RESULTS OF NON-FINANCIAL CORPORATIONS TO 2006 Q2

Introduction[1]

In the first half of 2006, confirming the trend in Q1, the gross value added (GVA) of the non-financial corporations reporting to the quarterly survey of the Central Balance Sheet Data Office grew at a nominal rate of 6.5%, as against 4.2% during the first half of 2005 (see Table 1 and Chart 1). All the sectors analysed contributed to this positive performance on the part of activity, but special mention should be made of the wholesale and retail trade, which continued to display solid growth in its operating surpluses, and industry, which in the first half of 2006 recorded the largest increase in its productive activity in the last six years, boosted by the buoyancy of equipment investment and by the more dynamic behaviour of exports.

In keeping with the rhythm of activity, employment developments were also positive in the first six months of 2006, with an increase of close to 2%, more than twice that recorded in the first half of the previous year and the highest rate since the first half of 2000. Average compensation increased by 3.1%, up slightly from 2005, when it increased by 2.9%, the trend remaining one of moderation, despite the small acceleration in Q1. These developments in employment and average compensation led to an increase in personnel costs of 5.1%, one and a half percentage points more than in the same period of the previous year. As this change was smaller than that in GVA, gross operating profit grew by more than the latter, at a rate of 7.6%, as against 4.7% in the first half of 2005. However, this growth did not feed through to ordinary net profit (ONP), which increased by 6.3%, as against 13% in the same period of 2005, because financial revenues grew at a significantly lower rate than in the same period of the previous year (9.4%, as against 26.4%) and, in particular, because financial costs increased by 25.3%.

As already indicated in the article published in the July 2006 *Economic Bulletin*, which discussed the results of 2006 Q1, the strong increase in financial costs was almost entirely due to firms' higher level of indebtedness, and not to the changes in interest rates, which continue to rise at moderate rates. The increase in indebtedness was affected by the debt incurred by a large telecommunications company in order to gain control of a European firm in the same sector, which accounted for approximately half of the growth in financial costs. However, in the rest of the reporting firms there was also a significant increase in debt, consistent with the greater momentum of investment in 2006. In any event, the growth of ONP plus financial costs (the numerator used to calculate the return on investment) was sufficient to ensure that profit levels remained high, and even exceeded those in 2005. Thus, in the first half of 2006, the return on investment was 8.6%, up 0.8 pp from the same period of 2005, while the ordinary return on equity stood at 13.7%, up two percentage points from the previous year. Meanwhile, as the ratio that approximates the cost of borrowing was 3.9% (0.1 pp higher than in 2005), the difference between ROI and the cost of debt remained positive (4.7%), for another quarter, and was larger than in the preceding periods, reflecting the favourable situation of Spanish firms

At the same time, the items that make up the extraordinary results show, on one hand, strong growth in extraordinary revenue, owing to the significant capital gains generated in transactions for the sale of fixed assets and a significant decline in extraordinary expenses, or capital losses, and on the other hand, a notable increase in net provisioning, included under the head-

1. This article is based on the data provided to 14 September 2006 by the 723 corporations that, on average, reported information to the quarterly survey of the Central Balance Sheet Data Office. These corporations account for approximately 13.2% of the total GVA of the sector non-financial corporations in the CNE.

PROFIT AND LOSS ACCOUNT. YEAR-ON-YEAR CHANGES AND PROFIT RATIOS

TABLE 1

Growth rates of the same corporations on the same period a year earlier

	CBA STRUCTURE	CBA		CBQ (a)		
DATABASES	2004	2003	2004	05 Q1-Q4/ 04 Q1-Q4	05 Q1-Q2/ 04 Q1-Q2	06 Q1-Q2/ 05 Q1-Q2
Number of corporations		8,772	7,969	784	813	723
Total national coverage		30.0%	28.2%	13.9%	14.6%	13.2%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT	100.0	6.0	7.8	12.5	12.0	14.3
Of which:						
Net amount of turnover and other operating income	*134.3*	*5.9*	*8.6*	*16.0*	*15.4*	*14.9*
2. INPUTS (including taxes)	67.0	5.9	8.2	17.1	16.4	18.4
Of which:						
Net purchases	*39.5*	*4.2*	*12.3*	*19.4*	*20.8*	*20.1*
Other operating costs	*27.2*	*7.9*	*3.4*	*10.2*	*8.6*	*9.2*
S.1. GROSS VALUE ADDED AT FACTOR COST [1 – 2]	33.0	6.3	7.1	4.4	4.2	6.5
3. Personnel costs	16.8	4.6	4.5	3.9	3.6	5.1
S.2. GROSS OPERATING PROFIT [S.1 – 3]	16.2	8.3	10.0	4.7	4.7	7.6
4. Financial revenue	3.1	4.3	13.9	32.6	26.4	9.4
5. Financial costs	2.6	-2.0	-3.9	8.9	8.0	25.3
6. Depreciation and operating provisions	6.5	4.1	2.5	-0.1	-0.4	3.0
S.3. ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	10.1	14.5	21.5	14.3	13.0	6.3
7. Capital gains and extraordinary revenue	3.5	8.3	-32.3	58.7	65.9	29.5
8. Capital losses and extraordinary expenses	3.1	-28.3	-5.4	68.0	85.0	-15.3
9. Other (net provisioning and income tax)	3.9	-35.9	-14.7	-31.7	-37.3	89.3
S.4. NET PROFIT [S.3 + 7 – 8 – 9]	6.6	(b)	17.1	35.3	31.5	3.3
		17.8	20.1	34.4	34.9	33.9
NET PROFIT/GVA (S.4/S.1)	Formulas (c)					
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	7.8	8.1	9.4	7.8	8.6
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	3.9	3.6	3.8	3.8	3.9
R.3 Ordinary return on equity (before taxes)	S.3/E	11.1	11.8	14.4	11.5	13.7
R.4 ROI - cost of debt (R.1 – R.2)	R.1–R.2	3.9	4.5	5.6	4.0	4.7

SOURCE: Banco de España.

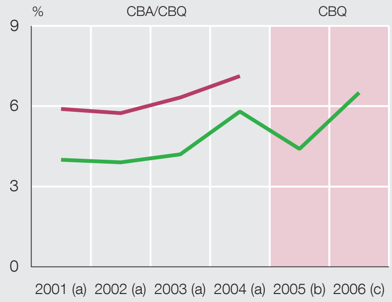
a. All the data in these columns have been calculated as the weighted average of the quarterly data.
b. Rate not significant or not calculable because the relevant figures are of opposite sign.
c. The variables in the formulas are expressed as absolute values. NA = net assets (net of non-interest-bearing borrowing); E = equity; IBB = interest-bearing borrowing; NA = E + IBB. The financial costs in the numerators of ratios R.1 and R.2 only include that portion of financial costs which is interest on borrowed funds (5.1) and not commissions or cash discounts (5.2).
Note: In calculating rates, internal accounting movements have been edited out of items 4, 5 and 9.

ing “other” of the income statement. The increase in net provisioning (from high negative levels in the first half of 2005 to high positive ones in the first half of 2006, so that the rate of change cannot be calculated) is so large that it more than offsets the positive developments in capital gains and capital losses and has a negative bearing on final net profit, which grew by 3.3%. In any case, the trend in net provisioning is partly reflected in the trend in the aggregate “other”, whose sharp increase (89.3%) reflects the combined effect of the large reversals of provisions made in previous years (i.e. revenue under this heading), recorded in the first half of 2005, along with the existence, in 2006 Q2 of extraordinary provisioning for the portfolio of shares in certain Spanish holding companies to reflect the market value of some of their subsidiaries abroad. All this has meant that, as mentioned above, the final net profit grew moderately (3.3%), although this does not call into question the high level of profits generated by the firms in the first half of the year, as demonstrated by the fact that the percentage of GVA that they represent stood, in the first six months of 2006, at 33.9%, very similar to the level in the first

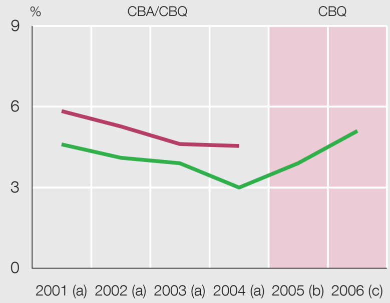
NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE

CHART 1

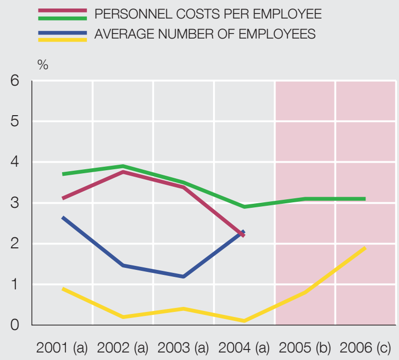
GROSS VALUE ADDED AT FACTOR COST
Rate of change



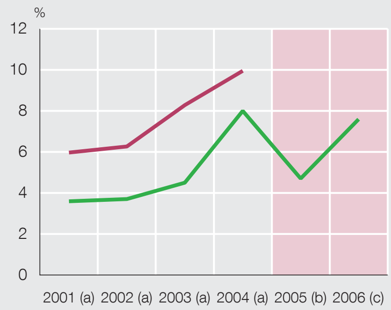
PERSONNEL COSTS
Rate of change



EMPLOYMENT AND WAGES
Rate of change



GROSS OPERATING PROFIT
Rate of change



REPORTING NON-FINANCIAL CORPORATIONS		2001	2002	2003	2004	2005	2006
Number of corporations	CBA	8,417	8,420	8,772	7,969	—	—
	CBQ	859	847	829	817	784	723
% of GDP of the sector non-financial corporations	CBA	29.6	29.5	30.0	28.2	—	—
	CBQ	15.7	15.4	14.9	14.9	13.9	13.2

SOURCE: Banco de España.

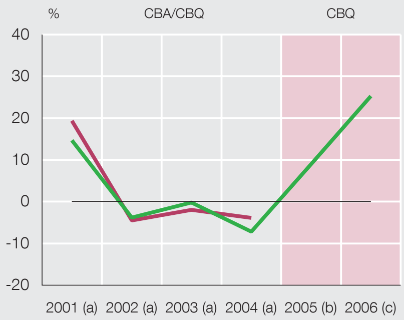
a. 2001, 2002, 2003 and 2004 data drawn from corporations reporting to the annual survey (CBA), and average data of the four quarters of each year in relation to the previous year (CBQ)
b. Average of the four quarters of 2005 in relation to the same period in 2004.
c. Average of the first two quarters of 2006 in relation to the same period in 2005.

six months of 2005 (34.9%), and also very close to the historic highs of 2005. Finally, it should be noted that the contradiction between the moderate growth in the final net profit according to the CBQ and the more positive one reflected by alternative statistics on the performance of listed companies is only apparent, since the CBQ includes the activity of resident non-financial firms, while the statistics on the aggregate of listed firms include the performance of groups of firms (both financial and non-financial) whose parent is a resident company in which movements like those indicated above between parents and subsidiaries are consolidated and, therefore, do not affect final net profit.

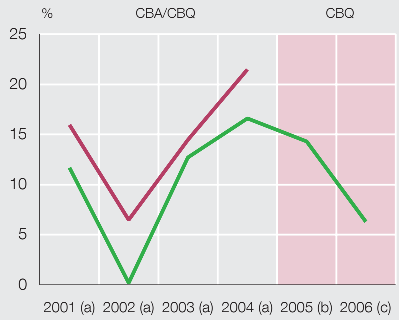
NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE (cont'd)

CHART 1

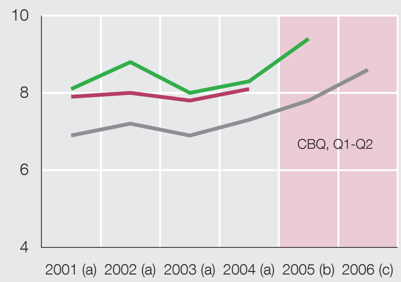
FINANCIAL COSTS
Rate of change



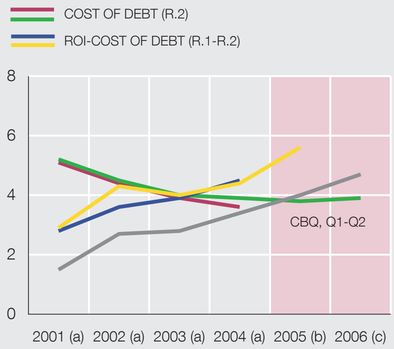
ORDINARY NET PROFIT
Rate of change



RETURN ON INVESTMENT (R.1)
Ratios



COST OF DEBT (R.2) AND
ROI - COST OF DEBT (R.1-R.2)
Ratios



REPORTING NON-FINANCIAL CORPORATIONS		2001	2002	2003	2004	2005	2006
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	CBQ	859	847	829	817	784	723
% of GDP of the sector	CBA	29.6	29.5	30.0	28.2	—	—
non-financial corporations	CBQ	15.7	15.4	14.9	14.9	13.9	13.2

SOURCE: Banco de España.

a. 2001, 2002, 2003 and 2004 data drawn from corporations reporting to the annual survey (CBA), and average data of the four quarters of each year in relation to the previous year (CBQ)
b. Average of the four quarters of 2005 in relation to the same period in 2004.
c. Average of the first two quarters of 2006 in relation to the same period in 2005.

In short, the firms included in the CBQ database recorded positive productive activity and employment developments in the first half of 2006, consistent with the sustained strength of domestic demand and buoyant equipment investment and exports shown by other indicators. The increase in equipment investment and exports is reflected in the results obtained by industrial companies. These positive developments co-existed with lower financial revenues (dividends) and high growth in financial costs, owing to higher indebtedness, which reduced the rate of growth of ordinary surpluses, although this did not prevent the firms of the sample continuing to achieve high levels of profitability and investing significantly, against a background of moderate, albeit rising, interest rates. Meanwhile, the trend in net profit was affected by significant net provisioning by Spanish multinationals in relation to their foreign subsidiaries, but its level is still very high. The conjunction of these factors confirms a very sound business outlook warranting expectations of continued dynamism, especially if the oil price moderation is confirmed.

Activity

In the first six months of 2006, the productive activity of the CBQ firms grew notably, their GVA increasing by 6.5%, in nominal terms, compared with 4.2% in the same period of the previous year. This positive performance was underpinned by the sustained strong growth of purchases and sales in Spain, already evident in the Q1 results, and by the improvement in net external demand which. although remaining slightly negative overall, improved notably with respect to the same period a year earlier.

All sectors recorded positive activity developments. Notable, however, were wholesale and retail trade, which recorded high growth rates, on this occasion 8.8% relative to the previous period, as against 2.4% in 2005 (see Table 2), and transport and communications, which was boosted by telecommunications firms, permitting GVA to increase by 4.5% in the first half of 2006, one-and-a-half percentage points more than in the previous year. The performance of these two sectors is a result of the solidity and vigour of domestic demand during the period analysed, which continued to be one of the main engines of the current growth model. Industrial GVA increased by 4%, up one percentage point from the same period of 2005, demonstrating the positive influence of both equipment investment and more buoyant external activity. The latter has been referred to above and is apparent in Table 3, which shows that the net external demand for industry increased by 7.6%, more than double the growth recorded in the first half of 2005. The analysis of the performance of the industrial sub-sectors is included in Box 1, which discusses the mixed performance of some of these aggregates. Meanwhile, the energy sector also recorded very high GVA growth during the first half of 2006 (9.8%), which even exceeded the growth in 2005. This performance is a result of that of the electricity, gas and water firms which, in line with the rest of the sample, recorded GVA increases of close to 12%, clearly exceeding those obtained a year earlier, basically on account of the reduction in production costs, and also the good performance of natural gas companies[2]. For its part, refining recorded a more moderate trend, with an increase in GVA of 3.2% for the first half of 2006, as a consequence of the lower margins recorded this year, following the sharp rise in 2005 (when it grew by 63.1%). Chart 2 confirms the slowdown in the surplus of refining firms, against a background of continued growth in the oil price (the table reflects its trend to June 2006).

Finally, Chart 3 shows the distribution of firms according to the rate of change in their GVA, irrespective of their size and sector of activity. It can be seen how, in 2006 to date, the percentage of firms that have increased their GVA has risen significantly, from 56.8% in the first half of 2005 to 63.5% in the first half of 2006. Also, there has been a significant shift of firms towards the segment that includes the largest increases in activity.

Employment and personnel costs

Personnel costs increased by 5.1% during the first six months of 2006. This was a result of the growth of employment, of 1.9% in this period, and higher average compensation, which increased by 3.1%, up 0.2 pp from the same period of 2005.

2. The growth of the GVA of electric utilities in the first half of 2006 is a consequence of the generation of electricity by plants that use cheaper inputs. According to the July/August 2006 issue of the Revista de Electricidad published by UNESA, in recent months hydroelectric plants had contributed 4.2% more output than in 2005, nuclear 7.8% and combined cycle 44.3% (the latter usually use natural gas in more efficient processes than in conventional power plants). These increases were to the detriment of coal generated electricity (which fell by 12.6%) and conventional power plants (fuel and gas), whose contribution to the production of electrical energy fell by 44.3%.

VALUE ADDED, EMPLOYEES, PERSONNEL COSTS AND COMPENSATION PER EMPLOYEE BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS.
Growth rate of the same corporations on the same period a year earlier

TABLE 2.A

	GROSS VALUE ADDED AT FACTOR COST				EMPLOYEES (AVERAGE FOR PERIOD)				PERSONNEL COSTS				COMPENSATION PER EMPLOYEE			
	CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2004	05 Q1-Q4	05 Q1-Q2	06 Q1-Q2	2004	05 Q1-Q4	05 Q1-Q2	06 Q1-Q2	2004	05 Q1-Q4	05 Q1-Q2	06 Q1-Q2	2004	05 Q1-Q4	05 Q1-Q2	06 Q1-Q2
Total	7.1	4.4	4.2	6.5	2.3	0.8	0.7	1.9	4.5	3.9	3.6	5.1	2.2	3.1	2.9	3.1
SIZE																
Small	8.1	—	—	—	0.6	—	—	—	4.0	—	—	—	3.3	—	—	—
Medium	7.2	2.8	1.1	7.6	2.4	0.6	0.3	1.4	5.2	4.6	4.5	6.0	2.7	4.0	4.2	4.5
Large	7.1	4.5	4.4	6.5	2.4	0.8	0.7	1.9	4.5	3.8	3.6	5.0	2.0	3.0	2.9	3.0
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	6.3	10.2	8.8	9.8	-1.2	-0.9	-0.8	-1.1	2.1	3.3	3.2	3.5	3.4	4.2	4.0	4.7
Industry	4.6	0.8	3.0	4.0	-0.2	-0.8	0.0	-1.0	2.9	2.9	3.6	2.3	3.0	3.7	3.6	3.3
Wholesale and retail trade	10.5	2.4	2.4	8.8	5.7	2.6	2.1	4.4	8.5	4.0	4.0	7.9	2.6	1.4	1.9	3.4
Transport and communication	5.8	2.6	2.9	4.5	-0.9	-0.2	-0.3	0.0	2.3	3.3	2.7	3.5	3.3	3.5	3.0	3.5

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the quarterly data.

EMPLOYMENT AND PERSONNEL COSTS
Details based on changes in staff levels

TABLE 2.B

		TOTAL CBQ CORPORATIONS 06 Q1 - Q2	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations		723	441	282
PERSONNEL COSTS				
Initial situation 05 Q1-Q2 (€m)		11,677.7	6,647.8	5,029.9
Rate 06 Q1-Q2/ 05 Q1-Q2		5.1	9.5	-0.7
AVERAGE COMPENSATION				
Initial situation 05 Q1-Q2 (€)		20,796.6	18,634.0	24,564.3
Rate 06 Q1-Q2/ 05 Q1-Q2		3.1	3.4	4.7
NUMBER OF EMPLOYEES				
Initial situation 05 Q1-Q2 (000s)		562	357	205
Rate 06 Q1-Q2/ 05 Q1-Q2		1.9	5.9	-5.2
Permanent	Initial situation 05 Q1-Q2 (000s)	474	289	185
	Rate 06 Q1-Q2/ 05 Q1-Q2	0.3	2.9	-3.7
Non-permanent	Initial situation 05 Q1-Q2 (000s)	88	68	20
	Rate 06 Q1-Q2/ 05 Q1-Q2	10.4	18.8	-18.9

SOURCE: Banco de España.

PURCHASES AND TURNOVER OF CORPORATIONS REPORTING DATA ON PURCHASING SOURCES AND SALES DESTINATIONS
Structure and rate of change

TABLE 3

		CBA	CBQ (a)	
		2004	05 Q1-Q2	06 Q2-Q1
Total corporations		7,969	723	723
Corporations reporting source/destination		7,969	698	698
Percentage of net purchases according to source	Spain	69.2	76.6	76.2
	Total abroad	30.8	23.4	23.8
	EU countries	*17.2*	*15.8*	*14.6*
	Third countries	*13.6*	*7.6*	*9.2*
Percentage of net turnover according to destination	Spain	84.4	87.9	87.1
	Total abroad	15.6	12.1	12.9
	EU countries	*11.3*	*9.2*	*9.0*
	Third countries	*4.3*	*2.9*	*3.9*
Change in net external demand (exports less imports), rate of change	Industry	-4.4	3.3	7.6
	Other corporations	-32.2	-18.1	-0.5

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the relevant quarterly data.

The increase in average employment in the first half of 2006 in the firms that make up the CBQ sample is significant, not only because it is the eighth consecutive period of net employment growth in the quarterly sample, but also because a progressive acceleration is apparent, so that the increases in the period subject to analysis are the largest since 2000 Q2. Although both permanent and fixed-term employment increased, it was the latter that underpinned the higher rate of growth, with an increase of over 10%. By sector of activity, wholesale and retail trade was again notable, being the sector that, in line with the positive performance of its activity, recorded the largest increase in employment in the first six months of 2006 (4.4%). There was no change in average employment in transport and communication, this being a slight improvement on the fall of 0.3% in 2005. This sector is still being affected by a major adjustment process at a large telecommunications firm, in the absence of which the growth rate of this aggregate would be positive and rising (1% in the first half of 2005 and 2.3% in the same period of 2006), more in keeping with developments in the sector's activity, and with the employment data for the sample as a whole. The energy sector was, once again, the sector to record the most negative growth rates, since its average level of employment fell by 1.1% in the first half of 2006. This merely reflects the progressive staffing-level adjustments carried out by the electric utilities, as part of their reorganisation and adaptation to the functioning of a liberalised market. Finally, the average employment of industrial firms fell by 1%, a rate that contrasts with the positive developments in the sector's productive activity. The reason for this is that the employment reductions in subsectors with falling activity (specifically, food products, beverages and tobacco and transport equipment) were not fully offset by the growth in workforces in those subsectors that recorded GVA increases (see Box 1). Finally, Table 4 shows that the growth of employment is affecting most of the firms in the sample, since 61.3% of them increased or kept their workforces unchanged in the first half of 2006, almost three percentage points more than a year earlier.

Average compensation increased by 3.1% in the first six months of 2006, up slightly from 2005, when it grew by 2.9%. This was the result an acceleration in these costs in Q1, to 3.5%, and a slight correction in 2006 Q2, when the rate stood at 2.8%. Table 2.B shows firms

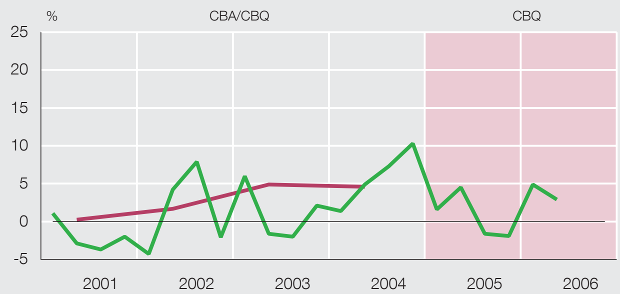
ANALYSIS OF THE INDUSTRIAL SECTOR

BOX 1

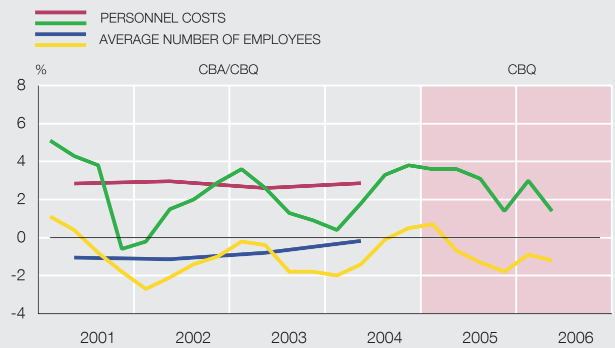
The industrial firms in the CBQ sample recorded nominal growth of 4% in the first half of 2006, as against 3% in the first half of 2005. This performance was underpinned by two factors: an improvement in external activity, which led to a substantial increase in exports, and the positive trend in equipment investment, which resulted in especially strong GVA growth in some sectors, such as “glass, ceramics and metals” (13.6%) and, in particular, “manufacture of electrical and optical equipment” (19.2%). However, there was a significant contraction of activity in other sectors, which affected the employment trend for the sample of industrial firms as a whole. Thus, the GVA of “food products, beverages and tobacco” fell by almost 9%, as a consequence, inter alia, of lower consumption arising from the entry into force of the anti-smoking law. There was also an 11.2% reduction in the GVA of “manufacture of transport equipment” owing to the sharp production cutbacks at certain car manufacturing firms, although the data on this sector are provisional, as information is still not available on certain large firms. Therefore, although the activity of the industrial firms as a whole performed positively, this growth did not extend to all the industrial sectors. The behaviour of the latter two sectors dominated the trend in industrial employment, which fell by 1% in the first half of 2006. Employment at the firms in the sectors “manufacture of transport equipment” and “food products, beverages and tobacco” fell by 7.2% and 1.3%, respectively, while in the other industrial firms, workforces either remained unchanged or grew notably (“chemicals” and “electrical and optical equipment”), but without offsetting the aforementioned falls. Average compensation in industry rose by 3.3%, a slightly higher rate than for the CBQ firms as a whole, but 0.3 pp down from the first half of 2005. These trends in compensation and employment resulted in an increase of 2.3% in personnel costs which, being lower than the rate of growth of GVA, enabled the gross operating profit to grow by 6.1% in the first half of 2006, almost four percentage points more than in the same period of 2005. This trend extended to the ordinary net profit, whose growth of 9.7% clearly exceeded the 5.4% by which it grew in 2005, enabling the sector to record high levels of profitability, above those obtained the previous

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

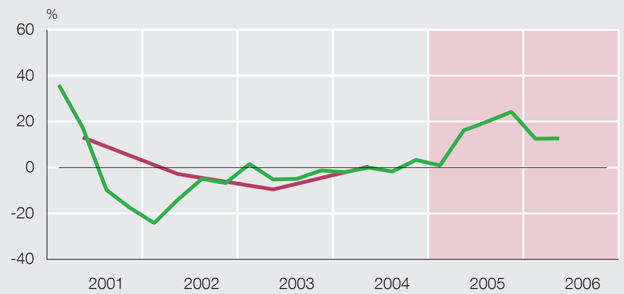
GROSS VALUE ADDED AT FACTOR COST
Rate of change



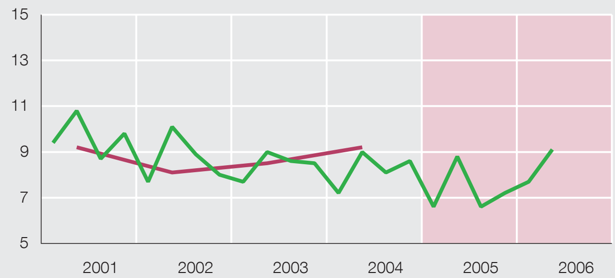
EMPLOYMENT AND WAGES
Rate of change



FINANCIAL COSTS
Rate of change



RETURN ON INVESTMENT
Ratios



REPORTING INDUSTRIAL CORPORATIONS		2001				2002				2003				2004				2005				2006			
Number of corporations	CBA	2,814				2,715				2,612				2,267				—				—			
	CBQ	402	392	380	363	389	375	365	354	366	361	352	345	352	343	336	333	321	307	297	281	305	229	—	—
% of GDP of the sub-sector industrial corporations	CBA	28.2				27.9				28.1				24.6				—				—			
	CBQ	21.5	21.2	18.8	20.1	19.6	20.6	18.6	18.5	18.8	19.1	17.1	17.8	19.5	20.0	18.0	19.3	18.9	19.6	16.0	16.4	17.9	14.7	—	—

SOURCE: Banco de España.

year. Thus, the return on investment in the first half of 2006 was 8.5% and the return on equity 11.4%, as against 8.1% and 10.6% in the same period of 2005. At the same time, the ratio that measures the cost of external financing held at very similar levels to 2005, so that the difference between ROI and the cost of debt in the first eight months of 2006 was clearly positive and growing with respect to preceding periods. In short, the overall performance of the industrial sector was positive in the first half of 2006. Boosted by the expansion of equipment investment and the recovery of export dynamism, the sector proved itself capable of achieving notable growth in its activity and its ordinary surpluses, and this was sufficient to maintain a high level of profitability.

creating and destroying jobs separately and reveals in both cases more buoyant average compensation (3.4% and 4.7%, respectively) than for the sample as a whole (3.1%). Meanwhile Table 4 shows, inter alia, an increase in the percentage of firms whose average compensation grew by more than the rate of inflation of the period. There were no significant differences across sectors, the average increase in compensation being around 3.4%. Only in the energy sector did average personnel costs grow at a somewhat higher rate of 4.7%, partly owing to the increase in variable remuneration and, also, to the costs associated with the voluntary redundancies in this sector. This conclusion is strengthened by the data of Table 2.B, which shows how, once again, the aggregate of firms that increased or kept their workforces unchanged recorded more moderate increases in average compensation, while it was in the group of job-destroying firms that average personnel costs increased most strongly, this rate rising to 4.7%.

Profits, rates of return and debt

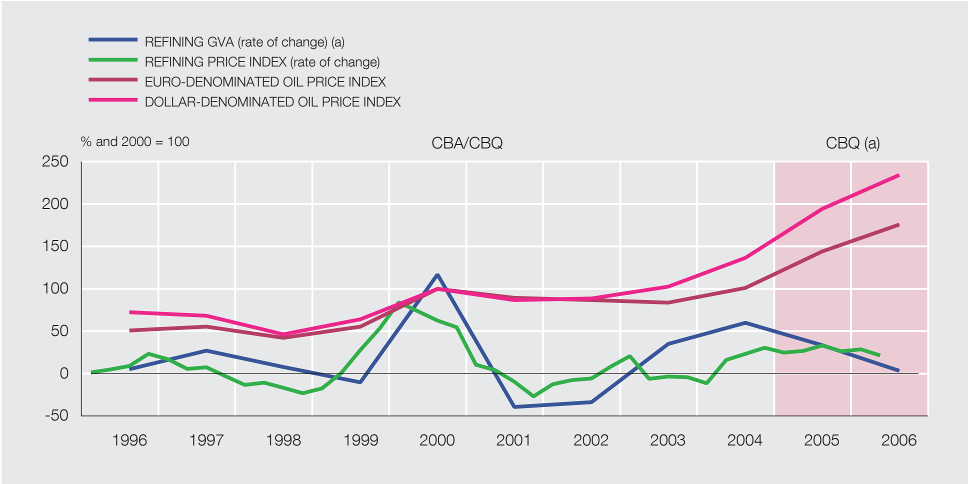
The expansion of activity in the first half of 2006 enabled the firms to absorb the increase in personnel costs and increase their gross operating profit by 7.6%, which was well above the 4.7% rate recorded in the same period of 2005. Financial costs increased very strongly in the first half of 2006, by as much as 25.3%. The main reasons for this growth were:

	Q1-2 06 / Q1-2 05
Change in financial costs	**25.3%**
A. Interest on borrowed funds (1 + 2)	*25.9%*
1. Due to the cost (interest rate)	2.7%
2. Due to the amount of interest-bearing debt	23.2%
B. Commissions and cash discounts	*–0.6%*

As seen in the table, the growth in financial costs was largely attributable to new financing. However, this was against a background in which the recent rises in interest rates are gradually being passed through to the ratio that approximates the cost of financing borne by firms, which was slightly higher than in 2005. The increase in debt was therefore the main reason for the growth of financial costs and, as indicated above, this increase was driven by a share purchase transaction carried out in 2006 Q1 by a large telecommunications firm, which was financed by a large inflow of external funds. If the effect of this transaction on the sample is removed, the rest of the firms of the aggregate still record an increase in their recourse to additional sources of external financing, although at a somewhat more moderate rate of around 12%. The upward trend in debt is apparent in the analysis of the E1 ratio (see Chart 4). These developments are consistent with the improvement in the data available on gross fixed capital formation calculated by the Central Balance Sheet Data Office since 2005 using CBQ data, according to which, investment by the sample firms grew at a nominal rate of 8.1% in the first half of 2006, as against 5.6% in the same period a year earlier. For its part, the E2 ratio, a

IMPACT OF OIL PRICES ON THE REFINING SECTOR

CHART 2

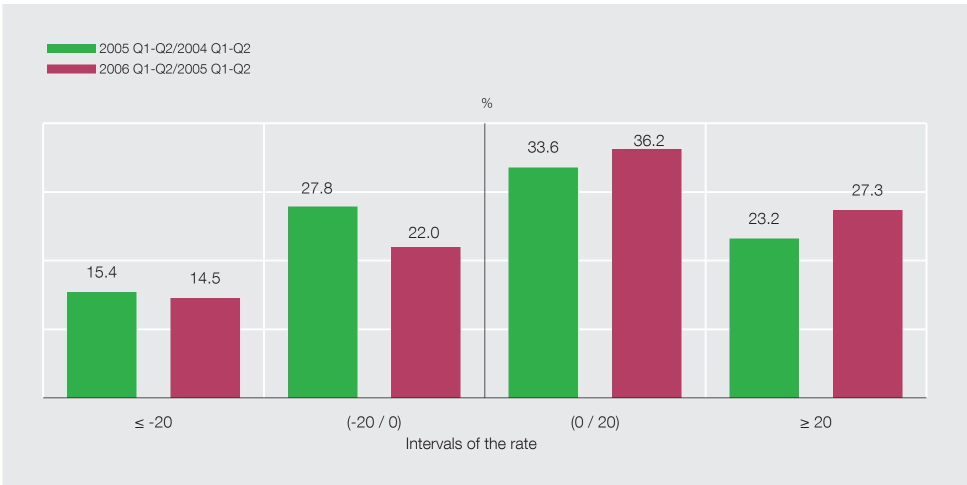


SOURCES: Banco de España and Ministerio de Industria, Turismo y Comercio (Informe mensual de precios).

a. The 2005 and 2006 data relate to the CBQ.

DISTRIBUTION OF CORPORATIONS BY RATE OF CHANGE IN GVA AT FACTOR COST

CHART 3



SOURCE: Banco de España.

measure of the capacity to repay the firms' debt by comparing it to the GVA generated, confirms that the increase in debt was more marked and concentrated in the multinational group aggregate, which raised the level of this ratio significantly, the transaction mentioned above having a significant impact on this rise. For the rest of firms, the E2 ratio remained very stable, and even slightly below the level reached in 2005. It can therefore be concluded that the increased recourse to external funds by the firms as a whole has not reduced their solvency, thanks to the positive trend in their productive activity.

The sharp increase in financial costs in the first half of 2006 could not be offset by receipts of financial revenue, since the growth in this heading was 9.4%, well below the 26.4% rate recorded a year earlier, as a result of the smaller flow of dividends received by Spanish companies. In any event, ONP increased by a notable 6.3%. Although this did not match the rate recorded in 2005 (13%), it was sufficient to ensure that the companies had high and even ris-

PERSONNEL COSTS, EMPLOYEES AND AVERAGE COMPENSATION
Percentage of corporations in specific situations

TABLE 4

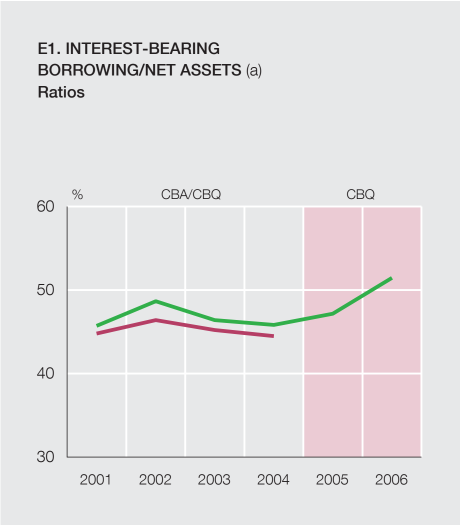
	CBA		CBQ (a)			
	2003	2004	04 Q1 - Q4	05 Q1 - Q4	05 Q1 - Q2	06 Q1 - Q2
Number of corporations	8,772	7,969	817	784	813	723
PERSONNEL COSTS	100	100	100	100	100	100
Falling	25.6	27.9	32.3	28.7	28.7	23.0
Constant or rising	74.4	72.1	67.7	71.3	71.3	77.0
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	31.6	30.6	44.5	40.8	41.5	38.7
Constant or rising	68.4	69.4	55.5	59.2	58.5	61.3
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	38.9	44.4	46.3	49.2	48.5	47.7
Higher or same growth (b)	61.1	55.6	53.7	50.8	51.5	52.3

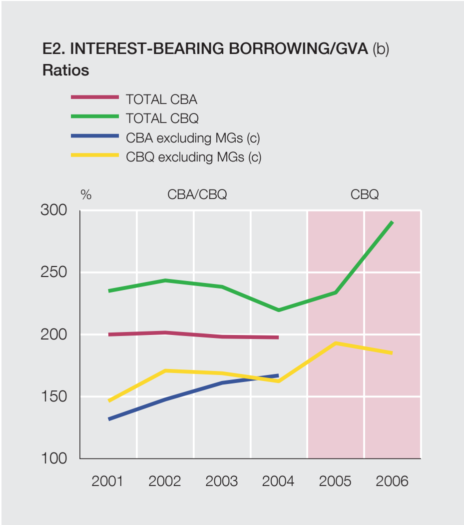
SOURCE: Banco de España.

a. Weighted average of the relevant quarters for each column.
b. Annual percentage change in the CPI, for CBA, and quarterly percentage change for CBQ.

DEBT RATIOS

CHART 4





	2001	2002	2003	2004	2005	2006
CBA	44.8	46.4	45.2	44.5		
CBQ	45.7	48.7	46.4	45.8	47.2	51.5

	2001	2002	2003	2004	2005	2006
CBA	200.0	201.4	198.2	197.6		
CBQ	235.1	243.6	238.4	219.5	233.8	290.9
CBA excl. MGs	131.6	147.6	161.0	167.1		
CBQ excl. MGs	146.4	170.8	168.9	162.5	193.0	185.0

SOURCE: Banco de España.

a. Ratio calculated from final balance sheet figures. Own funds include an adjustment to current prices.
b. Ratio calculated from final balances sheet figures. Interest-bearing borrowing includes an adjustment to eliminate intragroup debt (aproximation of consolidated debt).
c. MGs = corporations in the sample belonging to the main reporting multinational groups.

GROSS OPERATING PROFIT, ORDINARY NET PROFIT, RETURN ON INVESTMENT AND ROI-COST OF DEBT (R.1 - R.2).
BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS
Ratios and growth rates of the same corporations on the same period a year earlier

TABLE 5

	GROSS OPERATING PROFIT				ORDINARY NET PROFIT				RETURN ON INVESTMENT (R.1)				ROI-COST OF DEBT (R.1-R.2)			
	CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2004	05 Q1-Q4	05 Q1-Q2	06 Q1-Q2	2004	05 Q1-Q4	05 Q1-Q2	06 Q1-Q2	2004	05 Q1-Q4	05 Q1-Q2	06 Q1-Q2	2004	05 Q1-Q4	05 Q1-Q2	06 Q1-Q2
Total	10.0	4.7	4.7	7.6	21.5	14.3	13.0	6.3	8.1	9.4	7.8	8.6	4.5	5.6	4.0	4.7
SIZE																
Small	14.9	—	—	—	23.0	—	—	—	7.1	—	—	—	3.4	—	—	—
Medium	10.1	0.5	-3.0	9.5	13.8	-3.1	-6.5	18.9	8.2	7.5	7.6	7.9	4.8	4.3	4.5	4.7
Large	9.8	4.9	5.0	7.5	22.3	15.0	13.8	5.9	8.1	9.4	7.9	8.6	4.5	5.6	4.1	4.7
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	7.8	12.1	10.4	11.4	9.0	33.8	31.6	5.6	8.0	10.3	9.0	9.4	4.7	6.8	5.5	5.8
Industry	7.0	-1.8	2.4	6.1	10.5	-5.4	5.4	9.7	9.2	8.2	8.1	8.5	5.7	4.3	4.4	4.9
Wholesale and retail trade	13.2	0.4	0.2	10.0	19.6	2.7	0.8	12.7	12.3	9.1	8.4	8.0	8.7	5.4	4.8	4.6
Transport and communications	8.3	2.2	3.0	5.1	26.2	5.8	7.1	7.9	9.5	14.8	14.1	16.6	5.3	10.7	10.0	12.1

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the quarterly data.

ing levels of profitability, with respect to the preceding year, as well as to provide the funds to cover financial costs. Thus, the return on investment (R1) was 8.6% in the period to June 2006, as against 7.8% in the same period of 2005. At the sectoral level (see Table 5), a similar trend to that for the whole sample was seen in all sectors, with high levels of profitability that were very similar to or above those in 2005. This development is corroborated by the information in Table 6, which shows that the percentage of firms with profit rates of over 15% increased in the first six months of the year, to the detriment of the segment including firms with profit rates of less than 5%. At the same time, the ratio that approximates the cost of external financing stood at 3.9%, up slightly from 2005, although still at favourable levels. As a result, the difference between the ROI and cost of debt continued to widen with respect to preceding periods, to stand at 4.7% in the first half of 2006. Finally, an analysis of the extraordinary results shows significant growth of almost 30% in extraordinary revenue, due to the existence of sizable gains generated in certain transactions for the sale of fixed assets (both tangible and financial), which took place in the first half of 2006, and even a fall in capital losses with respect to the preceding period. A new development in Q2 was the sharp increase of 89.3% in net provisioning [included under heading 9 "Other (net provisioning and income tax)"], which more than offset the increase in extraordinary revenue mentioned above. The growth in this heading was exclusively attributable to provisions (taxes actually fell by 9.2% with respect to the same period of the previous year), as can be seen by comparing the existence of reversals (or negative provisioning) in 2005 with the new extraordinary provisioning in 2006 Q2 by certain Spanish multinationals, to cover the fall in value of their share portfolios as a result of the trend in certain foreign investments. Overall, the above developments meant that the final net profit grew by 3.3%, and thus more moderately than the ordinary surpluses. However, it represented 33.9% of the GVA generated in the period, a ratio that is not so very far from the high of 34.9% obtained in the first half of 2005.

In conclusion, Spanish firms, in the first six months of 2006, achieved notable growth in their activity, which resulted in continued job creation, the generation of surpluses and high levels of

STRUCTURE OF REPORTING CORPORATIONS' RETURN ON INVESTMENT AND ORDINARY RETURN ON EQUITY

TABLE 6

		CBQ (a)			
		RETURN ON INVESTMENT (R.1)		ORDINARY RETURN ON EQUITY (R.3)	
		05 Q2 - Q1	06 Q2 - Q1	05 Q2 - Q1	06 Q2 - Q1
Number of corporations		813	723	813	723
Percentage of corporations by profitability bracket	R ≤ 0%	23.1	22.1	25.8	25.6
	0% < R ≤ 5%	22.0	21.2	17.1	15.6
	5% < R ≤ 10%	16.6	15.8	11.7	12.3
	10% < R ≤ 15%	11.0	11.9	10.5	8.2
	15% < R	27.3	29.0	34.9	38.3
MEMORANDUM ITEM: Average return		7.8	8.6	11.5	13.7

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the quarterly data.

profitability. A simultaneous stepping up of business investment also entailed an increase in debt, without interest rates having increased significantly. All this occurred against a more stable and buoyant international background which, together with the improvement in equipment investment and the sustained buoyancy of private consumption, enabled growth to take place in practically every sector analysed, including industry. This scenario gives rise to an outlook of continued improvement in the dynamism of the sector in the short term, particularly if the slowdown in oil prices is confirmed.

19.9.2006.