiable and recognisable.

At the time of transfer of a dependent company or a jointly controlled entity, the attributable amount of the goodwill is included in the determination of the profit or loss deriving from that transfer.

The goodwill which arises in the acquisition of companies with functional currencies other than the euro is valued in the functional currency of the acquired company, the conversion to euros being made at the exchange rate on the date of the balance sheet.

Goodwill is not depreciated, rather it is subjected to an "impairment test" at least once a year (see note 4.2.5).

4.2.2 Other intangible assets

Other intangible assets are considered to be the non-monetary and non-physical, specifically identifiable assets which were acquired from third parties or developed by the company. Only those whose cost can be objectively estimated and from which it is expected that economic benefits will be obtained are recorded in accounts.

The intangible assets are initially recognised at their acquisition or production cost and, subsequently, they are valued at their cost minus, where applicable, the corresponding cumulative depreciation and any impairment losses they have suffered.

An asset is considered to have an "indefinite useful lifetime" when, on the basis of the analyses carried out of all the relevant factors, it is concluded that there is no foreseeable limit to the period during which it is expected that net cash flows will be generated in favour of the Group. In all other cases, they will be considered to have a "finite useful lifetime".

The only assets with indefinite useful lifetimes held by the Group correspond to the goodwill and the value of certain brands, whose respective values in financial year 2015, included in the "Other intangible assets" section, were 10.69 million euros (10.69 million euros in FY 2014) and 28.43 million euros (28.43 million euros in FY 2014) respectively.

On the basis of an analysis of all the relevant factors, the Group has established that there is no foreseeable limit to the period during which it is expected that the brands will generate net cash flows for the entity, and therefore those brands are assigned indefinite useful lifetimes.

The company applies the linear depreciation method to its intangible assets with finite useful lifetimes, applying annual depreciation percentages calculated in accordance with the estimated years of useful life of the respective assets:

The intangible assets with indefinite useful lifetimes are not depreciated, so they are subjected to an "impairment test" at least once a year, following the same criteria as those for goodwill (see note 4.2.5).

The Group recognises in accounts any loss in the registered value of these assets due to impairment, using as the counterpart the "Impairment and gains or losses on disposals of assets" section of the consolidated income statement. The criteria for the recognition of the impairment losses of these assets and, where applicable, any recoveries of these which take place subsequently are detailed in note 4.2.5.

a) Development costs

The costs of research activities are recognised as expenses in the year in which they are incurred.

Development costs are only recognised as intangible assets if they fulfil all the conditions indicated below:

- they are specifically individualised by projects;

- the cost of the development of the asset can be reliably evaluated; and

- it is likely that the asset created will generate future profits.

The assets thus generated are depreciated on a linear basis over the course of their useful lifetimes (over a maximum period of five years).

At 29 February 2016 and 28 February 2015, these assets were fully depreciated.

If there are doubts about the technical success or the financial profitability of the project, the amounts recorded in the assets are allocated directly to the income statement of the financial year.

b) Intellectual Property

This account records the amounts paid for the acquisition of an intellectual property or the right of use of the different manifestations of it (patents, brands, licences), or the expenses incurred for the registration of the intellectual property developed by the Group.

Patents and trademarks are initially valued at their acquisition price and they are depreciated on a linear basis throughout their estimated useful lifetimes, with the exception of trademarks considered to have indefinite useful lifetimes, which are subjected to an annual impairment test.

The rest of the assets classified as "Intellectual Property", considered to have finite useful lifetimes, are depreciated on a linear basis, generally over a period of 5 years.

c) Administrative concessions

Concessions can only be included in the assets if they were acquired by the Company in return for payment in those concessions which may be transferred, or for the amount of the expenses incurred for their direct obtainment from the corresponding Body.

The administrative concessions registered by the Group reflect the amounts paid for the acquisition of the construction and operating rights of certain premises and they are depreciated on a linear basis over their term of validity.

d) Computer applications

The acquisition and development costs incurred in relation to basic computer systems for the management of the Group are charged to the "Other intangible assets" section of the consolidated balance sheet.

The maintenance costs of computer applications are recognised in the consolidated income statement of the financial year in which they are incurred.

The depreciation of computer applications is carried out applying the linear method over a period of 5 years from the time when each application goes into operation.

e) Transfer rights

Transfer rights are valued at the amount paid for their acquisition and they are depreciated over 10 years, which is the estimated period during which they will contribute to generating income.

4.2.3 Property, plant and equipment

The elements of property, plant and equipment acquired for use in the production or supply of goods or services, or for administrative purposes, are presented in the consolidated balance sheet at their acquisition or production cost minus cumulative depreciation and any impairment losses they have suffered. In addition, and as a result of applying the First-Time Application Standard (IFRS 1) in financial year 2013, certain properties and other elements of the fixed assets were recorded at fair value (based on appraisals by independent experts) as attributed costs.

The costs of expansion, modernisation or improvements which represent an increase in the productivity, capacity, efficiency or useful lifetime of the assets are recorded as a greater cost of those assets. The acquisition cost includes the professional fees and the finance costs incurred during the financing period of work in progress on investments in new department stores, whose execution period was greater than one year and until that work is transferred to the corresponding item of Property, plant and equipment.

The interest rate used is the average rate of financing of the Group.

The conservation and maintenance costs are recognised in the consolidated income statement of the financial year in which they are incurred.

Assets and elements which have been removed, whether as a result of a modernisation process or for any other reason, are recorded in accounts by removing their balances in the corresponding cumulative depreciation and cost accounts.

The work which the Company carries out for its own fixed assets is reflected at the cumulative cost resulting from adding to the external costs those other costs determined in accordance with the internal consumptions of warehouse materials and the manufacturing costs incurred.

Property, plant and equipment are depreciated following the linear method, the cost of the assets being distributed across the years of estimated useful lifetime, as shown in the following table:

Item	**Years**
Constructions	33 – 85
Machinery, installations and tooling	3.5 – 17
Furniture and effects	3.5 – 15
Information processing equipment	4 – 6
Transport elements	5 – 15

The gain or loss resulting from the disposal or removal of an asset is calculated as the difference between the profit from the sale and the book value of the asset, and it is recognised in the consolidated income statement.

4.2.4 Investment property

The "Investment property" section of the consolidated balance sheet includes the values of lands, buildings and other constructions which are held either in order to lease them out or to obtain a capital gain from their sale as a result of future increases in their respective market prices.

Investment property is presented at its acquisition cost, following, for all effects, the same criteria as elements of the same class of property, plant and equipment (see note 4.2.3).

The income accrued during financial year 2015 deriving from the rental of those investment properties was approximately 1.30 million euros (0.73 million euros in financial year 2014), and it is registered in the "Other operating income" section of the attached income statement.

4.2.5 Value impairment of non-current assets

In each financial year, and whenever there are indications of a loss of value, the Group evaluates the book values of its property, plant and equipment, investment property and intangible assets, including the goodwill and the intangible assets with indefinite useful lifetimes, by means of an "impairment test", in order to determine whether their recoverable value is lower than their book value (impairment loss). In the case of the goodwill and intangible assets with indefinite useful lifetimes, the impairment test is carried out at least once a year and more frequently if there are indications of impairment.

If the asset does not itself generate cash flows independent from other assets, the Group calculates the recoverable amount of the cash generation unit to which the asset belongs.

The Group defines as basic cash generation units (CGUs) each one of the commercial premises (department stores, hypermarkets, supermarkets and offices) which make up its distribution network. However, when determining the CGU, those units may be aggregated at the geographical area level depending on the real management of their operations.

With regard to the Group's assets (offices, warehouses, logistics centres, etc.) which do not fulfil the criteria outlined above, they have their own treatment in accordance with that mentioned in this note.

The recoverable amount is determined as either the fair value minus the estimated sales costs or its value in use, whichever is higher.

Fair value is understood to mean the value at which the asset in question could be disposed of in normal conditions and it is determined on the basis of market information, comparable transactions, etc.

For each cash generation unit, the value in use is calculated based on the estimated future cash flows, discounted at a rate which reflects the current market valuations with regard to the value of money, adjusted by the specific risks associated with the asset that were not taken into account when estimating the future cash flows.

The Group generally prepares the cash flow forecasts of the cash generation unit for a period of 5 years, incorporating the best available estimations of income and expenses, using sectoral forecasts, past experience and future expectations (the entity's forecasts, business plans, etc.), as well as the macro-economic indicators which reflect the current and foreseeable economic situation of each market. Likewise, another estimation to be taken into consideration is the margin, depending on the CGU and the nature of the business or product.

In addition, a residual value is calculated depending on the standardised cash flow of the last year of the forecast, to which a growth rate in perpetuity is applied (in the majority of cases, it is zero), which in no case exceeds the growth rates of previous years. The cash flow used for the calculation of the residual value takes into account the investments for replacement which are necessary for the future continuity of the business at the estimated growth rate.

For the discounting of the cash flows, the weighted average cost of capital is used; this is determined before taxes and is adjusted by the country risk, the corresponding business risk and other variables influenced by the current market situation. The average discount rate applied depends on the business and the country in which the activity is carried out. The average discount rate applied is 7.2% for financial year 2015.

For the present financial year, the Group has determined the recoverable amount of the main assets as the fair value based on the appraisals carried out by independent experts. For operating assets, the valuation was carried out in accordance with the valuation principles, methodology and criteria contained in Ministerial Order ECO/805/2003 of 27 May, amended by Orders EHA/3011/2007 and EHA/564/2008. For real estate which is intended to generate rent, the reasonable value has been determined in accordance with the updating method, in accordance with the methodology described in articles 24 to 28 and 31 to 33 of Ministerial Order ECO/805/2003, depending on the most probable cash flows which its remaining useful lifetime will generate.

If it is estimated that the recoverable amount of an asset (or cash generation unit) is lower than its book value, the latter is reduced to its recoverable amount, recognising a value impairment loss as an expense, using as the counterpart the "Impairment and gains or losses on disposals of assets" section of the consolidated income statement.

When a value impairment loss is subsequently reverted, the book value of the asset (or cash generation unit) is increased to the revised estimation of its recoverable value, but in such a way that the increased book value does not exceed the book value that would have been determined if no value impairment loss had been recognised for the asset (or cash generation unit) in previous financial years.

In the case of goodwill, at each accountancy close an estimation is made of whether it has suffered any impairment which reduces its recoverable value to an amount which is lower than the registered net cost; if so, the appropriate write-down is applied. Impairment losses related to goodwill are not subject to subsequent reversion.

At close of financial year 2015, the Group recorded 50,01 million euros (13.56 million euros in 2014) as impairment of property, plant and equipment, intangible assets and investment property.

Finally, in the case of trademarks with indefinite useful lifetimes, the recoverable amount was determined as their value in use, using cash flow forecasts which, as a general rule, are based on the company forecasts, which cover a period of five years.

4.2.6 Leases

Leases are classified as financial leases whenever their conditions indicate that the risks and benefits inherent in the ownership of the asset which is the object of the contract are substantially assumed by the lessee. Other leases are classified as operating leases.

a) Financial Leasing

In financial leasing operations in which the Group acts as the lessee, the cost of the leased assets is presented in the balance sheet in accordance with the nature of the asset which is the object of the contract and, simultaneously, a liability for the same amount. That amount will be either the fair value of the leased asset or the current value at the start of the lease of the minimum quantities agreed, including the purchase option if there are no reasonable doubts regarding its exercise, whichever is the lower.

Property, plant and equipment acquired under financial leasing are recorded in the asset category which corresponds to the leased asset, depreciated over its forecast useful lifetime, following the same method as that for assets in ownership (see note 4.2.3) or, if it is shorter, during the relevant term of the lease.

The calculation does not include the charges of a contingent nature, the cost of the services and the taxes payable by the lessor.

Finance costs originating from these lease contracts are allocated to the consolidated income statement so that the financial cost is maintained constant over the course of the lifetimes of the contracts.

Contingent charges are recognised as expenses of the financial year in which they are incurred.

b) Operating Leases

In operating leasing operations, the ownership of the leased asset and, substantially, all the risks and advantages of the asset remain with the lessor, and the lessor registers those assets at their acquisition cost.

When the consolidated entities act as lessors, they present the acquisition cost of the leased assets in the "Property, plant and equipment" section. These assets are depreciated in accordance with the policies adopted for similar items for the entity's own use (see note 4.2.3) and the income from the lease contracts is recognised in the income statement on a linear basis.

When the consolidated entities act as lessees, the costs of the lease, including any incentives granted by the lessor, are charged to their income statements on a linear basis.

The profits received and to be received due to incentives for the formalisation of an operating lease are also distributed linearly over the course of the duration of the lease.

4.2.7 Inventories

Inventories are valued using the "retail" method, given that the result of applying it does not produce significant differences compared to the real cost of inventories.

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The retail method determines the cost of inventories starting from the sale price minus an estimated gross margin percentage, in which the sale price, possible discounts to be made on those sale prices and the age of the merchandise are considered, as well as the changes in seasons and trends, mainly in fashion items. This method is applied consistently for all the families of products of the Group.

With this method, the inventory is valued at all times at the cost or the net production value, whichever is lower.

4.2.8 Financial instruments

a) Financial assets

Valuation and classification

Financial assets are recognised in the Group's balance sheet when they are acquired. Financial assets are initially recorded at their fair value, including, in general, the costs of the operation.

The subsequent valuation will depend on the classification assigned by the Group to each financial asset. The financial assets held by the companies of the Group are classified into the following categories:

- Trade and other receivables and credits granted to third parties: these correspond to credits deriving from the sale of products or the provision of services for trade operations of the Group, or those which do not have a commercial origin and are not equity instruments or derivatives and whose receivable amounts are fixed or can be determined and they are not traded in an active market.

Trade and other receivables with due dates in the short term are recorded at their nominal values, which are considered equivalent to their fair values.

As a general criterion, the value adjustment of these instruments due to impairment is made when there is a reasonable doubt which calls into question their recoverability. The aforementioned impairment is recognised in the consolidated income statement of the financial year in which it is identified. The recovery of the previously-recorded impairment loss, if it occurs, is recognised in the consolidated income statement of the financial year in which the impairment no longer exists or has been reduced.

The El Corte Inglés store card is accepted as a means of payment by the majority of the Group companies indicated in note 1, and Financiera El Corte Inglés E.F.C., S.A. is the holder of almost all of those cards. Likewise, Financiera El Corte Inglés E.F.C., S.A. is responsible for the management and administration of the billing and payment collection of sales made with that card.

- Held-to-maturity financial assets: they correspond to assets with fixed maturities, receivable amounts which are fixed or can be determined, and for which the Group has declared its intention and ability to maintain them in its possession until the date of their maturity. These instruments are recorded at their amortised cost.

With regard to guarantees and deposits, assets classified under this heading which mainly refer to the amounts paid out by Group companies to the owners of the leased units are valued at the amounts paid out, which do not significantly differ from their fair value.

- Available-for-sale financial assets: these include securities representing debt and financial stakes in other companies that are not classified in any of the preceding categories.

They are valued at their fair value when it is possible to reliably determine it, whether from the listed value or, failing this, the value established in recent transactions, or at the current value after discounting the future cash flows. The profits and losses deriving from changes in the 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 included in the consolidated income statement of the financial year. If the fair value is lower than the acquisition cost, and if there is objective evidence that the asset has suffered an impairment which cannot be considered temporary, the difference is registered directly in the consolidated income statement.

If the fair value cannot be reliably determined, these assets are valued at their acquisition cost, corrected by any evidence of impairment which may exist.

At 29 February 2016, the valuations at fair value made on available-for-sale financial assets were calculated by reference to prices listed in the market (unadjusted), classified in Level 1 of the fair value hierarchy established by IFRS 7.

- Other financial assets of the insurance business: the financial assets deriving from insurance, co-insurance and re-insurance operations are valued at their amortised cost. The interest accrued is recorded in the consolidated income statement, applying the effective interest rate method.

- Cash and cash equivalents: the treasury includes both cash and sight bank deposits. Cash equivalents are short-term investments, with maturities of less than three months and which are not subject to a relevant risk of changes in their value.

Removal of financial assets

The Group removes financial assets when they expire or the rights over the cash flows of the corresponding asset have been transferred and the risks and benefits inherent in its ownership have also been substantially transferred.

On the other hand, the Group does not remove the financial assets, and it recognises a financial liability for an amount equal to the consideration received, in transfers of financial assets in which the risks and benefits inherent in its ownership are substantially retained.

b) Financial liabilities

Valuation and classification

The financial liabilities held by the companies of the Group are classified as:

- Bank borrowings: loans obtained from banking entities are recorded at the amount received, after deducting the costs and commissions deriving from their formalisation. Those formalisation costs and the finance costs generated by the loans are recorded in the income statement using the effective interest rate method and they are incorporated at the book amount of the liability, to the extent to which they are not settled, in the period in which they are accrued. In subsequent periods, these liabilities are valued at their amortised cost, using the effective interest rate method.

- Debentures and other marketable securities, trade payables and other financial liabilities are initially recorded at their fair value and subsequently in accordance with their amortised cost.

Trade payables which do not explicitly accrue interest are recorded at their nominal values, which do not significantly differ from their fair values.

Removal of financial liabilities

The Group removes financial liabilities when the obligations which generated them no longer exist.

c) Equity instruments

An equity instrument represents a residual stake in the equity of the parent company, once all its liabilities have been deducted.

The capital instruments issued by the parent company are registered in equity at the amount received, net of issue costs.

The Company records a loan convertible into shares as “Other equity instruments”. That loan was considered an equity instrument because it will be repaid by means of a fixed number of company shares and any additional compensation to be made is at the decision of the General Meeting of Shareholders of the Company (see Note 15.8). Therefore, the changes in that instrument, as well as the associated issue costs (which were 24.7 million euros), are recorded directly in equity.

Treasury shares

Treasury shares are recorded at the value of the consideration given in exchange, directly as lower value of equity. The results deriving from the purchase, sale, issue or amortisation of own equity instruments are recorded directly in equity, and in no case is any result whatsoever recorded in the consolidated income statement.

d) Derivative financial instruments

The Group uses derivative financial instruments to cover the risks to which its activities, operations and future cash flows are exposed. Fundamentally, these risks are in regard of changes in exchange rates and interest rates. In the framework of those operations, the Company contracts derivative financial instruments, which, in order to meet the requirements established by IAS 39, have been designated as cash flow hedging instruments.

So that these financial instruments can be classified as accounting hedges, they are initially designated as such, the hedging relation being documented. Likewise, the Group verifies, initially and periodically throughout its lifetime (at least at each accounting close), that the hedging relation is effective, i.e. that it can be prospectively expected that the changes in the fair value or in the cash flows of the hedged item (attributable to the hedged risk) are offset almost entirely by those of the hedging instrument and that, retrospectively, the results of the hedge have oscillated within a range of 80% to 125% compared to the result of the hedged item.

The derivative financial instruments which the Group held at close of financial year 2015 are mainly cash flow hedge instruments. These hedges are initially recorded at their fair value in the balance sheet, and subsequently the necessary valuation adjustments are made in order to reflect their fair value at each moment, recorded in the "—Non-current financial assets" or "Current financial assets" sections of the balance sheet if they are positive, and as "Non-current bank borrowings" or "Current bank borrowings" if they are negative.

The changes in the fair value of these derivatives are recorded in the "Equity—Valuation adjustments, hedges" section.

The cumulative loss or gain in that section is transferred to the income statement as and when the underlying has an impact on the income statement, netting both effects.

The fair value of financial derivative instruments incorporates the adjustment for bilateral credit risk (taking into account both our own credit risk and the counterparty's credit risk).

The adjustment for bilateral credit risk, which amounts to 1.7 million euros at 29 February 2016 (1 million euros at 28 February 2015), was calculated applying a technique based on calculation through simulations of the total expected exposure (which incorporates both the current exposure and the potential exposure), adjusted by the probability of non-fulfilment over time and the severity (or potential loss) assigned to the Company and to each one of the counterparties.

The total expected exposure of the derivatives is obtained using observable market inputs such as interest rate curves, exchange rate curves and volatilities in accordance with the market conditions on the date of valuation.

The inputs applied in order to determine our own credit risk and those of the counterparties (determination of the probability of default) are based mainly on the application of our own credit spreads or those of comparable companies currently negotiated in the market (CDS curves, IRRs of debt issues). In the absence of our own credit spreads or those of comparable companies, and in order to maximise the use of relevant observable variables, the listed references considered most appropriate have been used, depending on the case (global CDS curve). For the counterparties with available credit information, the credit spreads used are obtained from the CDSs (Credit Default Swaps) listed in the market.

Likewise, for the adjustment of the fair value to the credit risk, we have taken into account the credit improvements related to guarantees or collaterals when it comes to determining the level of severity to be applied for each one of the positions.

Hedges are removed from accounts when the hedging instrument expires or is sold or exercised, or the criteria for the recording of hedges in accounts are no longer met. At that moment, any accumulated profit or loss corresponding to the hedging instrument which has been recorded in equity is maintained in the equity until the envisaged operation takes place. When it is not expected that the operation which is the object of the hedge will take place, the net accumulated profit or loss recognised in equity is transferred to the net profits for the period.

Derivatives are not considered hedges for accountancy purposes if they do not pass the effectiveness test, which requires that the changes in the fair value or in the cash flows of the hedged item, directly attributable to the covered risk, are offset by the changes in the fair value or in the cash flows of the derivative hedging instrument. If it does not pass the effectiveness test, the changes in the fair value of those instruments are allocated to the income statement of the financial year.

As of 29 February 2016, the fair value assessments made on different derivative financial instruments including the data used for calculating the adjustments by own and counterparty credit risk are included in level 2 of the fair value hierarchy framework established by IFRS 7, since the entries are based on the prices quoted for similar instruments in active markets (not included in level 1), prices quoted for identical or similar instruments in markets that are not active, and techniques based on valuation models for which all significant inputs are observable in the market or can be corroborated by observable market data. Although the Group has determined that most of the entries used to assess the derivatives fall within level 2 of the fair value hierarchy, adjustments for credit risk use level 3 entries, such as credit estimates according to credit rating or from comparable companies to assess the probability of the company or of the counterpart defaulting. The Group has evaluated the importance of the credit risk adjustments in the total valuation of derivative financial instruments and concludes that they are not meaningful.

4.2.9 *Foreign currency transactions*

Transactions in currencies other than each company's working currency are recorded in the company's working currency at the rate of exchange prevailing at the time of the transaction. During the financial year, the differences between the accounting exchange rate and the one in force at the date of receipt or payment are recorded as financial results in the consolidated income statement.

Likewise, the conversion of balances receivable or payable as of 28 February of each year in a currency other than the working currency in which the financial statements of the companies forming part of the scope of consolidation are set out, is carried out at the year end exchange rate. Any differences in valuation arising are recorded as financial results in the consolidated income statement.

4.2.10. *Income tax*

Corporate income tax expense represents the sum of the tax burden to be paid during the financial year plus the changes in assets and liabilities for deferred taxes.

The expense arising from the tax on profits during the financial year is calculated using the sum of the current tax resulting from the application of the tax rate on the tax base for the financial year, after applying any fiscally allowable deductions, plus the variation in deferred tax assets and liabilities.

Deferred tax assets and liabilities include temporary differences which are identified as the amounts expected to become payable or recoverable derived from the differences between the assets' and liabilities' book values and their taxable value, as well as any tax losses carried forward and any credits due to taxable unapplied deductions for taxation purposes. These amounts are recorded by applying the temporary difference or credit corresponding to the tax rate at which they are expected to be recovered or settled.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the temporary difference arises from the initial recognition of the commercial fund, whose amortisation is not deductible for tax purposes or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction affecting neither the taxable nor the accounting profit.

Moreover, deferred tax assets, identified with temporary differences are only recognised where it is considered probable that the consolidated entities will in future have sufficient taxable profits against which they can be made effective and where they do not arise from the initial recognition (other than in a business combination) of other assets and liabilities a transaction affecting neither the taxable nor the accounting profit. The remaining deferred tax assets (negative taxable amounts and deductions pending compensation), are only recognised in the event that it is deemed likely that the consolidated entities will in future have sufficient taxable profits against which they will become effective.

Income tax and changes in deferred tax assets and liabilities not arising from business combinations are recognised fully in the consolidated income statement, in the equity account or in the consolidated balance sheet, depending on where the profit or loss arose or what its origin is.

Deferred tax assets and liabilities are not updated and are classified as non-current assets/liabilities in the consolidated balance sheet.

Every time the accounts are closed, any recorded deferred tax (both assets and liabilities), is reviewed, in order to ensure that it is up-to-date; the appropriate corrections are made, in accordance with the results of the analyses carried out.

El Corte Inglés, S.A. is taxed in accordance with the fiscal consolidation regime, together with the Spanish subsidiaries in which it owns more than 75% of the capital, excluding those that have a different financial year to that of the parent company on grounds of their sectoral regulation, in accordance with the legal regulations currently in force in this matter.

Since the 1st of January 2008, El Corte Inglés, S.A., as the parent company, has applied the Special Group of Entities System regulated in Chapter IX of Section IX of Law 37/1992 on Value Added Tax, together with certain Spanish subsidiaries.

4.2.11. *Revenue recognition*

The recognition of the revenue from sales takes place when the significant risks and benefits inherent in the ownership of the sold goods have been substantially transferred to the buyer.

Rental income is recognised linearly depending on the duration of any contracts.

The heading of "Services" in the consolidated income statement, corresponds mainly to the Travel Agency, Information Technology and Communications services.

As regards revenue from services rendered, these are recognised by reference to the stage of completion of the service provision at the balance sheet date, so long as the transaction's result can be reliably projected.

4.2.12 *Provisions and contingencies*

a) General criteria

The Group follows the practice of providing projected income to meet liabilities arising from ongoing litigation, compensation or any obligations, as well as for any guarantees and warranties granted which entail for the Group a likely liability to make payment, provided the amount can be reliably projected.

Provisions are quantified on the basis of the best available information on the situation and any developments giving rise to them and will be re-projected on the occasion of the closing of each accounting period, leading to their total or partial reversion when the aforementioned obligations cease to exist or decrease.

Contingent liabilities, except in business combinations, are not recognised in the consolidated financial statements; rather they are reported in the memorandum notes, in accordance with the requirements of IAS 37.

The Group considers onerous those contracts in which the inevitable costs of complying with the obligations they impose exceed the economic benefits expected to be derived from them.

The Group follows the criterion of recording a provision for the current value of the above-mentioned difference between the costs and the benefits of the contract.

The discount rates used reflect current money market valuation, as well as the specific risks of these contracts.

b) Technical provisions

Technical provisions cover the amounts of any obligations undertaken arising from insurance and reinsurance contracts currently in force in order to ensure, in accordance with reasonable and prudent criteria the obligations arising from such contracts.

Provisions for unearned premiums and for ongoing risks

The unearned premiums provision aims to reflect the accretion of premiums accrued at year end and comprises the segment of premiums accrued during the financial year which should be attributed to the period between the closing date and the end of the period of coverage. The unearned premiums provision has been determined, for each kind, by applying the "policy by policy" approach, on the basis of the premium rate, in accordance with the Technical Bases, and pursuant to the Management and Supervision of Private Insurance Regulations.

Commissions and other acquisition costs corresponding to the premiums issued are recognised as an expense using the same criteria which recognises as income any premiums for insurance contracts currently in force. That part of commissions and other acquisition costs corresponding to the unused coverage period from insurance policies currently in force are recorded under the heading "Non-current provisions" of the liabilities in the balance sheet. As of 29 February 2016, those commissions amounted to 6.6 million euros (6.2 million euros as of 28 February 2015).

Current risk provision supplements the provision of unearned premiums insofar as that amount is insufficient to reflect the valuation of all the risks and expenses to be covered, corresponding to the unelapsed coverage period at financial year end. Its calculation is carried out in accordance with the existing Management and Supervision of Private Insurance Regulations. As of 29 February 2016 and 28 February 2015, it has not been necessary to incorporate this provision.

Life insurance provisions

They represent the value of the Group's obligations, net of the policyholder's obligations, arising from life insurance policies at the end of the financial year. Life insurance provision includes:

- Insurance policies whose coverage period is equal to or less than the year, the "unearned premiums provision" and, where appropriate, the "ongoing risk provision", whose aim and method of calculation are the same as those set out in the preceding paragraph.

- Regarding other insurance policies, there is a "mathematical provision". This provision represents the difference between the present actuarial value of the Group's future obligations and those of the policyholder, or as the case may be, the insured party. The basis for calculating this provision is the inventory premium accrued throughout the financial year; this is understood to mean the pure premium increased by extra administration cost charges as foreseen in the Technical Bases. The calculation is made policy by policy, through a system of individual capitalisation and the implementation of a prospective approach, in accordance with the Technical Bases and pursuant to the Management and Supervision of Private Insurance Regulations.

Technical interest rates used during the 2014 and 2015 financial years are included, basically, between 6.03% and 1.5%. However, for the main insurance policies which have a guaranteed high technical interest rate, the Group has assigned portfolios of specific financial investments whose profitability can cover the aforesaid guaranteed interest rates.

- For those insurance policies for which the policyholder assumes the investment risk, the corresponding life insurance technical provisions are determined depending on the specific assets covered, or the indices or assets, which have been set as a reference to determine the economic value of their rights.

Correction of accounting asymmetries

For insurance transactions that have been financially backed (those whose surrender value has been referenced to the value of specifically allocated assets), which provide for a share in the profits of a linked portfolio of assets or, in the case of transactions for which the policyholder assumes the investment risk or similar, at the transition date, the Group has recognised through its equity, symmetrically, the variations experienced in the fair value of the assets which are classified in the categories of "Available-for-sale financial assets" or "Negotiable financial assets" and those occurring in the provision of life insurance; either with a credit to these technical provisions, when required to do so by the Regulations and other applicable standards, or with a credit to a liability account (with a positive or negative balance), by the non-registered party as a life insurance provision.

Technical provisions for compensation

They cover the projections made by the Group to meet its commitments originating from claims occurring prior to the end of the financial year and pending declaration, settlement or payment on the aforesaid date. Likewise, any maturities and redemptions requested, pending settlement or payment to year end are included. This provision will be comprised by providing compensation pending settlement or payment, the provision of claims pending declaration and the provision of internal expenses for the payment of claims. It will be calculated in accordance with the corresponding regulations.

Provisions for shares in benefits and rebates

These provisions cover accrued, but not yet assigned, benefits in favour of policyholders, insured parties or beneficiaries, as well as the projected amount of the premiums that it is appropriate to return to policyholders or insured parties, if necessary, in accordance with the performance of the insured risks. Such provisions are calculated on the basis of the corresponding clauses of the contracts in force at year end.

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Technical provisions of accepted and assigned reinsurance

The corresponding provisions are reflected in the balance sheet in accordance with the terms in the relevant contracts and regulations.

4.2.13 *Severance payments and other payments to personnel*

In accordance with current labour regulations, the Group is obliged to pay compensation to employees with whom, under certain conditions, its severs its labour relations.

In addition, according to the articles of incorporation of El Corte Inglés, S.A., the Board of Directors will dispose of up to 20% of the annual liquid profit for distribution among the members of that Board and other managerial staff, provided that the requirements set out in article 130 of the revised text of the Public Limited Companies Law have been met.

The Directors of the Company estimate that the provisions recorded at 29 February 2016 to cover situations of this nature are sufficient (see Note 16.1).

4.2.14. Government grants

Government grants are recognised as income once all their terms have been met and during the periods for which they cover the related costs. They are deducted upon presentation of the corresponding expense.

Government grants relating to property, plant and equipment and intangible assets are considered deferred income and are classified under the heading "Other non-current liabilities" and any profits are distributed over the expected useful lives of the relevant assets.

4.2.15. Discontinued operations and non-current assets and liabilities held for sale

The Group classifies as "non-current assets held for sale" property, plant and equipment, intangible assets, other non-current assets or those included under the heading "Investments accounted for using the equity method" and disposal groups (groups of assets to be disposed of along with their directly associated liabilities), for which at the date of closure of the consolidated balance sheet, active business negotiations have begun and at a fair sale price and it is projected that the sale will take place within the twelve months following the aforesaid date.

Likewise, the Group considers discontinued operations those business lines that have been sold or which have been disposed of by other means or which meet the conditions to be classified as being held for sale, including, where appropriate, those other assets that together with the business line are part of the same sale plan or as a result of assumed commitments. Likewise, any entities acquired solely for resale are considered discontinued operations.

These assets or disposal groups are valued at the lesser of the amount of their book value or projected sale value, the costs thereby entailed having been deducted. They cease to be amortised from the moment they are classified as non-current assets held for sale.

Non-current assets held for sale and those items forming part of groups classified as being held for sale are presented in the attached consolidated balance sheet in the following way: the assets on a single line called "non-current assets held for sale and discontinued activities" and the liabilities also on a single line called "liabilities associated with non-current assets held for sale and discontinued activities".

The profit after tax from discontinued operations is presented on a single line of the consolidated income statement named "profit after tax from discontinued activities".

4.2.16 Assets of an environmental nature

Assets of an environmental nature are considered to be those which are used in a lasting manner in the Group's activity whose main purpose is the minimisation of the environmental impact and the protection and improvement of the environment, including the reduction or elimination of future contamination.

The Group's activity, due to its nature, does not have a significant environmental impact, though the details of the assets and expenses of an environmental nature are given in note 25.

4.2.17 Current and non-current items

The Group presents the consolidated balance sheet classifying assets and liabilities as current and non-current. Current items include those balances that the Group expects to sell, consume, turn into cash over the course of the normal operation cycle, or which are expected to be cashed in within the period of the twelve months following the closing date. Should this not be the case, they will be classified as non-current.

Assets are not offset by liabilities unless offsetting is required or permitted by any standard or interpretation of the latter.

4.2.18 Consolidated statement of cash flows

In the consolidated statement of cash flows, which is prepared according to the indirect method, the following expressions are used in the following ways:

- Cash flows: Incomes and outflows of money in cash and equivalents, these being understood as short-term, highly liquid investments with a low risk of alterations in their value.

- Operating activities: Payments and receipts from the entity's typical activities and from other activities that cannot be classified either as investing or financing.

- Investment activities: Acquisition, alienation or disposal by other means of non-current assets and other investments not included in cash and equivalents.

- Financing activities: Activities which produce changes in the size and composition of equity and liabilities that are not part of operating activities.

4.2.19 Working capital

As is usual in the sector in which the Group operates, due to the existing lag between the payment and receipt dates of commercial transactions, and as a result of applying the cash flows of the operating activities to the acquisition of assets of a non-current nature (see cash flow statement), the current liabilities in the attached balance sheets at 29 February 2016 and 28 February 2015 are greater than the current assets. The Group's Management considers that that lag does not represent any risk whatsoever of a lack of liquidity, because the current income makes it possible to meet the short-term payment commitments with complete normality.

5. PROPERTY, PLANT AND EQUIPMENT

The changes in the different accounts of the property, plant and equipment section of the consolidated balance sheet in the financial years ending on 29 February 2016 and 28 February 2015 were as follows:

Financial Year 2015

Item	Balance at 1 March 2015	Changes in the scope of consolidation	Additions or provisions	Removals	Transfers	Balance at 29 February 2016
Land and constructions ...	**10,498,711**	—	10,209	(16,423)	98,671	**10,562,182**
Machinery, installations and tooling	**5,835,712**	13	31,086	(11,095)	91,918	**5,967,109**
Furniture and effects	**1,966,785**	11	9,162	(3,091)	51,548	**2,031,934**
Information processing equipment	**477,053**	10	16,968	(8,850)	(183)	**486,983**
Transport elements..........	**6,690**	—	139	(3,511)	3,452	**6,796**
Work in progress............	**392,747**	—	187,827	(1,215)	(200,446)	**378,913**

Total cost	**19,177,698**	**34**	**255,391**	**(44,185)**	**44,960**	**19,433,917**
Cumulative Depreciation and Impairment	**(6,429,929)**	(17)	(494,439)	185,186	(84,256)	**(6,823,474)**
Net balance	**12,747,769**	**17**	**(239,048)**	**141,001**	**(39,296)**	**12,610,443**

Amounts in thousands of euros.

Financial Year 2014

Item	Balance at 1 March 2014	Changes in the scope of consolidation	Additions or provisions	Removals	Transfers	Balance at 28 February 2015
Land and constructions	**10,470,674**	—	17,162	(21,466)	32,340	**10,498,711**
Machinery, installations and tooling	**5,788,172**	(1,161)	14,992	(57,562)	91,271	**5,835,712**
Furniture and effects	**1,926,562**	(527)	11,265	(4,926)	34,410	**1,966,785**
Information processing equipment	**480,836**	(21)	7,595	(27,320)	15,963	**477,053**
Transport elements	**6,783**	—	92	(190)	5	**6,690**
Work in progress	**258,401**	—	307,244	(1,619)	(171,279)	**392,747**
Total cost	**18,931,428**	**(1,709)**	**358,350**	**(113,083)**	**2,710**	**19,177,698**
Cumulative Depreciation and Impairment	**(6,117,605)**	764	(442,322)	96,979	32,254	**(6,429,929)**
Net balance	**12,813,823**	**(945)**	**(83,791)**	**(16,104)**	**34,964**	**12,747,769**

Amounts in thousands of euros.

The additions of property, plant and equipmentfrom the financial years 2015 and 2014 correspond, basically, to the costs of expansion and modernization of several shopping centres as well as the acquisition of certain strategic properties.

Removals of property, plant and equipment during the financial years 2015 and 2014 have mainly corresponded to the writing off of fully depreciated items and the sale of several properties. The capital gains associated with these operations with fixed assets were recorded under the heading "Excessive provisions, impairment and gains or losses on disposals of non-current assets and other results" of the attached consolidated income statement for the financial years 2015 and 2014.

The Group owns real estate whose value separate from the construction and the land at close of financial years 2015 and 2014 is as follows:

Item	Financial Year 2015	Financial Year 2014
Land	5,578,501	5,548,607
Constructions	5,012,667	4,950,104
TOTAL	10,591,168	10,498,711

Amounts in thousands of euros.

During financial year 2015, the Group capitalised finance costs in the constructions section of property, plant and equipment for the sum of 9.7 million euros (9.1 million euros at close of financial year 2014).

At close of the financial years 2015 and 2014, the Group had the following investments in property, plant and equipment located outside the Spanish territory:

	Financial Year 2015		Financial Year 2014	
Item	Cost	Depreciation and impairment	Cost	Depreciation and impairment
Land and constructions	372,824	(54,063)	373,337	(66,195)
Machinery and installations	183,151	(96,619)	179,744	(116,571)
Other fixed and ongoing assets	97,398	(65,689)	100,248	(20,841)
TOTAL	653,373	(216,371)	653,329	(203,607)

Amounts in thousands of euros.

Likewise, The assets constructed on lands obtained as concessions are the following:

Item	Financial Year 2015	Financial Year 2014
Constructions	154,050	140,353
Machinery and installations	112,505	66,549
Other fixed assets	51,448	11,740
Cumulative depreciation	(127,060)	(79,815)
TOTAL	190,943	138,827

Amounts in thousands of euros.

As is indicated in note 9.1, at close of financial years 2015 and 2014 the Group had contracted different financial leasing operations on its property, plant and equipment.

At close of financial years 2015 and 2014, the Group had fully depreciated items of property, plant and equipmentwhich remain in use shown in the following table:

Item	Financial Year 2015	Financial Year 2014
Constructions	44,208	38,633
Machinery, installations and tooling	1,972,266	1,741,243
Furniture and effects	443,041	385,204
Information processing equipment	340,835	337,702
Transport elements	3,956	3,659
TOTAL	2,804,306	2,506,441

Amounts in thousands of euros.

The Group follows the criterion of insuring the value of its fixed asset elements by means of insurance policies taken out with third parties. The Directors of the parent company consider that the insurance coverage at close of financial years 2015 and 2014 is appropriate.

6. INVESTMENT PROPERTY

The Group's investment property mainly includes properties which are earmarked for leasehold. The movement of this heading in the consolidated balance sheet over their financial years 2015 and 2014 has been as follows:

Financial Year 2015

Item	Balance at 28 February 2015	Changes in the scope of consolidation	Additions or provisions	Removals	Transfers	Balance at 29 February 2016
Land and constructions	**150,843**	—	—	—	50,876	**201,719**
Total cost	**150,843**	**—**	**—**	**—**	**50,876**	**201,719**
Cumulative Depreciation and Impairment	**(20,529)**	—	(3,671)	—	(11,438)	**(35,638)**
Net balance	**130,314**	**—**	**(3,671)**	**—**	**39,438**	**166,081**

Amounts in thousands of euros.

Financial Year 2014

Item	Balance at 28 February 2014	Changes in the scope of consolidation	Additions or provisions	Removals	Transfers	Balance at 28 February 2015
Land and constructions	**133,806**	—	—	—	17,037	**150,843**
Total cost	**133,806**	**—**	**—**	**—**	**17,037**	**150,843**

Cumulative Depreciation and Impairment.............	**(11,288)**	—	(2,761)	114	(6,593)	**(20,529)**
Net balance	**122,518**	**—**	**(2,761)**	**114**	**10,444**	**130,314**

Amounts in thousands of euros.

Regarding the use of such investments, at the end of the financial years 2015 and 2014 they were distributed in the following manner:

Item	**Financial Year 2015**	**Financial Year 2014**
Offices	104,362	67,181
Premises...	38,245	38,772
Other	23,474	24,361
TOTAL	166,081	130,314

Amounts in thousands of euros.

The Group follows the criterion of insuring the value of its investment property by means of insurance policies taken out with third parties. The Directors of the parent company consider that the insurance coverage of financial years 2015 and 2014 is appropriate.

7. GOODWILL

The breakdown of goodwill over the financial years 2015 to 2014 has been as follows:

Item	**Balance at 29 February 2016**	**Balance at 28 February 2015**
Merger Goodwill	10,688	10,688
Goodwill on consolidation...	8,797	8,797
Total...	19,485	19,485

Amounts in thousands of euros.

Impairment tests carried out on 29 February 2016, for each of the cash-generating units, as indicated in Note 4.2.5, have not demonstrated the need to make provision for any impairment.

8. OTHER INTANGIBLE ASSETS

Movements taking place in this section of the consolidated balance sheet in the financial years ending on 29 February 2016 and 28 February 2015 has been as follows:

Financial Year 2015

Item	Balance at 28 February 2015	Changes in the scope of consolidation	Additions or provisions	Removals	Transfers	Balance at 29 February 2016
Development costs......	**35,415**	—	—	—	—	**35,415**
Transfer rights............	**31,133**	—	2,792	(511)	(37)	**33,377**
Computer Applications	**714,011**	—	94,516	(350)	143	**808,320**
Concessions	**164,526**	—	143	—	21	**164,690**
Intellectual property....	**40,401**	—	1,145	—	(50)	**41,496**
Other intangibles.........	**18,542**	—	1,397	—	(101)	**19,838**
Total cost	**1,004,028**	—	**99,993**	**(861)**	**(24)**	**1,103,136**
Cumulative Depreciation and Impairment.............	**(502,734)**	—	(74,285)	706	(118)	**(576,431)**
Net balance	**501,294**	—	**25,708**	**(155)**	**(142)**	**526,705**

Amounts in thousands of euros.

Financial Year 2014

Item	Balance at 28 February 2014	Changes in the scope of consolidation	Additions or provisions	Removals	Tranfers	Balance at 28 February 2015
Development costs........	**40,408**	—	—	(4,993)	—	**35,415**
Transfer rights..............	**28,157**	(5,283)	3,754	—	4,505	**31,133**
Computer Applications.	**625,793**	(82)	77,669	(3,330)	13,961	**714,011**
Concessions	**164,526**	—	—	—	—	**164,526**
Intellectual property......	**45,914**	—	618	(6,131)	—	**40,401**
Other intangibles...........	**16,800**	—	1,670	—	72	**18,542**
Total cost	**921,598**	**(5,365)**	**83,711**	**(14,454)**	**18,538**	**1,004,028**
Cumulative Depreciation and Impairment...............	**(432,545)**	1,241	(82,606)	11,176	—	**(502,734)**
Net balance	**489,053**	**(4,124)**	**1,105**	**(3,278)**	**18,538**	**501,294**

Amounts in thousands of euros.

The additions recorded in the "Computer Applications" account for financial years 2015 and 2014 correspond mainly to developments of applications necessary for the Group's activity.

As of 29 February 2016, assets with indefinite useful lives other than those presented as commercial funds, mainly corresponding to various brands acquired in the preceding years by El Corte Inglés, S.A. amounted to 28,43 million euros (28,43 million euros for the financial year 2014). These brands are not systematically amortised, but their possible impairment is verified annually. In the financial year 2015, arising from the impairment test performed for these assets, in accordance with Note 4.2.5, there has been an impairment under the heading "Excessive provisions, impairment and gains or losses on disposals of non-current assets and other results ".

At close of financial years 2015 and 2014 the Group had the following fully amortised intangible fixed assets still in use, as set out in this table:

Items	Financial Year 2015	Financial Year 2014
Development costs	35,415	35,415
Administrative concessions	720	720
Transfer rights	11,115	12,618
Computer Applications	287,763	200,957
Patents, licences and others	1,035	748
TOTAL	336,048	250,458

Amounts in thousands of euros.

9. LEASES

9.1 Financial leases (as the lessee)

The Group has financial lease contracts, mainly on premises.

The assets leased under these contracts are recorded in the property, plant and equipment and investment property sections on the consolidated balance sheet (note 5 and 6) and the corresponding debt is booked as a financial liability (note 17).

At close of financial years 2015 and 2014, the Group, in its capacity as a financial lessee, has leased assets in accordance with the following details:

	Financial Year 2015		Financial Year 2014	
Item	Cost	Cumulative depreciation and impairment	Cost	Cumulative depreciation and impairment
Land and constructions	308,817	(102,943)	293,702	(97,176)
Information processing equipment	3,006	(511)	1,847	(51)

Amounts in thousands of euros.

The minimum leasing charges (including, where applicable, the purchase options), in accordance with the current contracts in force, without taking into account the impact of shared costs, future increases due to the CPI, nor contractually-agreed future updates of rents, which the Group holds with its lessors, are the following:

Item	Financial Year 2015	Financial Year 2014
Less than one year	26,639	28,053
Between one and five years	62,973	86,151
More than five years	—	2,481
TOTAL	89,612	116,685

Amounts in thousands of euros.

The main data of the financial leasing contracts which the Group held at close of the financial year are the following:

Item	
DURATION OF THE CONTRACTS (YEARS)	10 – 12
YEARS ELAPSED	5 – 8
VALUE OF THE PURCHASE OPTIONS	2,700
CHARGES PAID IN PREVIOUS FINANCIAL YEARS	196,176

Amounts in thousands of euros.

9.2 Operating leases

As the lessor

The main operating lease contracts of Grupo El Corte Inglés as a lessor cover the spaces in shopping centres, shops and annexes to these that are rented out in order to complete the range of products on offer in its stores.

At close of financial years 2015 and 2014, the Group has the following minimum rental payments contracted with the lessees, in accordance with the current contracts in force, without taking into account the impact of shared costs, future increases due to the consumer price index, or contractually-agreed future updates of rents:

Item	Financial Year 2015	Financial Year 2014
Received in the financial year	12,150	11,853
Less than one year	12,409	11,700
Between one and five years	75,020	46,403
More than five years	93,509	57,831
TOTAL	193,088	127,787

Amounts in thousands of euros.

As the lessee

Part of the premises used by the Group for its main business activities are leased from third parties. These rentals are classed as operating leases because, regardless of the term of the rental agreement and the amounts paid or agreed upon with the owners of the leased properties, there is no transfer of the risks and benfits inherent to ownership.

Due to the varying nature and financial position of the owners and other factors, there is a wide variety of clauses regulating how the rental agreements work. Most of the lease contracts establish a fixed rent which is normally paid monthly and up-dated in accordance with an index that corrects the rent for inflation.

Rental contracts generally have a minimum duration of between 1 and 10 years.

At close of financial years 2015 and 2014, the Group has the following minimum rental payments contracted with the lessors, in accordance with the current contracts in force, without taking into account the impact of shared costs, future increases due to the consumer price index, nor future updates of rents contractually agreed:

Item	Financial Year 2015	Financial Year 2014
Paid in the financial year	139,911	137,722
Less than one year	136,624	133,983
Between one and five years	472,279	488,050
More than five years	496,385	417,836
TOTAL	1,245,199	1,177,591

Amounts in thousands of euros.

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

At 29th February 2016 and 28th February 2015 the most significant stakes in entities associated with the Group are as follows:

Financial Year 2015

	Balance at 28 February 2015	Changes	Stake in results companies by the equity method	Balance at 29 February 2016
Financiera El Corte Inglés E.F.C., S.A.	159,766	(23,642)	26,100	162,224
Iberiafon. S.A.	20,018	—	895	20,913
Gestión de Puntos de Venta, Gespevesa, S.A.	24,534	369	952	25,855
Sephora Cosméticos España, S.L.	6,343	(428)	(352)	5,563
Citorel, S.L.	1,060	21	369	1,450
FST Hotels, S.L.	78,699	(898)	3,093	80,894
Tagus Book, S.L.	22	107	(128)	1
Total	**290,442**	**(24,471)**	**30,929**	**296,900**

Amounts in thousands of euros.

Financial Year 2014

	Balance at 28 February 2015	Additions	Stake in results companies equity method	Balance at 29 February 2016
Financiera El Corte Inglés E.F.C., S.A.	134,799	—	24,967	159,766
Iberiafon. S.A.	19,512	—	506	20,018
Gestión de Puntos de Venta, Gespevesa, S.A.	24,428	—	106	24,534
Sephora Cosméticos España, S.L.	7,191	—	(848)	6,343
Citorel, S.L.	861	—	199	1,060
FST Hotels, S.L.	79,065	—	(366)	78,699
Tagus Book, S.L.	—	139	(117)	22
Total	**265,856**	**139**	**24,447**	**290,442**

Amounts in thousands of euros.

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The investment of Financiera El Corte Inglés E.F.C., S.A. booked according to the equity method since 2013 (see note 2.7.9), includes implicit goodwill of 31.1 million euros.

The main magnitudes of the Group's joint ventures and associates are as follows:

Financial Year 2015

	Assets	Liabilities	Operating profit	Profit for the year	Percentage stake
Financiera El Corte Inglés E.F.C., S.A.	1,394,052	1,125,422	76,156	53,267	49.00%
Iberiafon, S.A..	91,216	38,937	3,032	2,235	40.00%
Gestión de Puntos de Venta, Gespevesa, S.A. .	60,604	8,789	2,667	1,903	50.00%
Sephora Cosméticos España, S.L....................	51,316	40,623	11	(629)	50.00%
Citorel, S.L.	3,748	1,107	1,043	738	50.00%
FST Hotels, S.L.	198,010	71,132	3,671	2,438	50.00%
Tagus Book, S.L.	1,329	1,325	(722)	(533)	24.00%
Total..	1,808,275	1,287,335	85,858	59,344	

Amounts in thousands of euros.

Financial Year 2014

	Assets	Liabilities	Operating profit	Profit for the year	Percentage stake
Financiera El Corte Inglés E.F.C., S.A.	1,402,224	1,139,609	71,271	50,953	49.00%
Iberiafon, S.A..	92,598	42,553	1,836	1,265	40.00%
Gestión de Puntos de Venta, Gespevesa, S.A. .	63,713	44,596	296	212	50.00%
Sephora Cosméticos España, S.L....................	48,762	36,588	(1,650)	(1,695)	50.00%
Citorel, S.L.	3,206	1,338	580	397	50.00%
FST Hotels, S.L.	194,891	70,410	1,268	(1,045)	50.00%
Tagus Book, S.L.	1,338	831	(453)	697	24.00%
Total..	1,806,732	1,335,925	73,148	50,784	

Amounts in thousands of euros.

11. CURRENT AND NON-CURRENT FINANCIAL ASSETS

11.1 Non-current financial assets

The breakdown of the balance of this chapter of the consolidated balance sheet is as follows:

	Non-current financial assets							
	Equity instruments		Debt securities		Credits, derivatives and others		Total	
Classes Categories	2015	2014	2015	2014	2015	2014	2015	2014
Loans and receivables								
—Loans	—	—		—	41,721	39,298	41,721	39,298
—Guarantees and deposits	—	—	131,285	146,815	36,789	35,456	168,074	182,271
Held-to-maturity investments	—	14	—	—	—	—	—	14
Assets at fair value with changes in profit and loss	17,628	16,382	—	—	—	—	17,628	16,382
Available-for-sale assets								

—Valued at fair value	56,201	30,871	683,093	727,100	—	—	739,294	757,971
—Valued at cost	49,923	54,263	—	—	—	—	49,923	54,263
TOTAL	123,752	101,530	814,378	873,915	78,510	74,754	1,016,640	1,050,199

Amounts in thousands of euros.

The details of these financial assets by consolidated companies are as follows:

Companies	Financial Year 2015	Financial Year 2014
Investments by the business of Seguros El Corte Inglés, Vida, Pensiones y Reaseguros, S.A.	871,367	904,234
Other consolidated companies	145,273	145,965
TOTAL	1,016,640	1,050,199

Amounts in thousands of euros.

Most of the insurance business investments are to cover technical provisions (see note 16).

The breakdown of the investments made by the business of Seguros El Corte Inglés, Vida, Pensiones y Reaseguros, S.A. by categories and classes is as follows:

	Non-current financial instruments							
	Equity instruments		Debt securities		Credits, derivatives and others		Total	
Classes Categories	2015	2014	2015	2014	2015	2014	2015	2014
Loans and receivables								
—Guarantees and deposits	—	—	131,285	146,815	235	254	131,520	147,069
Assets at fair value with changes in profit and loss	17,628	16,382	—	—	—	—	17,628	16,382
Available-for-sale assets								
—Valued at fair value	39,127	13,683	683,092	727,100	—	—	722,219	740,783
TOTAL	56,755	30,065	814,377	873,915	235	254	871,367	904,234

Amounts in thousands of euros.

The maturity of the heading “Loans and receivables—loans” is as follows:

Financial Year 2015

Item	2017	2018	2019	2020	From 2021	Total
Loans	9,374	6,205	5,081	4,597	16,464	41,721

Amounts in thousands of euros.

Financial Year 2014

Item	2016	2017	2018	2019	From 2020	Total
Loans	14,395	9,008	5,314	4,103	6,478	39,298

Amounts in thousands of euros.

11.2 Current financial assets

The breakdown of the balance of this line of the consolidated balance sheet is as follows:

	Current financial instruments							
	Equity instruments		Debt securities		Credits, derivatives and others		Total	
Classes Categories	2015	2014	2015	2014	2015	2014	2015	2014
Loans and receivables	—	—	—	—	3,101	3,547	3,101	3,547
Held-to-maturity investments	2,823	3,342	22,481	31,913	—	—	25,304	35,255

Assets a fair value with changes in profit and loss								
—Held for trading	—	—	—	—	—	—	—	—
—Rest	—	—	—	—	—	114	—	114
Available-for-sale assets								
—Valued at fair value	—	—	15,359	16,383	—	—	15,359	16,383
—Valued at cost	—	—	—	—	—	—	—	—
Derivatives (see note 19)	—	—	—	—	10,186	65,645	10,186	65,645
TOTAL	2,823	3,342	37,840	48,296	13,287	69,306	53,950	120,944

Amounts in thousands of euros.

12. INVENTORIES

The details of the “Inventories” section of the attached consolidated balance sheet are as follows:

Item	Financial Year 2015	Financial Year 2014
Goods held for resale	1,876,702	1,769,755
Consumables	21,223	18,596
TOTAL	1,897,925	1,788,351

Amounts in thousands of euros.

In accordance with the normal practice in the distribution sector, El Corte Inglés, S.A. and Hipercor, S.A. formalise the purchase orders with certain suppliers some months in advance of the delivery date of the merchandise. For this reason, it had firm purchase orders for an approximate sum of 1,146.52 and 1,147.76 million euros at 29 February 2016 and 28 February 2015, respectively.

Likewise, El Corte Inglés, S.A. had sales commitments with its customers at close of financial years 2015 and 2014 for the sum of 120.00 and 118.05 million euros, respectively.

The Group’s policy is to take out insurance policies to cover the risks to which its stocks are exposed. At 29 February 2016 and at 28 February 2015, the Directors of the parent company consider that the coverage of the insurance policies on its stocks is adequate.

13. TRADE AND OTHER RECEIVABLES

The composition of the balance at 29th February 2016 and 28th February 2015 is as follows:

Item	Financial Year 2015	Financial Year 2014
Trade receivables	366,667	422,622
Doubtful trade receivables	42,055	43,431
Unissued invoices	1,143	573
Sub-total trade receivables for sales and services	409,865	466,626
Sub-total sundry receivables	343,821	255,082
TOTAL	753,686	721,708

Amounts in thousands of euros.

At 29th February 2016 and 28th February 2015, there were no balances of “trade and other receivables” that were in arrears and no significant impairments.

In 2015, the net charge for the provision for trade and other receivables was 0.34 million euros (3.6 million in 2014).

14. CASH AND CASH EQUIVALENTS

The breakdown of this heading of the consolidated balance sheet at 28th February 2015 and 2014 is as follows:

Item	Financial Year 2015	Financial Year 2014

Cash balances	62,203	64,142
Bank balances	109,203	61,635
TOTAL	171,406	125,777

Amounts in thousands of euros.

Cash and bank balances include cash and sight accounts in financial institutions.

15. EQUITY

15.1 Subscribed capital

On the 30th of August 2015, the General Meeting of Shareholders changed the nominal value of the company's shares, with all of them becoming type A, whose nominal value is 6 euros. Therefore, the corporate capital of El Corte Inglés, S.A. is represented by 81,144,000 shares with a face value of 6 euros each at 29 February 2016. On the 28th of February 2015, it was represented by 63,937,700 shares with a nominal value of 6 euros and 1,720,630 shares with a nominal value of 60 euros, all of them registered shares, fully subscribed and paid out. The Company's shares are not listed on a Stock Exchange.

The only legal entities with a stake of over 10% in the company's corporate capital are Fundación Ramón Areces (37.39%) and Cartera de Valores IASA, S.A. (22.18%).

15.2 Legal reserve

Pursuant to the Capital Enterprises Act (*Ley de Sociedades de Capital*) 10% of the profit from the financial year must be allocated to the legal reserve until this reaches at least 20% of the share capital.

The part of the legal reserves exceeding 10% of the increased capital may be used to increase capital.

Except for the above-mentioned purpose, and provided that it does not exceed 20% of the share capital, this reserve may only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

The Group parent company has a total legal reserve amounting to 97,373 thousand euros at 29th February 2016 and 28th February 2015.

15.3 Other reserves

The other reserves heading includes 2,184 million euros in unavailable reserves for the legal reserves of the consolidated companies and other restricted reserves (basically reappraisal due to the application of IFRS, goodwill, etc.).

15.4 Treasury shares

At close of financial years 2015 and 2014, the Group had in its possession, held only temporarily and intended for disposal in the immediate future, in accordance with the following details:

Item	No. of Shares	Nominal value (euros)
Type-A treasury shares at close of financial year 2015	11,548,321	6
Type-A treasury shares at close of financial year 2014	9,106,066	6
Type-B treasury shares at close of financial year 2014	200,896	60

In the course of financial years 2015 and 2014, company shares were acquired for an effective value of 47.53 and 43.08 million euros and shares were transferred for the sum of 10.04 and 6.73 million euros, respectively.

In addition, deriving from the sale option granted in favour of the investor of the loan convertible into shares (see Note 19), the Company recorded the sum of 75 million euros as a greater amount of its treasury shares.

15.5 Valuation adjustments

Available-for-sale financial assets

This heading of the consolidated balance sheet includes the net amount of the fiscal impact of changes in fair value of assets classed as available for sale. These differences are booked to the consolidated income statement when the asset that gives rise to them is sold, or if there is an impairment.

15. EQUITY

Movements in the balance of this heading in 2015 and 2014 were as follows:

Item	Financial Year 2015	Financial Year 2014
Balance at 1 March	45,123	12,774
Increases in value during the year	23,939	34,707
Decreases in value during the year	(34,176)	(3,042)
Transfer to income for the year	(1,132)	(2,324)
Change in tax rate	(474)	3,008
Balance at 29 February	33,280	45,123

Amounts in thousands of euros.

Cash flow hedges

This section of the consolidated balance sheet includes the net amount of the fiscal impact of changes in value of financial derivatives designated as cash flow hedging instruments (see note 19).

The movements in the balance of this heading during 2015 and 2014 are shown below:

Item	Financial Year 2015	Financial Year 2014
Balance at 1 March	(71,854)	(53,439)
Increases in value during the year	16,445	50,731
Decreases in value during the year	(81,035)	(85,624)
Transfer to income for the year	25,453	21,230
Change in tax rate	(1,780)	(4,752)
Balance at 29 February	(112,771)	(71,854)

Amounts in thousands of euros.

15.6 Non-controlling interests

This heading of the consolidated balance sheet shows the share of non-controlling shareholders of the companies listed below at year-end 2015 and 2014:

Financial Year 2015

Company	% Stake	Share in: Capital and reserves	Profit for the year	Total
Canal Club de Distribución de Ocio y Cultura, S.A.	25.00	18	27	45
Moda Sfera Joven México, S.A. de C.V.	49.00	12,281	2,148	14,429
Viajes El Corte Inglés, S.A. de C.V.	4.00	116	22	138
Viajes El Corte Inglés, S.A. Colombia	5.00	42	8	50
TOTAL		12,457	2,205	14,662

Amounts in thousands of euros.

Financial Year 2014

Share in:

Company	% Stake	Capital and reserves	Profit for the year	Total
El Corte Inglés-Grandes Armazéns, S.A.	0.442	2,430	82	2,512
Canal Club de Distribución de Ocio y Cultura, S.A.	25.00	18	47	65
Moda Sfera Joven México, S.A. de C.V.	49.00	14,368	2,662	17,030
Viajes El Corte Inglés, S.A. de C.V.	4.00	65	18	83
TOTAL		16,881	2,809	19,690

Amounts in thousands of euros.

Movements of Group non-controlling shareholders in 2015 and 2014 were as follows:

Financial Year 2015

Company	Balance at 28 February 2015	Changes in the scope of consolidation	Valuation adjustments and others	Profit for the year	Balance at 29 February 2016
El Corte Inglés-Grandes Armazéns, S.A.	2,512	(2,512)	—	—	—
Canal Club de Distribución de Ocio y Cultura, S.A.	65	—	(47)	27	45
Moda Sfera Joven México, S.A. de C.V.	17,030	—	(4,749)	2,148	14,429
Viajes El Corte Inglés, S.A. de C.V..	83	—	33	22	138
Viajes El Corte Inglés, S.A. Colombia	—	42	—	8	50
TOTAL	19,690	(2,470)	(4,763)	2,205	14,662

Amounts in thousands of euros.

Financial Year 2014

Company	Balance at 28 February 2014	Changes in the scope of consolidation	Valuation adjustments and others	Profit for the year	Balance at 28 February 2015
El Corte Inglés-Grandes Armazéns, S.A.	2,430	—	—	82	2,512
Canal Club de Distribución de Ocio y Cultura, S.A.	1,210	(1,192)	—	47	65
Moda Sfera Joven México, S.A. de C.V.	14,753	—	(385)	2,662	17,030
Viajes El Corte Inglés, S.A. de C.V..	65	—	—	18	83
Perfumerías y Cosméticos Gran Vía, S.L.	(788)	788	—	—	—
TOTAL	17,670	(404)	(385)	2,809	19,690

Amounts in thousands of euros.

The non-controlling share of El Corte Inglés-Grandes Armazens, S.A. has been acquired, taking the stake to 100% of the Portuguese subsidiary.

15.7 Capital management

With respect to capital management, the Group's objectives are to ensure the capacity to continue as a going concern, so that the group continues to provide a return for shareholders and benefit other stakeholders, as well as maintaining an optimum financial structure to reduce the cost of capital.

With a view to maintaining and adjusting the capital structure, the Group may adjust the amount of the dividends to be paid out to shareholders, it may reimburse capital, issue shares or sell assets to reduce its debt.

The Directors of the parent company consider the leverage ratio as an indicator of compliance with the capital management objectives set. This ratio is calculated as the coefficient of dividing the net debt by the equity. The net debt is calculated as the sum of the current and non-current bank borrowings, excluding the corresponding assets held for sale, minus temporary financial investments and cash and cash equivalents.

The level of leverage at 29th February 2016 and 28th February 2015 is shown below:

Item	Financial Year 2015	Financial Year 2014
Net financial debt:	**3,692,264**	**4,954,084**
Debentures and other marketable securities	2,077,091	2,046,188
Non-current bank borrowings	1,759,067	3,051,983
Current bank borrowings	71,277	36,989
Current financial assets, cash and cash equivalents (ex derivatives)	(215,171)	(181,076)
Equity (excluding dividends):	**8,692,739**	**7,850,300**
Parent company	8,678,142	7,830,610
Non-controlling interests	14,662	19,690
Leverage	42.5%	63.1%

Amounts in thousands of euros.

15.8 Other equity instruments

On the 13th of July 2015, the Company formalised a loan contract obligatorily convertible into shares with the Luxembourg company PrimeFin, S.A. for the sum of one billion euros, which is recorded in the "Other equity instruments" section. That loan expires in three years, and it must be repaid in shares from the treasury portfolio of the El Corte Inglés, S.A. Group. The shares handed over as a result of the repayment of the principal of the loan represent 10% of the corporate capital of El Corte Inglés, S.A. Likewise, the loan accrues interest payable in treasury shares which together will represent an additional 2.25%.

In addition, the aforementioned contract establishes that, if certain situations occur in relation to the evolution of certain financial figures of the consolidated accounts of the El Corte Inglés Group or the occurrence of certain operations related to the corporate capital of El Corte Inglés, S.A., the latter must be able to compensate the investor by means of the delivery of additional treasury shares. However, those compensations are conditional upon the General Meeting of Shareholders of El Corte Inglés, S.A. previously agreeing a distribution of dividends charged to freely-available reserves within a given time. If the Meeting of Shareholders has not agreed that distribution of dividends, the investor's right to be compensated will cease to exist.

In addition, on that same date, the Company signed an agreement with PrimeFin, S.A. which grants it an exit sale option on all of the shares held by El Corte Inglés, S.A. This exit sale option will be exercisable from the tenth year after the signing of the contract and its execution depends on certain conditions whose fulfilment is optional for the Company.

Likewise, the Company has signed a sale option with PrimeFin, S.A. on those company shares which are transferred in payment of the interest of the loan, which represent 2.25% of the corporate capital of El Corte Inglés, S.A. The valuation of this sale option is 225 million euros, which are recorded linearly during the lifetime of the loan, as and when the interest accrues. At 29 February 2016, that sale option was valued at 75 million euros.

16. PROVISIONS AND CONTINGENT LIABILITIES

16.1 Non-current provisions

The details of the provisions corresponding to this section of the attached consolidated balance sheet, as well as the changes registered during the financial year were the following:

Non-current provisions	Balance at 1 March	Change	Balance at 28 February
Financial Year 2014			
Technical provisions	668,865	24,779	693,644
Others	278,611	(76,686)	201,925
Total	**947,476**	**(51,907)**	**895,569**
Financial Year 2015			
Employee benefit contributions	—	49,297	49,297
Technical provisions	693,644	(6,101)	687,543
Others	201,925	(134)	201,791

Total	**895,569**	**43,062**	**938,631**

Amounts in thousands of euros.

Technical provisions

The heading "Non-current provisions" basically includes the technical provisions of the Insurance business. By category, this is as follows:

Item	Financial Year 2015	Financial Year 2014
Provisions for unearned premiums—Non-life insurance	13,702	12,854
Provisions for unearned premiums—Life insurance	18,449	17,299
Life insurance provisions	470,185	481,489
Technical provisions concerning life insurance, the investment risk is carried by the policy holders	17,008	15,761
Technical provisions for benefits	25,549	20,425
Provisions for share in profits and rebates	79,419	73,773
Techical provisions for reinsurance	(3,209)	(2,594)
Accounting asymmetry	66,440	74,637
TOTAL	687,543	693,644

Amounts in thousands of euros.

Employee benefit contributions

At 29th February 2016, the Group has set aside provisions under the heading "Employee benefit contributions" for impacts stemming from redundancy agreements as part of the voluntary partial retirement plan that was reported to employees of 61 years of age at the end of this year. The part that must be disbursed in the short term is booked to the heading "Short term provisions" at 29th February 2016. The total amount of the provision at 29th February 2016 is 86 million euros.

Furthermore, in March 2016, the Group launched and disseminated a new voluntary redundancy plan for staff who have reached the age of 58 (see Note 26.3).

Other provisions

The rest of the amount in this heading includes provisions of a highly diverse nature, including those relating to estimating the amount the Group may have to cover for certain local taxes and onerous contracts.

16.2 Guarantees committed with third parties and contingent liabilities

The guarantees presented by the Group stood at 356.25 and 390.38 million euros at 29 February 2016 and 28 February 2015, respectively. Of those amounts, 141.33 million at 29 February 2016 and 176.66 million at 28 February 2015 are related to matters of a legal and fiscal nature (local and national). The rest, deposited with different entities, guarantee trade operations.

The Directors of the parent company estimate that the unenvisaged liabilities at 29 February 2016 which could arise from the guarantees provided, if they were to occur, would not be significant.

17. CURRENT AND NON-CURRENT BANK BORROWINGS AND DEBENTURES AND OTHER MARKETABLE SECURITIES

The composition of the balance of these headings of the consolidated balance sheet is as follows:

	Financial Year 2015		Financial Year 2014	
Item	Current	Non-current	Current	Non-current
Debentures and other marketable securities	132,887	2,077,091	—	2,046,188
Bank borrowings	44,638	1,696,094	8,936	2,963,351
Debts for financial leases (note 9.1)	26,639	62,973	28,053	88,632
Derivatives (note 19)	4,538	258,213	—	169,684

Other financial liabilities	29,203	14,473	34,709	17,805
TOTAL	237,905	4,108,844	71,698	5,285,660

Amounts in thousands of euros.

17.1 Debentures and other marketable securities

Included in the "Debentures and other non-current marketable securities" section, the Group classifies the debts formalised in promissory notes, which were recorded as non-current financial liabilities, given that virtually all of them are automatically renewed on the expiry date.

As a general rule, the aforementioned promissory notes accrue a market interest rate.

In January 2015, the Group made two simple bond issues, through Hipercor, S.A., for the sum of 500 and 100 million euros respectively. The nominal value of each bond is 100 thousand euros. Both issues, booked under the heading "Debentures and other marketable securities", mature in 2022 and accrue an annual coupon of 3.875%. These issues are underwritten by El Corte Inglés, S.A. The funds obtained were used to pay down the long-term debt.

Issue costs stemming from these issues amount to 7,500 thousand euros, which are recorded as a reduction in the debt.

17. CURRENT AND NON-CURRENT BANK BORROWINGS AND DEBENTURES AND OTHER MARKETABLE SECURITIES

Arising from the bond issues, the Group that the company belongs to is duty bound to meet certain ratios. The Directors of the parent company of the Group estimate that all commitments arising from these ratrios are met at 29th February 2016.

Likewise, included in the "Debentures and other current marketable securities", the Company classifies the balance of promissory notes issued in the Alternative Fixed Income Market (MARF). The aforementioned promissory notes have short-term expiries and they accrue market interest rates.

17.2 Bank borrowings

Part of the Group's debt is hedged with financial derivatives aimed at reducing the volatility of the interest rates paid by Grupo El Corte Inglés (see notes 18 and 19).

At 29th February 2016, the average rate of the debt taking into consideration bank borrowings and the amounts payable in relation to debentures and other marketable securities is within the market range.

On the 14th of November 2013, the Group signed with various banks a syndicated credit of all the bank debt which it maintained at that time for a maximum amount of 4,909.2 million euros. That contract consists of two parts, one of 850 million euros aimed at the working capital and with expiry in 5 years, while the other part is long-term debt for the sum of 4,060.4 million euros with expiry in 8 years.

On the 27th of July 2015, a contract for the renewal of the previous funding was signed, modifying certain clauses related to the applicable margin, obligatory financial ratios, the working capital tranche and dividends. At 29 February 2016, the balance drawn down of the aforementioned funding was 1,696.1 million euros (2,963 million euros for Financial Year 2014).

Likewise, the aforementioned funding contract contemplates the mortgaging of certain assets of some department stores whose net book value at close of the present financial year is 2,871.2 million euros.

As stipulated in the syndicated funding contract, from financial year 2014 the Group is obliged to meet certain financial ratios calculated on the basis of the consolidated financial statements of the El Corte Inglés Group. The fulfilment of the aforementioned ratios, together with the payment schedule, are considered for the distribution of dividends.

At 29 February 2016, the Group fulfilled the financial ratios calculated on the basis of the attached consolidated financial statements.

At 29th February 2016 and 28th February 2015, Group companies had been granted additional financing that had not been drawn on as follows:

	Financial Year 2015		Financial Year 2014	
Item	**Limit**	**Amount undrawn**	**Limit**	**Amount undrawn**
Discount lines	26,000	21,992	8,462	6,467
Credit lines[(a)]	850,000	679,803	848,857	466,060
TOTAL	876,000	701,795	857,319	472,527

Amounts in thousands of euros.

(a) It is part of the syndicated financing contract.

The Group Management considers that the sum of these lines, ordinary cash flow generation, along with realising current assets, will be sufficient to cover the short-term payment obligations.

There have been no defaults or any other breach of the principal in 2015 and 2014, nor any non-compliance with respect to interest payments or depreciation of bank borrowings.

17.3 Breakdown by maturity of non-current financial liabilities

Details of the items forming part of the heading "Non-current bank borrowings", by maturity dates, is as follows:

Financial Year 2015

Item	2017	2018	2019	2020	2021 and subsequent	Total
Financial lease. (note 9.1)	22,631	17,565	13,010	7,236	2,531	62,973
Bank loans and credits	—	245,133	248,691	248,691	953,579	1,696,094
TOTAL	22,631	262,698	261,701	255,927	956,110	1,759,067

Amounts in thousands of euros.

Financial Year 2014

Item	2016	2017	2018	2019	2020 and subsequent	Total
Financial lease (note 9.1)	26,524	22,390	17,379	12,819	9,520	88,632
Bank loans and credits	141,712	208,874	633,445	334,198	1,645,122	2,963,351
TOTAL	168,236	231,264	650,824	347,017	1,654,642	3,051,983

Amounts in thousands of euros.

18. RISK MANAGEMENT POLICIES

The Group's activities are exposed to a range of financial risks: market risk (including exchange rate risk), credit risk, liquidity risk and interest rate risk on cash flows. The Group's risk management is performed by the parent company, which has the necessary mechanisms in place. It focuses on the uncertainty of financial markets, attempting to minimise potentially adverse effects on the profitability of the Group. To this end, it uses certain financial instruments described below.

This note presents information on the Group's exposure to each of the risks mentioned above, the objectives, policies and processes defined by the Group for managing risk and the methods used to measure such risks and the changes that have occurred compared with last year.

Credit risk

Credit risk consists of the probability of a counterparty to a contract failing to meet its payment obligations, thereby causing a financial loss for the Group.

The Group has no significant concentrations of credit risks with third parties as retail sales constitute the largest share of its revenue. Essentially, everything is paid for in cash or by credit card.

The Group is governed by a criterion of prudence in its investment policy. The main objectives of this policy are to mitigate the credit risk of investment products and the counterparty risk of financial institutions by establishing highly detailed analyis criteria. In general terms, the Group keeps its cash and cash equivalents in highly credit-worthy financial institutions.

With regard to the credit risk stemming from commercial transactions, provisions are set aside to cover impairment losses on trade receivables when there is objective evidence that the Group will not be able to collect all the amounts due pursuant to the original terms of the receivables. The amount of the provision is the difference between the book value of the asset and the present value of the estimated effective cash flows, discounting the effective interest rate. The amount of the provision is booked to the consolidated income statement (see note 13).

At 29th February 2016 and 28th February 2015 there are no balances due of any significant amount. According to available historic experience, the Group does not consider it necessary to make valuation corrections with regard to receivables not past due. The fair value of the accounts receivable does not differ significantly from their book value.

Liquidity risk

Grupo El Corte Inglés maintains a prudent liquidity risk management policy; it keeps the appropriate level of cash and marketable securities and contracts committed credit facilities for a sufficient amount to face foreseen needs (see note 17).

Final responsibility for liquidity risk management lies with the Management of the parent company, which prepares an appropriate framework for controlling the Group's liquidity needs in the short, medium and long term. The Group manages liquidity by keeping adequate reserves, appropriate banking services and the availability of credits and loans by continually monitoring both actual fund flows and forecasts and pairing these with financial asset and liability maturity profiles.

Interest rate risk

Variations in interest rates modify future flows of assets and liabilities indexed to a variable interest rate. Financial instruments that are exposed to interest rate risk are basically funding contracts at a variable interest rate and derivative financial instruments.

According to the estimations of Grupo El Corte Inglés regarding interest rate performance and the performance of the objectives of the long-term debt structure, hedging transactions are made by contracting derivatives that mitigate these risks (see note 19). Specifically, the percentage of the long-term debt that is not affected by the volatility of interest rates was 89.56% in 2015 (76% in 2014).

In order to be able to analyse the effect of a possible variation in interest rates on the Group's accounts, a simulation has been run, assuming a 50-basis point increase and a 50-basis point fall in interest rates on the long-term debt affected by volatility at 29th February 2016.

This sensitivity analysis to increases and falls of 0.5% in euribor variable interest rates triggers sensitivity in the Group's income statement arising from the increase or decrease in financial profit from paying 0.85 million euros in interest at 29th February 2016 and 3.15 million euros at 28th February 2015.

The sensitivity analysis to upward or downward movements in the long-term interest rate curve compared with the fair value of the interest rate hedges that form part of the cash flow hedges, contracted by the Group at 29th February 2016 and irrespective of the consolidation method used, taking into account the percentage of the Grupo El Corte Inglés' stake in each company, means a reduction in the debt stemming from financial derivatives due to a 0.1% increase in the interest rate cuve of 9.91 million euros. By the same token, a 0.1% fall in interest rates would trigger an 9.85 million euro increase in the debt stemming from financial derivatives.

Exchange rate risk

The Group trades internationally; hence it is exposed to exchange rate risk from transactions in foreign currencies, especially in the purchase of merchandise from countries of South East Asia denominated in US dollars.

Exchange rate risk is managed in accordance with the guidelines laid down by the Senior Management of the Group. Basically, the latter takes out natural or financial hedges against this risk, constantly monitors fluctuations in the exchange rates and adopts other measures aimed at mitigating this risk. The Group policy is to contract financial instruments (exchange insurance) to reduce the exchange rate differences arising from transactions in foreign currency (see note 19).

Foreign currency

Details of the most significant balances and transactions in foreign currency, mainly denominated in US dollars, valued at the closing exchange rate and the average exchange rate respectively, are as follows:

Item	**Financial Year 2015**	**Financial Year 2014**
Accounts payable	68,613	86,865
Other liabilities	118	256
Sales	141,400	128,023
Services provided	215,454	223,723
Purchases	783,311	711,188
Services received	30,153	25,769

19. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to cover the risks to which its activities, operations and future cash flows are exposed. Within the framework of these operations, the Group has contracted certain financial instruments for the hedging of cash flows, mainly interest rate and exchange rate insurance.

The methods followed by the Group for calculating the fair value of its derivative financial instruments, including credit risk introduced by IFRS 13 and the level of hierarchy determined by IFRS 7, are described in note 4.2.8.

The Group has fulfilled the requirements detailed in Note 4.2.8 on valuation standards in order to be able to determine whether the derivative financial instruments meet the conditions for classification as hedging derivatives. Specifically, they have been formally designated as hedges and it has been verified that the coverage is effective.

However, the Group does keep a range of speculative hedging instruments. The effect on the statement of comprehensive income for 2015 arising from these financial hedges represents a loss of 12,517 thousand euros (a profit of 1,442 thousand euros in 2014) and these are recorded under the heading "Change in the fair value on financial instruments".

The hedging derivative financial instruments held by the Company at 29 February 2016 and 28 February 2015 were as follows:

Financial Year 2015

	Classification	Type	Amount contracted	Maturity	Fair value[(a)] Assets	Fair value[(a)] Liabilities
Interest rate hedges	Interest rate hedges	Variable to Fixed	1,956,559[(a)]	2021	—	176,279
					—	176,279
Exchange rate insurance	Exchange rate hedges	Purchase of currency	488,162[(b)]	2016	8,630	4,538
					8,630	4,538

(a) Amounts in thousands of euros.

(b) Amounts in thousands of dollars.

Financial Year 2014

	Classification	Type	Amount contracted	Maturity	Fair value[(a)] Assets	Fair value[(a)] Liabilities
Interest rate hedges	Interest rate hedges	Variable to Fixed	2,062,595[(a)]	2021	—	164,527
					—	164,527
Exchange rate insurance	Exchange rate hedges	Purchase of currency	521,250[(b)]	2014 – 2015	54,561	—
					54,561	—

(a) Amounts in thousands of euros.

(b) Amounts in thousands of dollars.

At close of financial years 2015 and 2014, the Group had taken out different derivative financial instruments of a speculative nature for accountancy purposes, which are registered in accordance with the following characteristics:

Item	Exchange rate insurance Financial Year 2015	Exchange rate insurance Financial Year 2014	Interest rate derivatives Financial Year 2015	Interest rate derivatives Financial Year 2014
Amount contracted..	105,003[(b)]	71,235[(b)]	100,000[(a)]	100,000[(a)]
Maturity	2016	2014 – 2015	2017	2017
Fair value[(a)]				

—Asset	1,555	11,084	—	—
—Liability	—	—	(6,933)	(5,157)
Impact recorded in the income statement(a)	—	—	(1,776)	756

(a) Amounts in thousands of euros.

(b) Amounts in thousands of dollars.

Since January 2016, the contracting of the exchange rate insurance of the subsidiary companies has been carried out by the parent company with the financial entities. In turn, the parent company enters into contracts with the subsidiaries in order to cover the exchange rate risk to which they are exposed. The first exchange rate insurance contracts expire from the 1st of June 2016.

In addition, a put is recorded in this section, referring to the sale option granted in favour of the investor of the loan convertible into shares, for the percentage of shares which exceed 10% of the capital (see Note 15.8), its value at 29 February 2016 being 75 million euros.

20. TRADE PAYABLES

"Trade and other payables" includes mainly the amounts pending payment for trade purchases and related costs. Group Management considers that the book amount of the trade payables is close to its fair value.

20.1 Information on supplier payment periods

Below is the detailed information required by Additional provision three "Duty of Information" of Law 15/2010, 5th July.

Item	Financial Year 2015
Average supplier payment time	50 days
Ratio of transactions paid	50 days
Ratio of transactions pending payment	35 days

	Amount
Total payments made	10,648,150
Total payments pending	431,783

Amounts in thousands of euros.

The information given in the above table on payments to suppliers refers to those which, due to their nature, are trade payables for debts with suppliers of goods and services, so it includes the data in relation to the "Trade and other payables" items of the current liabilities of the attached interim balance sheet.

In addition, in accordance with that permitted in transitory provision number one of the draft Resolution of the Accountancy and Accounts Auditing Institute dated 17 March 2015, for this first financial year of application of the Resolution, comparative information is not presented, and this balance is considered the initial balance exclusively for the purposes of the application of the uniformity principle and the comparability requirement.

"Average time for payment to suppliers" shall be understood to mean the expression of the payment time or delay in the payment of the commercial debt. That "Average time for payment to suppliers" is calculated as the coefficient formed in the numerator by the sum of the ratio of paid operations multiplied by the total amount of the payments made plus the ratio of operations pending payment multiplied by the total amount of payments pending and, in the denominator, by the total amount of payments made and payments pending.

The ratio of paid operations is calculated as the coefficient formed in the numerator by the sum of the products corresponding to the amounts paid, multiplied by the number of days of payment (difference between the calendar days that have elapsed from the end of the maximum legal term for payment until the material payment of the operation) and, in the denominator, the total amount of payments made.

20. TRADE PAYABLES

Likewise, the ratio of operations pending payment corresponds to the coefficient formed in the numerator by the sum of the products corresponding to the amounts pending payment, multiplied by the number of days pending payment (difference between the calendar days that have elapsed from the end of the maximum legal term for payment until the day of close of the consolidated financial statements or annual accounts, as applicable) and, in the denominator, the total amount of payments pending.

The maximum legal term for payment applicable to the Company in financial year 2015 is 30 days from the publication of Law 11/2013 of 26 July (unless the conditions established in it are met, which will make it possible to increase that maximum term for payment to 60 days).

21. OTHER CURRENT LIABILITIES

At year-end 2015 and 2014, these headings were as follows:

Item	Financial Year 2015	Financial Year 2014
Suppliers and creditors	2,626,516	2,472,852
Short-term taxes payable	159,656	134,121
Accounts with personnel	452,312	419,546
TOTAL	**3,238,484**	**3,026,519**

Amounts in thousands of euros.

21.1 Personnel accounts

At close of financial years 2015 and 2014, the composition of these sections was as follows:

Item	Financial Year 2015	Financial Year 2014
Remunerations accrued and other payments to personnel	252,795	233,640
Group personnel, administration accounts and others	199,517	185,906
TOTAL	452,312	419,546

Amounts in thousands of euros.

The "Group personnel, administration accounts and others" section corresponds to the current accounts held with El Corte Inglés, S.A. by the employees of the companies of the Group, which are remunerated at market interest rates.

22. PUBLIC ADMINISTRATIONS AND TAX SITUATION

El Corte Inglés, S.A. pays tax under the tax consolidation system with the Spanish subsidiaries in which it holds over 75% of the capital, excluding those that close their financial period at a different time from the parent company for sector regulatory reasons, pursuant to the applicable legislation in effect.

22.1 Reconciliation of accounting profit and tax base

Income tax is calculated on the base of the individual financial or accounting profit—obtained by applying generally accepted accounting principles—and this does not necessarily have to coincide with the taxable profit, which is understood to be the tax base for this tax.

The reconciliation between the accounting result and the aggregate Income Tax base is as follows:

Financial Year 2015

Item	Increases	Decreases	Amount

Accounting profit before tax			77,006
Consolidation adjustments			(73,455)
Permanent differences	9,850	(65,778)	(55,928)
Temporary differences:			
—Current tax year	275,550	(10,616)	264,934
—Previous tax years	3,185	(47,239)	(44,054)
Others			(77,840)
AGGREGATE TAX BASE			90,663

Amounts in thousands of euros.

Financial Year 2014

Item	Increases	Decreases	Amount
Accounting profit before tax			14,808
Consolidation adjustments			(89,500)
Permanent differences	32,801	(45,458)	(12,657)
Temporary differences:			
—Current tax year	323,369	(4,046)	319,323
—Previous tax years	6,655	(59,960)	(53,305)
Others			(1,497)
AGGREGATE TAX BASE			177,172

Amounts in thousands of euros.

El Corte Inglés, S.A. and Hipercor, S.A. qualify for the tax benefits granted by Royal Decree-Law 3/1993, of 26 February, in relation to the depreciation of new fixed assets.

In financial year 2001, for the profits obtained in the transfer of assets, and by virtue of that set forth in Transitory Provision number 3 of Law 24/2001, El Corte Inglés, S.A. and Hipercor, S.A opted for the system contemplated in article 21 of Corporation Tax Law 43/1995, not integrating in that financial year a sum of 34.49 million euros. Both companies reinvested the full amount of the disposal which gave rise to that profit in the same financial year in the Cádiz department store. The method of integration into the tax base of the tax is that established in article 21.3 of that Law and in article 34.1.b) of the Regulations of the aforementioned tax at that time.

Item	Thousand of euros
Deferred income 2001	34,489
Income carried over from 2002 to 2014	(5,263)
Integrated income 2015	(398)
Pending income	28,828

The pending income will be integrated into the tax base of the tax in the tax periods in which the building of the Cádiz shopping centre is depreciated, for the sum which proportionally corresponds to the value of the depreciation of the aforementioned building in relation to its acquisition cost.

22.2 Taxes recognised in equity

Irrespective of the taxes on profits recognised in the consolidated income statement, the Group registered a cost of 17.39 million euros in financial year 2015 directly in its equity and 8.46 million euros in revenues in 2014. These amounts correspond mainly to the tax impacts due to the valuation adjustments of the available-for-sale assets.

22.3 Reconciliation between accounting profit and income tax expense

The reconciliation between the accounting profit and the income tax expense is as follows:

Item	Financial Year 2015	Financial Year 2014
Accounting profit before tax	77,006	14,808
Permanent differences and consolidation adjustments	(185,591)	(103,033)
Base for the purposes of determination of the tax as an expense	(108,585)	(88,225)
Amount payable	(30,908)	(27,026)

Deductions		
For advertising and publicity of events	(2,555)	(707)
Due to double taxation	(92,747)	(11,856)
For reversal of temporary measures	(618)	(7,889)
Others	(7,357)	(9,290)
Others	45,921	10,359
Adjustment for change of tax rate	7,137	(58,723)
Changes in the scope of consolidation	—	—
Total income tax expense recognised in profit or loss	(81,127)	(103,270)

Amounts in thousands of euros.

In financial year 2014, Corporation Tax Law 27/2014 was approved, which established that the tax rate was reduced from the 30% applicable in that financial year to 28% for financial year 2015 and 25% for subsequent financial years.

The Group has proceeded to update, where appropriate and for entities with fiscal residence in Spain, the valuation of the deferred tax assets and liabilities registered at 29 February 2016 to the tax rate at which it is expected they will be recouped. The impact of the updating of the deferred tax assets and liabilities to the corresponding tax rate meant an expense of 7,137 thousand euros, registered in the "Income Tax" section of the attached income statement.

The legislation in effect regarding Income Tax establishes a deduction for double taxation on dividends and several tax incentives in order to foster investments. The deductions arising from tax breaks provided for in the aforesaid legislation for the year ending 29th February 2016 amount to 103.28 million euros The most important of these is the deduction for double taxation on the dividend received from Ingondel, S.L., by virtue of section 1 of transitory provision twenty three of the tax law.

Income covered by the deduction for reinvesting one-off profits, article 42 of the Consolidated Text of the Corporation Tax Act, was as follows:

Financial Year	**Eligible income**	**Reinvestment date**	**Deduction**
2009	12,435	Financial Year 2009	4,592
2010	93	Financial Year 2010	11
2011	50	Financial Year 2011	6
2012	78,727	Financial Year 2012	9,447
2013	56,483	Financial Year 2013	6,778
2014	65,746	Financial Year 2014	7,889

Amounts in thousands of euros.

22.4 Deferred taxes

The details of the balance of deferred tax assets and liabilities at close of financial years 2015 and 2014 are as follows:

Deferred tax assets	**Financial Year 2015**	**Financial Year 2014**
Temporary differences (advance taxes).	365,384	314,555
Negative tax bases	365,546	364,351
Deductions pending and others	286,778	183,343
Total deferred tax assets	1,017,708	862,249

Amounts in thousands of euros.

Deferred tax liabilities	**Financial Year 2015**	**Financial Year 2014**
Differences associated with revaluation of assets arising from applying IFRS	729,555	729,555
Temporary differences (deferred taxes).	202,168	217,453
Total deferred tax liabilities	931,723	947,008

Amounts in thousands of euros.

Temporary differences occur as a consequence of the limitation on the deductibility of finance costs and of differences stemming from accelerated amortisation, financial leases and the reversal of the adjustment made in previous years due to the limit on the tax deductibility of depreciation and amortisation.

The deferred tax assets indicated above were recorded in the consolidated balance sheet as the Directors of the parent company consider that, in accordance with the best estimation of the future results of the Group, those assets are likely to be recouped.

The changes in temporary asset and liability differences in financial years 2015 and 2014 were as follows:

Financial Year 2015

Item	Deferred tax assets	Deferred tax liabilities
Balance at 28.02.2015	314,555	947,008
Temporary differences		
—Current tax year	81,337	2,263
—Previous years	(22,845)	(19,071)
Others	(171)	
Adjustment for change of tax rate	(7,492)	1,523
TOTAL	365,384	931,723

Amounts in thousands of euros.

Financial Year 2014

Item	Deferred tax assets	Deferred tax liabilities
Balance at 28.02.2014	269,144	1,124,135
Temporary differences		
—Current tax year	131,113	37,719
—Previous years	(44,222)	(32,510)
Others	1,476	6,711
Adjustment for change of tax rate	(42,956)	(189,047)
TOTAL	314,555	947,008

Amounts in thousands of euros.

The parent company, as the parent company of the Group in which it pays tax under the tax consolidation system, records, as a result of the application of the aforementioned system, all of the tax credit generated by the aforementioned group as rights due to deductions and rebates pending application and negative tax bases. In the current financial year the Tax Group, as a result of applying the aforesaid regime, has generated a credit amounting to 103.28 million euros arising from deductions and rebates pending application. Similarly, it has generated credits for losses to be offset in future years amounting to 1.4 million euros.

The deductions recorded and pending application are the following:

Type of deduction	Amount	Financial year of expiry
Deductions due to domestic double taxation	173,201	Unlimited term
Deductions due to international double taxation	2,735	Unlimited term
Deductions for investments	76,777	2017 – 2033
Deductions for donations to non-profit entities	5,256	2017 – 2025
Deductions for reinvestment	28,212	2022 – 2029
Deduction for reversion of temporary measures	598	Unlimited term
BALANCES AT 29 FEBRUARY 2016	286,779	

Amounts in thousands of euros.

In accordance with Corporation Tax Law 27/2014, the negative tax bases can be offset without any time limitation.

22.5 Financial years pending verification and inspection actions

The Company has open for inspection the calendar years from FY 2012 for Value Added Tax and Personal Income Tax and from financial year 2011/12 for Income Tax. The Directors of the Company do not expect that significant liabilities will accrue not registered at 29 February 2016.

23. INCOME AND EXPENSES

23.1 Revenue

The distribution of the consolidated revenue for 2015 and 2014, distributed by line of business, is as follows:

Line of business	Financial Year 2015	Financial Year 2014
Department Store El Corte Inglés	9,449,642	8,768,191
Hyper-markets Hipercor	1,402,205	1,570,538
D.I.Y Bricor	108,778	90,718
Grupo Viajes El Corte Inglés	2,436,315	2,350,116
Supermarkets Supercor	601,937	591,039
Sfera	230,843	205,140
Óptica 2000	80,912	78,329
Information and communications technology	714,383	737,103
Insurance Group	189,767	182,016
Other lines of business	5,060	18,839
TOTAL	15,219,842	14,592,029

Amounts in thousands of euros.

The distribution of the revenue corresponding to financial years 2015 and 2014, by geographical areas, is as follows:

Area	Financial Year 2015	Financial Year 2014
Domestic	14,498,926	13,889,022
European Union	422,114	409,060
Rest of the world	298,802	293,947
TOTAL	15,219,842	14,592,029

Amounts in thousands of euros.

23. INCOME AND EXPENSES

23.2 Procurements

The breakdown of the "Procurements" section of the consolidated income statement of financial years ending on 29 February 2016 and 28 February 2015 is as follows:

Item	Financial Year 2015	Financial Year 2014
Consumption of goods held for resale	10,676,539	10,039,813
Consumption of raw materials and other consumables	48,025	150,365
Work carried out by other companies	35,450	35,831
TOTAL	10,760,014	10,226,009

Amounts in thousands of euros.

The "Procurements" section of the attached consolidated income statement includes costs for preparing the goods for sale. During financial year 2015, 17.06 million euros were incurred for this concept and 17.50 million in financial year 2014.

Likewise, that section includes 27.02 and 26.91 million euros corresponding to costs and expenses, both internal and external, incurred during financial years 2015 and 2014, respectively, in the processing and preparation for sale of food products commercialised by El Corte Inglés, S.A.

23.3 Staff costs

The balance of the "Staff costs" account of financial years 2015 and 2014 shows the following composition:

Item	Financial Year 2015	Financial Year 2014
Wages salaries and compensations	2,020,952	1,969,401
Social charges		
Social Security	567,844	566,366
Uniformity	2,690	2,857
Life insurance	4,198	4,459
Other social charges	12,222	12,982
TOTAL	2,607,906	2,556,065

Amounts in thousands of euros.

The average number of people employed in financial years 2015 and 2014, expressed in complete working days, distributed by groups of activities, was as follows:

	Average number of employees	
Groupings	Financial Year 2015	Financial Year 2014
Directors and managers	182	185
Supervisors and coordinators	12,308	12,668
Commercial activity	54,037	55,730
Services activity	7,882	6,074
Other activities	6,521	6,218
TOTAL	80,930	80,875

In addition, the workforce at close of financial years 2015 and 2014, distributed by sexes and categories, was as follows:

	Financial Year 2015	Financial Year 2014

Groupings	Women	Men	Women	Men
Directors and managers	13	163	8	175
Supervisors and coordinators	4,129	8,598	4,094	8,883
Commercial activity	45,476	18,887	46,622	18,494
Services activity	5,347	2,485	4,062	2,461
Other activities	3,367	3,466	3,200	3,438
TOTAL	58,332	33,599	57,986	33,451

The average number of people with a disability equal to or greater than 33% employed by the Group in 2015 and 2014 broken down by categories is as follows:

Groupings	Financial Year 2015	Financial Year 2014
Directors and managers	1	1
Supervisors and coordinators	113	96
Commercial activity	602	659
Services activity	112	105
Other activities	101	70
TOTAL	929	931

23.4 Other operating expenses

The balance of the "Other operating expenses" account for financial years 2015 and 2014 presents the following composition:

Groupings	Financial Year 2015	Financial Year 2014
Leases and fees	175,812	190,007
Repairs and maintenance	62,391	60,343
Advertising	210,859	220,529
Supplies	134,439	163,670
Taxes	113,665	110,921
Rest	616,872	600,131
TOTAL	1,314,038	1,345,601

Amounts in thousands of euros.

23.5 Finance income and finance costs

The detail of the Group's finance income and finance costs is as follows:

Item	Financial Year 2015	Financial Year 2014
Finance income	**11,309**	**32,240**
Revenues from shares in capital	310	8,904
Revenues from other securities	10,999	23,336
Finance costs	**268,804**	**341,924**
From debts with Group companies and associates	891	225
From debts with third parties	267,913	341,698
Change in financial provisions	—	1

Amounts in thousands of euros.

24. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Transactions between the Company and its dependent companies, which are related parties and form part of the regular business traffic insofar as their object and conditions, have been eliminated in the consolidation process as indicated in these notes to the financial statements and they are not broken down in this note. Transactions between the Group and its associates and other related parties are broken down below.

24.1 Balances and transactions with associates and related parties

The details of operations carried out with related parties during the 2015 and 2014 financial years are as follows:

Financial Year 2015

Item	Associates	Other related parties	Total
Sales	23,070	877	23,947
Purchases	21,138	38,023	59,161
Disposal of fixed assets	7	1	8
Acquisitions of fixed assets	48	3,816	3,864
Provisions of services	18,304	1,541	19,845
Receipt of services	44,957	1,246	46,203
Interest paid	234	197	431
Interest charged	—	2,638	2,638
Other financial services	17,227	—	17,227
Dividends	129	—	129

Amounts in thousands of euros.

Financial Year 2014

Item	Associates	Other related parties	Total
Sales	24,217	866	25,083
Purchases	18,012	37,672	55,684
Disposal of fixed assets	6	326	332
Acquisitions of fixed assets	99	6,069	6,168
Provision of services	15,702	2,495	18,197
Receipt of services	45,700	964	46,664
Interest paid	3,690	313	4,003
Interest charged	—	3,255	3,255
Other financial services	17,670	—	17,670

Amounts in thousands of euros.

Furthermore, the amount of the balances on the balance sheet with related parties is as follows:

Item	Financial Year 2015	Financial Year 2014
Trade and other receivables	28,320	106,013
Current financial investments	121	5,143
Long-term payables	(60,699)	(63,843)
Shor-term payables	(60,367)	(69,774)
Trade payables	(20,643)	(32,069)
Current administration accounts	(76,273)	(72,911)

The main transactions conducted by the Group with related parties are due to commercial operations. These transactions have been made at market prices.

24.2 Remunerations to the Board of Directors

The remunerations received by the members of the Board of Directors of the parent company (which include the Senior Management) during financial years 2015 and 2014, classified by items, were as follows:

Item	Financial Year 2015	Financial Year 2014
Board of Directors		
—Salaries	4,350	3,532
—Other items	6,935	7,385

Amounts in thousands of euros.

At close of financial years 2015 and 2014, the Group did not have any advance payments or credits granted to the members of its Board of Directors, or commitments acquired with them in relation to pensions or retirement bonuses, life insurance or special compensations.

In addition, the members of the Board of Directors did not receive any remuneration whatsoever in either financial year 2015 or 2014 for per diem allowances, pension plans, severance payments or payments based on equity instruments.

25. INFORMATION ON THE ENVIRONMENT

The Grupo has continued to develop its environmental management policy, in accordance with the legal provisions on the protection of the environment which currently exist in our country.

The main actions and initiatives are as follows:

25.1 Environmental assets

With regard to the current systems put in place by the Group in order to reduce the environmental impact of its facilities, it has continued with the reduction of emissions into the atmosphere, the treatment and reuse of water, the reduction of noise and vibrations, etc., incorporating the cost of those elements into that of the facilities in which they are located. At close of financial years 2015 and 2014, the cost of the identified environmental assets and their corresponding cumulative depreciation and impairment are listed by their composition according to their environmental nature:

Financial Year 2015

Item	Cost	Cumulative Depreciation	Impairment from the current financial year	Impairment from previous years	Net value
Water protection	2,254	(728)	(20)	—	1,506
Air protection	80,415	(40,863)	(46)	—	39,506
Noise protection	3,193	(1,685)	(84)	—	1,424
Others	41	(27)	—	—	14
TOTAL	85,903	(43,303)	(150)	—	42,450

Amounts in thousands of euros.

Financial Year 2014

Item	Cost	Cumulative Depreciation	Impairment from the current financial year	Impairment from previous years	Net value
Water protection	2,187	(656)	—	—	1,531
Air protection	80,111	(37,877)	(2)	—	42,232
Noise protection	3,344	(1,622)	(203)	—	1,519
Others	86	(39)	(31)	—	16
TOTAL	85,728	(40,194)	(236)	—	45,298

Amounts in thousands of euros.

25.2 Environmental expenses

The expenses of an environmental nature recorded during financial years 2015 and 2014 were 16.73 and 15.64 million euros, respectively, and they are registered in the following sections of consolidated the income statement:

Item	Financial Year 2015	Financial Year 2014
Procurements	179	166
External services	14,136	13,769
Taxes	2,057	1,706
TOTAL	16,372	15,641

Amounts in thousands of euros.

"Procurements" refer to one-off acquisitions of consumable materials not included in the external services whose purpose is environmental improvement, such as: filters for the elimination of pollution into the atmosphere, products for the treatment of water or products for the maintenance of boilers and purifiers.

With regard to the external services, it should be noted that this item includes all contracts, for both periodic maintenance and other services in general, for the protection and improvement of the environment. Particularly notable, among others, are the following actions: cleaning of air conditioning ducts, treatment of the water at our facilities (cleaning, disinfection, etc.), management of containers and waste packaging, transportation and management of waste (fluorescent tubes, machine oil, waste paper, vegetable oils, organic waste, sanitary waste, etc.) or civil liability insurance.

Finally, the "Taxes" section includes levies of an environmental nature, fundamentally that related to the use of waste dumps.

26. OTHER INFORMATION

26.1 Information concerning situations of conflict of interests of the Directors

At the close of 2015 no member of the Board of Directors of the parent company nor anyone related to them pursuant to the definition established in the Capital Enterprises Act (*Ley de Sociedades de Capital*) has reported any direct or indirect conflict of interests they may have with the interests of Group companies to the other members of the Board of Directors.

26.2 Audit Fees

The remuneration paid to the company Deloitte, S.L. or to a company related to the auditor by means of control, common ownership or management, in relation to audit services and other services provided by the auditor, was as follows:

	Financial Year 2015		Financial Year 2014	
Item	**Main Auditor**	**Other Firms**	**Main Auditor**	**Other Firms**
Services of auditing of the financial statements	1,609	10	1,585	101
Other verification services	50	12	92	13
TOTAL AUDIT SERVICES	1,659	22	1,677	114
Tax advisory services	23	—	35	—
Other services	7,249	2	8,050	115
TOTAL OTHER SERVICES	7,272	2	8,085	115

Amounts in thousands of euros.

26.3 Events after close of FY

After the close of the financial year, the Group established a Voluntary Severance Plan for those employees who may be interested in terminating their employment with the Group. The employees will receive sixty per cent of their net salaries until they reach the age of 63 plus a one-off severance payment equivalent to 6 months' salary. In order to qualify for this plan, the workers must have been born in 1956, 1957 or 1958, have served at least 15 years in the Company and have paid social security contributions for at least 35 years. The application period began on the 15th of March and ended on the 5th of April 2016.

In this context, the Group will take out an insurance policy with Seguros El Corte Inglés, Vida, Pensiones, y Reaseguros, S.A., which will be responsible for making the payments described above.

CONSOLIDATED DIRECTORS' REPORT FOR 2015

CONSOLIDATED DIRECTORS' REPORT FOR 2015

Activity and evolution of the businesses

The main business of El Corte Inglés, S.A. and its dependent companies comprises the retail sale of consumer goods and the provision of a wide range of services (travel agency, I.T., telephony, insurance brokers, optical services, etc.). To conduct this business, it has a network of department stores, hyper-markets, supermarkets, convenience stores and branch offices.

In financial year 2015, the revenue of El Corte Inglés Group was 15,219.84 million euros, 4.3% higher than that registered in the previous financial year. The breakdown of that revenue is as follows:

Item	Millions of euros	% Variation Previous FY
Sales of the commercial activity	12,153.24	4.43
Revenue from services	3,066.60	3.81

The operating costs and expenses were 14,681.98 million euros, 10,760.01 million of which corresponded to procurements, 2,607.91 million to staff costs and 981.44 million to external services.

The value of inventories at 29 February 2016 was 1,897.92 million euros.

The cash flows of the operating activities were 497.63 million euros, as reflected in the statement of cash flows, which were materialised mainly in the investments of fixed assets and in amortising financial debt mainly.

The investments during financial year 2015, in items of property, plant and equipment associated with operation, were 255.39 million euros.

Future prospects

For the coming financial years, the Group's prospects are orientated towards the modernisation and refurbishment of the existing stores, continuing with the improvement of internal management in order to achieve greater efficiency of our investments and spending, and also to continue strengthening the training and professional qualifications of its employees.

Operations with treasury shares

In the course of the financial year, parent company shares were acquired for an effective value of 47.53 million euros and shares were transferred for the sum of 10.04 million euros.

At 29 February 2016, the Group held 11,548,321 treasury shares, each one with a nominal value of 6 euros, of the parent company itself, temporarily and with the intention of disposing of them in the immediate future.

Research and Development Activities

In 2015, the Consolidated Group has conducted several Research, Development and Innovation projects as part of different lines of strategic action. The most important projects, for their content and scope, include the following:

- Development of an advanced subtitling synchronisation system, for live television broadcasts. It permits the synchronised presentation of audio, video and the subtitles generated in real time.

- Design of a comprehensive risk detection and decision-making environment in agricultural concerns. By means of the management of multiple sensors of different types, the system detects risk situations and proposes corrective actions to the users.

- Specially-designed technological platform for the insurance sector. It provides users with the automatic, smart generation of comparators, and at the same time facilitates the contracting of products with supplements and modes generated in real time.

- Development of an analytical management system, aimed at relations with holiday customers, for the Travel Agencies sector. It permits advanced, integrated treatment of relations with the customer, through multiple channels.

- Construction of a virtual test and validation laboratory for applications, for Smart TV environments.

As in previous financial years, the companies of the El Corte Inglés Group have continued working on the development of ongoing innovation processes, in both systems and operating procedures. This has meant the incorporation and exploitation of the latest applicable technology and also the development of intellectual models which, by formalising the information gained from experience, make it possible to constantly improve the production and management systems.

The adequate instrumentation of the constant quality-assurance processes is another basic factor in order to be able to continue offering customers an excellent level in the provision of services and personalised attention.

Environment

The companies of El Corte Inglés Group have continued to develop their environmental management policy, in accordance with the legal provisions on the protection of the environment.

The main actions undertaken in the financial year are outlined in section 25 of the Consolidated notes to the financial statements.

Code of good taxation practices

The Company remains adhered to the aforementioned code, having adequately fulfilled the content thereof.

Average period of payment to suppliers

The average time exceeded in the payments made in financial year 2015 beyond the legal term in force is 18 days. The measures to be applied in the next financial year in order to reduce it will be adaptation to the standards of the sector in this regard.

Others

In order to control and reduce the potential negative impact of fluctuations in interest rates and exchange rates on profit, the parent company maintains a programme for the management of these risks in the medium term through the use of certain financial interest-rate and exchange-rate hedging instruments. The amounts of the nominals which cover the interest-rate and exchange-rate risk management programmes were 1,956.56 million and 488,162 million dollars, respectively.

REGISTERED OFFICE OF THE ISSUER

El Corte Inglés, S.A.
Hermosilla, 112
28009 Madrid
Spain

INDEPENDENT AUDITORS OF THE ISSUER

(for the February 29, 2016 and the February 28, 2017 accounts)
Deloitte, S.L.
Torre Picasso
Plaza Pablo Ruiz Picasso, 1
28020 Madrid
Spain

(for the February 28, 2018 accounts)

Ernst & Young, S.L.
Torre Azca
Raimundo Fernandez Villaverde, 65
28003 Madrid
Spain

LEGAL ADVISORS TO THE ISSUER

as to U.S. law
Shearman & Sterling (London) LLP
9 Appold Street
London EC2A 2AP
United Kingdom

as to Spanish law
Cuatrecasas, Gonçalves Pereira, S.L.P.
Calle Almagro, 9
28010 Madrid
Spain

LEGAL ADVISORS TO THE INITIAL PURCHASERS

as to U.S. law
Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

as to Spanish law
Linklaters S.L.P.
Calle de Almagro, 40
28010 Madrid
Spain

TRUSTEE
Bondholders, S.L.
Avenida Francia 17, A1
Valencia 46023
Spain

PAYING AGENT
Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

LISTING AGENT
Dillon Eustace
33 Sir John Rogerson's Quay
Dublin 2
D02 XK09
Ireland

TRANSFER AGENT AND REGISTRAR

Deutsche Bank Luxembourg S.A.
2 Boulevard Konrad Adenauer
L-1115 Luxembourg
Luxembourg

LEGAL ADVISOR TO THE TRUSTEE

Baker & McKenzie LLP
100 New Bridge Street
London EC4V 6JA
United Kingdom

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