the market environment in 2006

COINCIDING WITH ITS 175TH ANNIVERSARY, THE SPANISH STOCK MARKET ACHIEVED ITS BEST YEAR ON RECORD: WITH RETURNS OF OVER 31%, TRADING VOLUMES AND EQUITY CAPITALISATION OF MORE THAN 1 BILLION EUROS, 10 PUBLIC SHARE OFFERINGS, 22 AUTHORISED TAKE-OVER BIDS FOR A MONETARY EQUIVALENT OF OVER 102 BILLION EUROS, CAPITAL INCREASES VALUED AT 26.747 BILLION EUROS, 23 BILLION EUROS IN DIVIDENDS AND ALMOST 1 BILLION EUROS TRADED IN PRIVATE FIXED-INCOME TRANSACTIONS, 150 BILLION EUROS OF FINANCING RAISED AND 47 MILLION FUTURES ON SINGLE STOCKS CONTRACTS TRADED.


3.

Economic and financial backdrop

2006 marked the eighth consecutive year of strong economic growth in Spain, coupled with one of the country's highest ever rates of employment growth and tightest budget discipline. Spanish GDP grew 3.8%, extending the slight accelerating trend seen since 2004 and coinciding with the first year of growth, this century, above 2% in the euro zone (2.7%).

THE INTERNATIONAL ECONOMY

The buoyant Spanish economy comes amid an equally positive international economic backdrop. Globalisation, the absence of major monetary tension and the rapidly increasing contribution of emerging markets (e.g. Latin America and above all Asia) to economic growth worldwide are driving substitution effects that are leading to a balanced global performance.

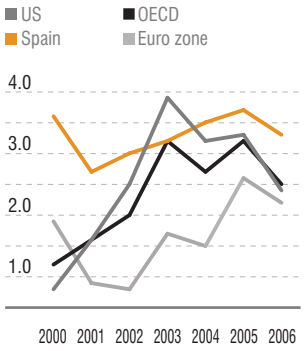
The International Monetary Fund (IMF) estimates that global GDP in 2006 could be close to 47.8 trillion dollars. This is 50% higher than in 2000 and reflects annual growth rates for the most part above 4%. After a two-year lull in 2001-2002, this implies that global trade is now rising at an annual clip of nearly 9%. Both IMF and OECD forecasts suggest this pace will taper off slightly in 2007 and 2008 as the US economy -which represents nearly 29% of the total- loses steam.

US GDP grew nearly 3.4% in 2006. However, the Federal Reserve's hawkish attitude -the central bank has raised interest rates steadily over the last two years- has apparently cooled the real estate market. And after a heady 1Q06, consumption and investment data showed considerably lower growth throughout the rest of the year. There is a silver lining to the US economic slowdown: steady inflation (at around 3%), healthy employment growth (nearly 2%) and a reduction in the budget deficit (to 2.3% of GDP from nearly 5% in 2003).

Once again in 2006, crude prices and the euro/dollar exchange rate played major roles in the performance of the global economy. A nearly 25% fall in crude prices in the year's second half (from all-time highs of $80/bbl to around $60/bbl at the year-end) helped allay fears of mounting price pressures across the globe. At the same time, the dollar's tumble against the euro in 1H06 and the last few weeks of 2006 affected the makeup of euro zone growth - the euro zone accounts for 25% of

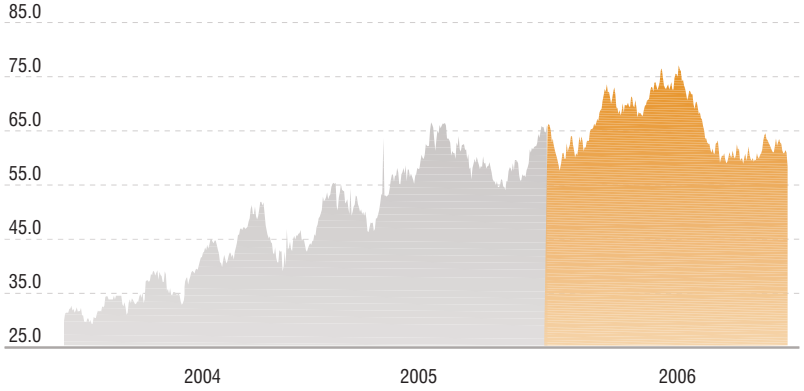
Spanish GDP growth vs. Other regions

(% yoy). Source: OECD



Oil prices 2004-2006

$ per barrel Brent



II MEDCAP Forum, hosted by BME

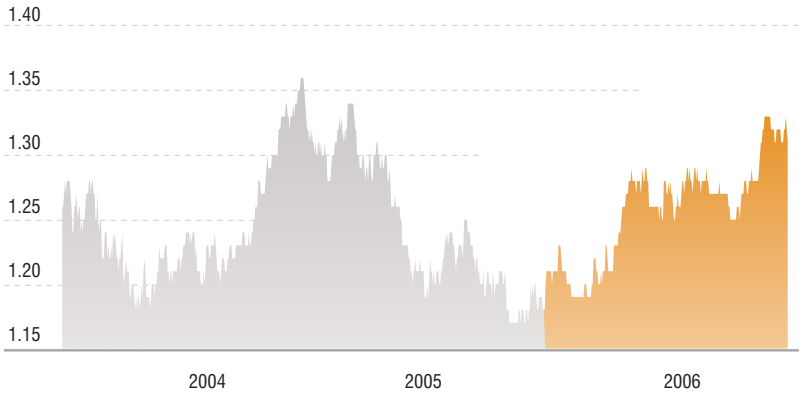
Economic growth by country groups

		2000	2001	2002	2003	2004	2005	2006	2007
World	GDP at constant prices (% chg yoy)	4.9	2.6	3.1	4.1	5.3	4.9	5.1	4.9
	GDP at current prices (trillion $)	31,649.9	31,455.9	32,714.1	36,751.0	41,258.0	44,454.8	47,766.6	51,056.6
	Inflation (% chg yoy)	4.2	4.0	3.4	3.6	3.7	3.7	3.8	3.7
	Terms of trade of goods and services (% chg yoy)	12.1	0.0	3.4	5.3	10.6	7.4	8.9	7.6
Advanced	GDP at constant prices (% chg yoy)	3.9	1.2	1.5	1.9	3.2	2.6	3.1	2.7
economies	GDP at current prices (trillion $)	25,320.3	25,027.1	26,118.8	29,280.9	32,445.3	34,034.6	35,743.1	37,736.8
	Inflation (% chg yoy)	2.2	2.1	1.5	1.8	2.0	2.3	2.6	2.3
G7	GDP at constant prices (% chg yoy)	3.6	1.1	1.2	1.8	3.0	2.4	2.9	2.5
	GDP at current prices (trillion $)	20,977.6	20,721.7	21,401.6	23,640.3	25,979.4	27,069.2	28,314.9	29,795.1
	Inflation (% chg yoy)	2.2	1.9	1.3	1.7	2.0	2.3	2.6	2.3
Newly	GDP at constant prices (% chg yoy)	7.9	1.1	5.3	3.2	5.9	4.5	4.9	4.4
industrialised	GDP at current prices (trillion $)	1,094.8	1,026.0	1,093.8	1,159.0	1,275.6	1,428.2	1,554.8	1,650.3
Asian economies	Inflation (% chg yoy)	1.1	1.9	0.9	1.4	2.4	2.2	2.2	2.2
European Union	GDP at constant prices (% chg yoy)	3.9	2.0	1.3	1.4	2.4	1.8	2.8	2.4
	GDP at current prices (trillion $)	8,389.9	8,475.8	9,269.1	11,273.1	12,980.1	13,502.8	14,205.9	15,183.4
	Inflation (% chg yoy)	2.5	2.6	2.2	2.0	2.1	2.2	2.3	2.4
Africa	GDP at constant prices (% chg yoy)	3.1	4.2	3.6	4.6	5.5	5.4	5.4	5.9
	GDP at current prices (trillion $)	446.9	444.8	471.0	571.5	690.6	807.1	931.2	1.055.0
	Inflation (% chg yoy)	13.6	12.8	9.9	10.7	8.0	8.5	9.9	10.6
Central	GDP at constant prices (% chg yoy)	5.1	0.3	4.5	4.7	6.5	5.4	5.3	5.0
and eastern	GDP at current prices (trillion $)	617.0	599.9	696.0	855.8	1,039.4	1,218.5	1.307.3	1.424.8
Europe	Inflation (% chg yoy)	22.8	19.4	14.7	9.2	6.1	4.8	5.3	4.6
Asia developed	GDP at constant prices (% chg yoy)	7.0	6.1	7.0	8.4	8.8	9.0	8.7	8.6
countries	GDP at current prices (trillion $)	2,311.3	2,425.8	2,640.2	3,003.3	3,474.9	3,974.8	4,533.3	5,031.1
	Inflation (% chg yoy)	1.7	2.7	2.0	2.5	4.1	3.5	3.8	3.6
ASEAN-4	GDP at constant prices (% chg yoy)	5.8	2.5	4.7	5.5	5.8	5.1	5.0	5.6
	GDP at current prices (trillion $)	454.5	435.4	494.6	561.4	621.3	683.6	809.5	882.4
	Inflation (% chg yoy)	3.0	6.9	6.0	4.2	4.6	7.5	8.6	4.5

Source: IMF World Economic Outlook (September 2006)

Dollar/euro exchange rate 2004-2006

Dollars per euro



global GDP- and caused the US foreign trade deficit to continue burgeoning (to 6.6% of GDP at the end of the year).
Most economic data in Europe during the year were positive. The area's largest economy, Germany, began reducing its dependence on trade in 2006. The competitiveness of German industry and the high added value of its production have underpinned the healthy pace of exports seen in the last few years. Even with the euro appreciating and crude prices rising, euro zone inflation has yet to surpass 2% so far this century and the current account surplus stands at around 4% of GDP. These traits remained intact in 2006, but for the first time in six years, euro zone GDP grew above 2% (c.2.7%). The growth of consumer demand (0.8%) was slightly lower than the year before, but investment growth rose sharply, with preliminary data pointing to an increase for the year of nearly 6%, compared with steep falls in the first few years of this century. The pick-up in domestic demand led to employment growth (+0.6%) and lowered the jobless rate for the first time in eight years. This bodes much better for the euro zone in 2007 and beyond, with forecasts pointing to GDP growth of around 2.5% and contained inflation.

INTEREST RATES

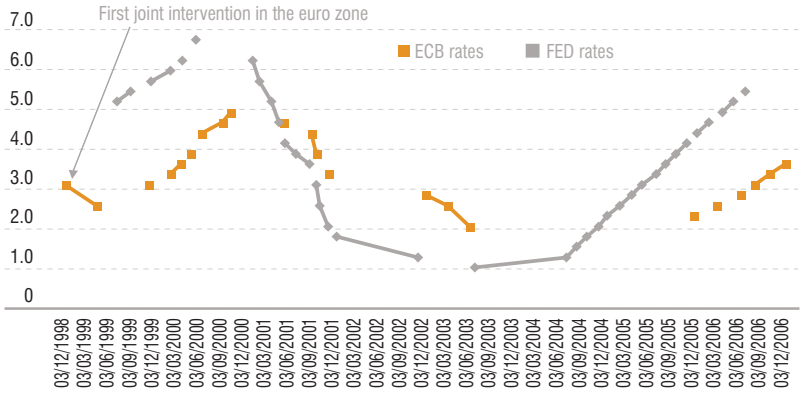
Both short- and long-term interest rates went through two differentiated stages in 2006. In the first half of the year, concerns regarding inflation deriving from the spike in crude and other commodities prices prompted the world's central banks to rein in monetary policy. The monetary authorities of the world's two largest economic areas, the US and the euro zone, took decisive action on short-term interest rates, extending the tightening campaigns begun in 2005. The turning point came in June, when the Fed raised rates for the last time and said it then was expecting a slowdown in economic growth and a benign outlook for prices. Oil prices began retreating and inflation eased, pointing to the end of the rate-hike cycle that drove up both equity and bond markets.
The same reasons that prompted monetary tightening (i.e. rising commodity prices and inflation expectations) led to sustained rises in long-term bond yields in the first half of the year. 10Y yields began 2006 at 3.27% in Germany and 4.35% in the US, and by the end of June stood at 4.10% and

5.25%, respectively. For the US, this was the highest level since 2002. The end of monetary tightening in the US led to a surprisingly sharp correction in long-term yields, which brought the debt market back into favour.
By the end of the year, 10Y yields stood at 3.96% in Germany and 4.70% in the US, far below their annual highs. Unlike 2005, last year featured scant movement in long-term yield spreads, with fluctuations of around 1 percentage point. Spreads began tightening in the last few months of the year as Europe's economy began gathering steam, which also pushed up the euro.
In Spain, bond yields, as measured by the 10Y government bond, virtually mirrored the movement of the German 10Y Bund.
They started the year yielding 3.35%, peaked at 4.13% in early July and then fell off sharply to 3.79% at the end of November before ending the year at 4.01%. At certain times during the year, Spanish bond yields dipped below those of their German counterparts.

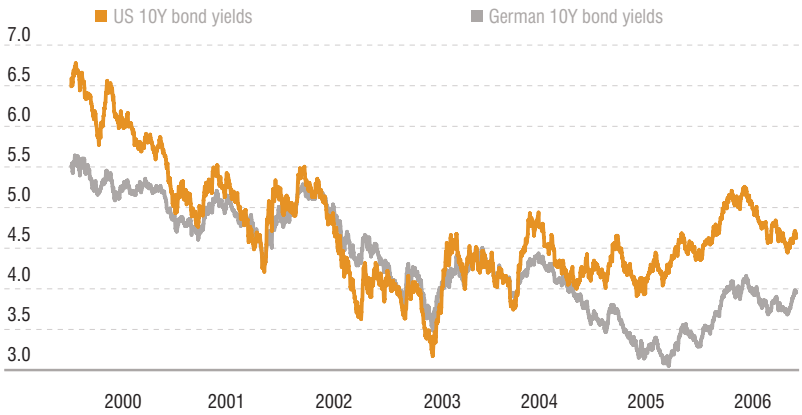
THE SPANISH ECONOMY

The buoyant economic environment in Europe had a favourable impact across the board on stock markets and enabled Spain to extend its run of heavy gains begun in 1996. Spanish GDP in current prices rose nearly 55% between 2000 and 2006. In the same period, Germany posted GDP growth of 12% and France and Italy increases of 23%.
Underpinning the vitality of the Spanish economy were monetary easing and the inflow of foreign capital into domestic companies boasting solid growth prospects. Growth in corporate profits -listed companies posted estimated gains of nearly 30% in 2006- have come alongside at least 3% growth in employment in the last few years, lowering the Spanish unemploy-

European Central Bank and US Federal Reserve interest rates
(1999 - 2006)



US and German 10Y bond yields
(2000-2006)



ment rate to around 8% of the total labour force; i.e. 15 percentage points lower than in 1995.
Spanish GDP was again close to 3.8% in 2006, achieving its highest and longest ever differential relative to Europe's largest economies. In 1995, GDP per capita in Spain was 73% that of Germany and 80% of the EU15 average. Now it stands at 90% in both cases, according to OECD data. This performance helps explain how Spain has managed to sustain an annual inflation spread with the European average of at least 1 percentage point.
According to the latest quarterly national accounts figures released by the Bank of Spain, domestic demand remained robust in the latter part of 2006. Consumption advanced 3.9% and although the increase in household indebtedness could pose a threat in the future, the still-low level of interest rates and the healthy pace of job creation (nearly 537,000 new full-time jobs through September) continue to add momentum to this key variable of economic growth. Over the last few years, consumer spending in Spain has outstripped the euro zone average by 2-3 percentage points.
Meanwhile, investment growth was running at around 7% p.a. in 2006. Capital goods investment jumped 9% in the year, the second in a row with growth above 8%. Investment in construction, which for years has been forecast to taper off, was 6% higher, in line with the growth registered in 2005. As a whole, gross fixed capital formation in Spain has grown 2-4 percentage points higher than the euro zone average in recent years. Growth continued apace for all areas of activity, with increases of 4.4% in industry, 5% in construction and 3.5% in services in 4Q06 according to national accounts figures.
To wrap up this review of economic activity, a strict budget discipline in Spain in recent years has perhaps allowed market forces to drive such healthy growth. Forecasts for Spain for 2006 point to a record budget surplus equivalent to 1.8% of GDP

Spanish economy

MACROECONOMIC OUTLOOK IN 2007 STATE BUDGET

	2005	2006	2007
GDP and aggregates (% real change)			
Domestic final consumption expenditure	4.3	3.8	3.3
Household final consumption expenditure (a)	4.2	3.6	3.1
General government final consumption expenditure	4.8	4.3	3.9
Gross capital formation	**6.9**	**5.7**	**4.9**
Gross fixed capital formation	7	5.8	4.9
Capital goods and other products	8.8	7	6.5
Construction	6.0	4.9	3.8
Change in stocks (contrib. to GDP growth)	**0**	**0.0**	**0.0**
Domestic demand	5	4.3	3.7
Export of goods and services	1.5	5.8	5.4
Import of goods and services	7	8.4	6.8
Net trade (contribution to GDP growth)	**-1.7**	**-1.1**	**-0.8**
GDP and aggregates (% real change)	**3.5**	**3.4**	**3.2**
GDP, current prices: billion euros	**905.5**	**972.2**	**1,037.6**
% yoy	**7.8**	**7.4**	**6.7**
PRICES AND COSTS (% yoy)			
GDP deflator	4.1	3.8	3.4
Per head wages (unit cost)	2.6	2.7	2.6
Total workforce (b)	3.1	2.9	2.5
Wage and salary earners	3.4	3.3	3.1
Output per head	0.4	0.5	0.7
Unit labour costs	2.2	2.2	1.9
Unemployment rate (% of total workforce)	9.2	8.1	7.8

(a).- Includes NPISH (non-profit institutions service households).
(b).- Full-time jobs, according to national accounts.

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at the year-end, whereas some of the area's largest economies are working hard just to reduce their deficits to below 3% of GDP.
In short, healthy public accounts and control over wage growth have been two key factors driving the overall growth of Spanish corporate earnings in the last few years. In addition, Bank of Spain data point to 6.9% growth in gross added value of companies in 9M06, compared to a 3.4% increase in the same period the year before. This indicates that the above-30% jump in corporate profits in 2006 was not due to income from extraordinary activities, but rather to growth in companies' recurring businesses. At the same time, the Spanish central bank has warned about the sharp increases in financial expenses at many companies.

Business environment

ACTIVE M&A

Vigorous corporate activity was one of the characteristics of this historic year for the Spanish securities markets. Booming M&A activity among listed companies has gone beyond Spain's borders and become a global financial phenomenon. The increasingly large Spanish multinational enterprises have been involved in many of the biggest acquisitions carried out during the year. Meanwhile, Spanish listed companies of all sizes and in all sectors have whetted the appetite of foreign companies and investors, either to acquire them or secure shareholdings.

2006 was marked by the most intense levels of M&A activity in the history of the Spanish stock market. A total of 22 takeover bids were authorised in 2006 worth a combined 102.126 billion euros. Of these, 16 were completed successfully, one in 2007, involving a total of 43.274 billion euros.

Meanwhile, rights issues amounted to 26.747 billion euros, of which 19.480 billion euros were shares issued for non-cash consideration. There were also purchases by listed companies of shareholdings in other companies. Spanish companies were involved in half of the 50 largest M&A deals in Europe. Rights issues were a major source of raising funds for concentration moves, mergers or international expansion in 2006. The largest ones were made by Mittal and Arcelor for Mittal's takeover of Arcelor, and by Grupo Inmocaral to acquire Inmobiliaria Colonial. La Seda de Barcelona, Abertis and Iberdrola have also tapped the market to acquire stakes in companies with operations abroad, in countries such as Portugal, Italy and the UK. In addition to investments financed with proceeds from share issues, listed Spanish companies have made other major financial investments funded with either shareholders' equity or debt.

Shareholder returns on the Spanish stock exchange

DIVIDENDS AND OTHER PAYMENTS BY LISTED COMPANIES (*).

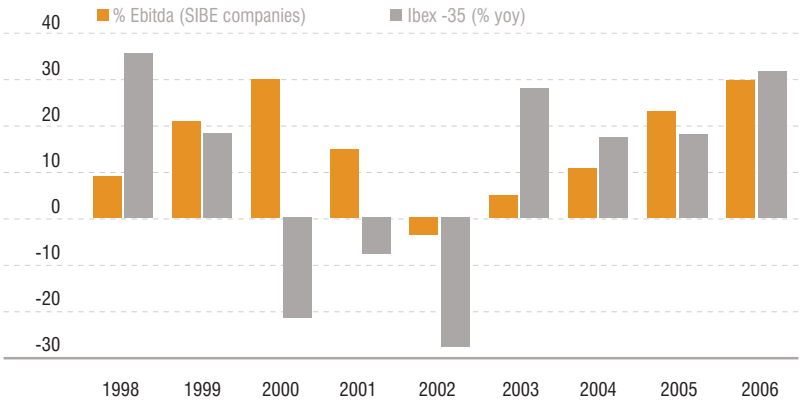
GROSS AMOUNTS (MILLION EUROS)

	DIVIDENDS	RETURN OF SHARE PREMIUM	DECREASE IN NOMINAL AMOUNT WITH EIMBURSEMENT OF CONTRIBUTIONS	TOTAL	%
2000	7,011.70	51.23	323.43	7,386.36	
2001	8,475.14	42.04	217.17	8,734.35	18.25
2002	8,446.78	28.78	223.79	8,699.35	-0.40
2003	9,411.50	2,480.76	272.96	12,165.22	39.84
2004	11,678.02	2,288.84	208.54	14,175.40	16.52
2005	14,435.72	4,463.76	223.99	19,123.47	34.91
2006	21,809.71	513.02	761.24	23,083.97	20.71

(*).- For all companies admitted to trading on the Madrid Stock Exchange.

IBEX 35 and corporate earnings 1998-2006

Earnings growth for all SIBE companies. 2006 data full year data for the IBEX and 1H for corporate profits



THE YEAR IN PICTURES
BME's IPO

RECORD PROFITS AND DIVIDENDS

This intense corporate action has brought to the stock market the largest number of public offerings ever (10 in all, including BME's) and came amid a particularly propitious economic backdrop, which led to further growth in earnings and strong operating performances by a number of Spanish companies. EBIT reported by companies included on the electronic trading platform, SIBE (Sistema de Interconexión Bursátil Español) in 9M06 was up 31.56% yoy. For the fourth year in a row, corporate earnings growth of listed companies topped 25% and preliminary data point to record growth in profits and revenue for FY06 of above 30%. Listed companies' strong balance sheets and trading performances were evident in the growth of shareholder returns via dividends and other means.

Listed companies paid out nearly 23.084 billion euros last year, equivalent to 2.7% of the Spanish stock exchange's total market cap at year-end 2005, the highest pay out ever and 20.71% higher than in 2005. Between 2002 and 2006 alone, shareholder returns increased by virtually threefold, while share prices (measured by the Ibex) doubled.

Rights issues held to raise financing for acquisitions in 2006

TRANSACTION DATE	ISSUER	CAPITAL (EUROS)	ISSUE PREMIUM (EUROS)	SHARED. ISSUED	MARKET VALUE (EUROS)	COMMENTS
13/03/2006	Nicolas Correa S.A.	2.844.163	10.985.580	3.555.204	16.993.875	The shares were exchanged for Industrias Anayak shares
10/04/2006	Sogecable, S.A.	6.594.164	99.472.964	3.297.082	107.352.990	Acquisition of stake in Canal Satelite Digital
29/05/2006	Ercros S.A.	48.229.710	61.626.852	133.971.417	96.459.420	The shares were exchanged for all participation units of Derivados Forestales.
26/06/2006	Nh Hoteles, S.A.	8.500.000	48.875.000	4.250.000	61.370.000	Acquisition in Latin America of Gest.Hotelera
22/07/2006	Grupo Inmocaral,S.A.	40.584.315	703.461.452	338.202.621	744.045.766	Raised funds for the takeover of Ínmobiliaria Colonial
03/08/2006	Grupo Inmocaral,S.A.	81.996.511	1.421.272.850	683.304.255	1.503.269.361	Subscribed by eligible investors, with proceeds going to fund the Inmibiliaria Colonial takeover
01/08/2006	Mittal Steel Company, N.V.	6.655.728	17.890.596.272	665.572.778	17.897.252.000	The shares were exchanged for Arcelor shares
03/08/2006	La Seda de Barcelona	279.147.964	139.573.982	279.147.964	418.721.946	Funds raised for the purchase of Selenis Polímeros (Portugal) and Selenis Italia (Italy).
03/08/2006	Grupo Inmocaral,S.A.	23.797.053	412.482.260	198.308.779	519.569.000	The shares were exchanged for shares in Grupo Zent real estate companies
10/08/2006	Union Europea de Inversiones, S.A.	5.728.063	0	5.728.063	180.720.388	The shares were exchanged for Popularinsa shares.
11/08/2006	Tavex Algodonera,S.A.	44.280.926	103.559.402	44.131.441	147.840.327	The shares were exchanged for Santista -Textil shares to allow Santista's shareholders stakes in Tavex Algodonera.
05/09/2006	Mittal Steel Company, N.V.	138.438	372.537.439	13.843.829	372.675.877	The shares were exchanged for Arcelor shares

Regulatory environment

There were a number of developments in legislation affecting financial markets in 2006. The main ones, in chronological order, were

- Ministry of Economy and Finance Order 1199/2006 of 25 April. This order implemented the provisions of the Regulation of Law 35/2003, on collective investment institutions (CIIs) and empowered the CNMV, the Spanish securities exchange commission, to regulate the more technical aspects of the regulation of hedge funds. One of the main differences deriving from the Regulation of Law 35/2003 was the regulation, for the first time in Spain, of hedge funds and funds of hedge funds.
- Law 12/2006, published in the BOE (Spanish Official State Gazette) on 17 May, which amends Securities Market Law 24/2998 of 28 June. The amendments came into force on 18 May. This law transposes to Spanish law, in this case the Securities Market Law, of Article 6.9 of EU Directive 2003/6 on transactions involving insider dealing or market manipulation, and Articles 7 through 11 of EU Directive 2004/72. For this purpose, a new article was introduced to Law 24/1988, 83 quater, on disclosure of suspect transactions. This article requires that certain subjects notify the CNMV of transactions that are suspected to have involved the use of inside information or practices designed to distort the free formation of prices.

In addition, the amendment to paragraph 6 of Article 31 of Law 24/1988 clarifies and standardises the regulations for significant shareholdings in companies operating securities registration, clearing

THE YEAR IN PICTURES

Technology is key in the day- to- day activities of BME

and settlement systems and secondary markets in Spain. The amendment includes a new definition of "significant" shareholding: "any direct or indirect shareholding comprising at least 1% of share capital or voting rights in the companies operating the Spanish secondary markets, or any lesser shareholding that nonetheless enables the exercise of a major influence over the company". It also gives the CNMV and Finance Ministry powers to veto the acquisition of these shareholdings. Veto rights may be exercised when deemed necessary to ensure the proper functioning of the securities markets or to prevent any distortion of the markets and systems, or if Spanish companies are not provided equivalent treatment in the acquirer's country of origin.

The same amendment is made to significant shareholdings in the Sociedad de Sistemas, via modification of paragraph 3 of Article 44 bis of the Spanish Securities Market Law.

This law completes the regulation of Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. or any other entity that in future could have a similar status, providing it with greater flexibility in its operations.

- Law 35/2006, of 28 November, on personal income tax and partially amending the corporate income tax, non-resident income tax and wealth tax laws. This law was published in the BOE on 29 November and entered into force

New taxation of savings for 2007

Spanish Parliament, in its session of 2 November 2006, passed the Law on personal income tax, which partially amends the corporate income tax, non-resident income tax and wealth tax laws. The text was published in the Official State Gazette of 29 November 2006 as Law 35/2006 of 28 de November. It came into effect on 1 January 2007, significantly modifying the taxation of the financial products available to Spanish savers.

Of the reforms to personal income tax affecting the taxation of savings, the most significant is the change to the structure of this tax by further intensifying its dual nature. With effect from its enactment there are two tax bases, one general and one for savings.

For purposes of equity and growth the new law accords neutral treatment to income from savings. To this end it includes all income treated under the Law as the proceeds of savings under a single base applying a fixed rate of 18%. This is identical for all types of income regardless of the period over which it is generated. This tax treatment significantly affects some investment options, in particular direct investment in listed securities and financial instruments, which was penalised in relation to other means of channelling savings.

The reform simplifies the taxation of dividends by including these under the savings base, and applying an exempt minimum which will exclude taxation of contributors whose full remuneration amounts to less than 1,500 euros. Double taxation relief has disappeared.

on 1 January 2007.

- The State Budget Law. Generally published at the end of December, the State Budget for 2007 was published on 29 December 2006.

In 2007, the following Laws regulating Spanish Capital Markets were approved:

Royal Decree 361/2007, of 16 March, which implements Securities Market Law 24/1988 of 29 July on shareholdings in the capital stock of the companies that run secondary stock markets and companies that run registry, clearing and settlement of securities. The Decree defines the regulations on significant shareholdings and control stakes in secondary stock markets, in registry and clearing and settlement of securities systems and for the holders of controlling stakes in these companies.

Royal Decree 363/2007 of 16 March which amends Royal Decree 726/1989 of 23 June on Governing Bodies and members of Stock Exchange, Sociedad de Bolsas y Fianza Colectiva, Royal Decree 1814/1991 of 20 December, which regulates regulated options and futures markets and Royal Decree 116/1992 of 14 February on the representation of shares by book entries and clearing and settlement of stock exchange transactions. The Decree amends the Royal Decrees on the legal regime for Governing Bodies of regulated secondary stock markets (stock exchanges and futures and options markets), Sociedad de Bolsas and Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores (Iberclear).

A transitory regime has been established for the amount of gains from specific assets acquired before 31 December 1994. Under this regime any gain generated before 20 January 2006, the date the tax reform was announced, will qualify for the reduction. Gains obtained after 20 January 2006 will be taxed at a rate of 15% if the saver sells in 2006 and at a rate of 18% if the sale is made in 2007, when the new regime is in force.

In relation to pensions, the law encourages instruments which provide supplementary income to state pensions by attempting to redirect tax incentives for supplementary social provision towards instruments whose payments are made periodically from those which are received in the form of capital.

The main change affecting investment funds is in relation to earnings, reimbursements and transfers from these financial instruments, which from now on will be included in the new tax base for savings. As with other savings instruments, investment funds will be taxed at a single rate of 18%, regardless of their generation period and the contributor's tax rate. The "transfer deferment system" remains in place. This allows investors to change funds without paying tax, postponing taxation until holdings are reimbursed

The tax treatment of listed funds (ETFs), which have recently been incorporated into the Spanish stock market, is the same as the tax treatment of gains from the sale of shares. Capital gains from holdings in listed funds are exempt from withholding tax.