

RESULTS OF NON-FINANCIAL CORPORATIONS TO 2007 Q2

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Overview¹

The information gathered by the Central Balance Sheet Data Office Quarterly Survey (CBQ) to 2007 Q2 confirms that the productive activity of reporting non-financial corporations continued to expand in this period. Consequently, gross value added (GVA) grew by 6.8% in nominal terms (see Table 1 and Chart 1), 0.5 pp higher than the increase in the first half of 2006. In the first half of the year, this positive trend was based on robust industrial activity, boosted in turn by strong investment in capital goods and buoyant industrial exports. Analysis of the quarterly profile of GVA shows a slight slowdown in 2007 Q2 (basically at firms in the wholesale and retail trade and in the transport and communications sectors) which may be reflecting less robust private consumption in this period, as indicated by alternative sources (mainly QNA data). Lastly, the only CBQ sectoral aggregate in which GVA decreased in the period to 2007 Q2 was oil refining, as in 2007 Q1, in a setting in which crude oil prices remained at even lower levels than in the first half of 2006.

Personnel costs increased by 4.8% in the first half of 2007, slightly down on the rate of 5.1% recorded the previous year, as a result of more contained growth in employment and a moderately rising trend in average compensation. The increase in employment in the first six months of 2007 at the firms in the sample amounted to 1.2% (1.6% in 2006) which, nevertheless, has been affected by a specific operation referred to below. Average compensation remained on a moderate growth path (3.6%), for practically all sectors of activity, although the rate of change was slightly higher than that recorded in the first half of 2006 (3.4%). The analysis of employment by sector shows that its growth in the first six months of 2007 was based on wholesale and retail trade, industry and other services firms. However, the 0.6% rate of change in the wholesale and retail trade was considerably lower than in 2006 as a result of the slowdown in activity in this aggregate. Conversely, of note is the expansive performance of the industrial sector, where job creation quickened as the year unfolded and rose to a marginally positive rate of 0.2% for the first half of 2007 as a whole, in line with the trend in productive activity in this sector.

As a result of the expansion of activity in the first half of 2007, together with the trend in personnel costs described above, growth in gross operating profit climbed to 8.2% in the same period, 1 pp higher than the rise a year earlier. As in 2007 Q1, financial costs and revenue grew strongly by 34.6% and 19.8%, respectively, for the first six months as a whole. Strong growth in financial costs arose due to the rise in interest rates and the attendant gradual pass-through to corporate financial costs, as well as to the impact of firms' greater recourse to external sources of financing.

A large share of the growth in corporate indebtedness in the first half of 2007 arose from transactions undertaken in late 2006, although to 2007 Q2 there were further buyouts and takeovers, which due to their volume and financing largely through borrowed funds, contributed to a further increase in corporate debt levels. This behaviour was centred on the aggregate of large multinationals reporting to the CBQ. However, the increasing weight of the debt burden in the business cost structure is not having a significant effect on earnings or investment decisions. This is partly attributable to the compensatory effect of the rise in financial revenue on

1. This article was prepared with the information from the 732 corporations which to 14 September collaborated with the Central Balance Sheet Data Office by sending in their quarterly data. The GVA of these corporations represents 13.5% of the total GVA for the non-financial corporations sector.

PROFIT AND LOSS ACCOUNT. YEAR-ON-YEAR CHANGES AND PROFIT RATIOS
Growth rates of the same corporations on the same period a year earlier

TABLE 1

	CBA STRUCTURE	CBA		CBQ (a)		
	2005	2004	2005	06 Q1-Q4/ 05 Q1-Q4	06 Q1-Q2/ 05 Q1-Q2	07 Q1-Q2/ 06 Q1-Q2
DATABASES						
Number of corporations		8.984	8.623	819	854	732
Total national coverage		32.0%	30.1%	14.3%	14.6%	13.5%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT (including grants)	100.0	8.3	10.5	10.6	14.1	4.9
<i>Of which:</i>						
<i>Net amount of turnover and other operating income</i>	136.9	8.8	11.8	9.6	14.1	2.2
2. INPUTS (including taxes)	68.3	8.6	13.1	12.7	18.2	4.0
<i>Of which:</i>						
<i>Net purchases</i>	40.8	11.9	15.0	13.6	19.6	2.4
<i>Other operating costs</i>	27.6	4.9	11.5	6.8	8.5	7.2
S.1. GROSS VALUE ADDED AT FACTOR COST [1-2]	31.7	7.5	5.2	6.5	6.3	6.8
3. Personnel costs	16.5	4.7	5.9	5.1	5.1	4.8
S.2. GROSS OPERATING PROFIT [S.1-3]	15.2	10.8	4.4	7.5	7.2	8.2
4. Financial revenue	3.0	14.5	33.9	46.3	10.2	19.8
5. Financial costs	2.5	-3.7	12.7	38.5	30.6	34.6
6. Depreciation and operating provisions	6.0	2.7	1.3	1.6	2.5	-0.8
S.3. ORDINARY NET PROFIT [S.2 + 4-5-6]	9.7	23.0	11.9	16.3	4.8	8.8
7. Capital gains and extraordinary revenue	4.1	-32.5	37.5	52.5	32.4	-35.6
8. Capital losses and extraordinary expenses	3.6	-3.3	39.2	-26.8	-21.9	-21.6
9. Other (net provisioning and income tax)	3.2	-16.3	-0.3	65.3	141.9	-8.2
S.4. NET PROFIT [S.3 + 7 - 8 - 9]	7.0	18.9	19.3	33.9	-3.2	2.7
		19.8	22.2	41.5	30.5	30.1
NET PROFIT/GVA (S.4/S.1)	Formulas (c)					
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	8.2	8.8	9.4	7.4	8.0
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	3.6	3.7	4.0	3.8	4.4
R.3 Ordinary return on equity (before taxes)	S.3/E	11.9	13.1	14.4	10.6	11.5
R.4 ROI - cost of debt (R.1 - R.2)	R.1-R.2	4.5	5.1	5.4	3.6	3.6

SOURCE: Banco de España.

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

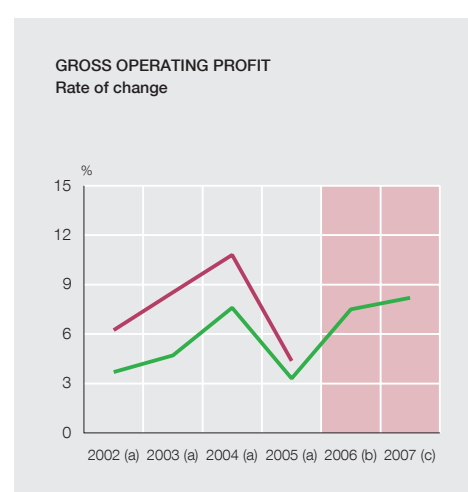
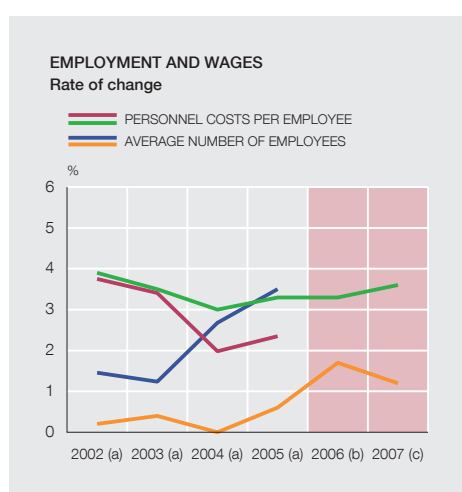
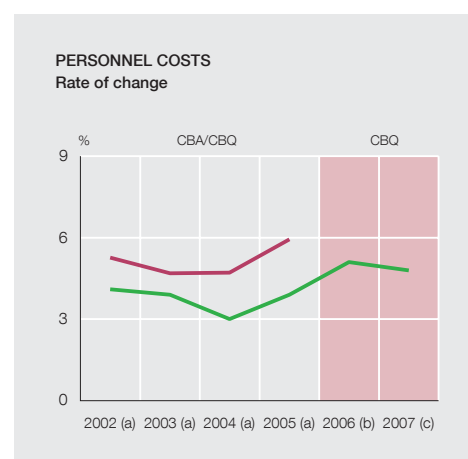
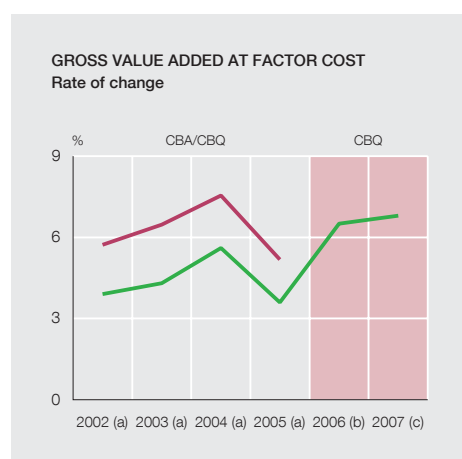
b. Rate not significant or not calculable because the relevant figures are of opposite sign.

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.

the sample as a whole (19.8%), especially at large multinationals, due largely to the higher dividends received from foreign subsidiaries.

Consequently, ordinary net profit (ONP) was markedly expansive (8.8%), considerably higher than one year previously (4.8%), and pushed profitability levels higher than in 2006 to 8% in the first half of 2007. As a result of the pass-through of interest rate rises to corporate costs, the ratio which measures the cost of debt clearly increased in the first half of 2007 to 4.4%, 0.5 pp up on the previous year. Although the higher cost was accompanied by the above-mentioned increases in profitability ratios, the difference between the two (ROI – cost of debt) remained very positive (3.6), which is identical to that for the first half of 2006, thus confirming an ongoing favourable situation for all non-financial corporations. This positive difference shows that investment conditions are propitious. The propensity of non-financial corporations to invest is underlined by the data gathered by the Central Balance Sheet Data Office, making it possible to approximate the calculation of the rate of change in gross fixed capital formation



REPORTING NON-FINANCIAL CORPORATIONS		2002	2003	2004	2005	2006	2007
Number of corporations	CBA	8,418	8,834	8,984	8,623	—	—
	CBQ	850	837	825	808	819	732
% of GDP of the sector non-financial corporations	CBA	29.0	29.9	32.0	30.1	—	—
	CBQ	15.4	15.0	14.9	14.5	14.3	13.5

SOURCE: Banco de España.

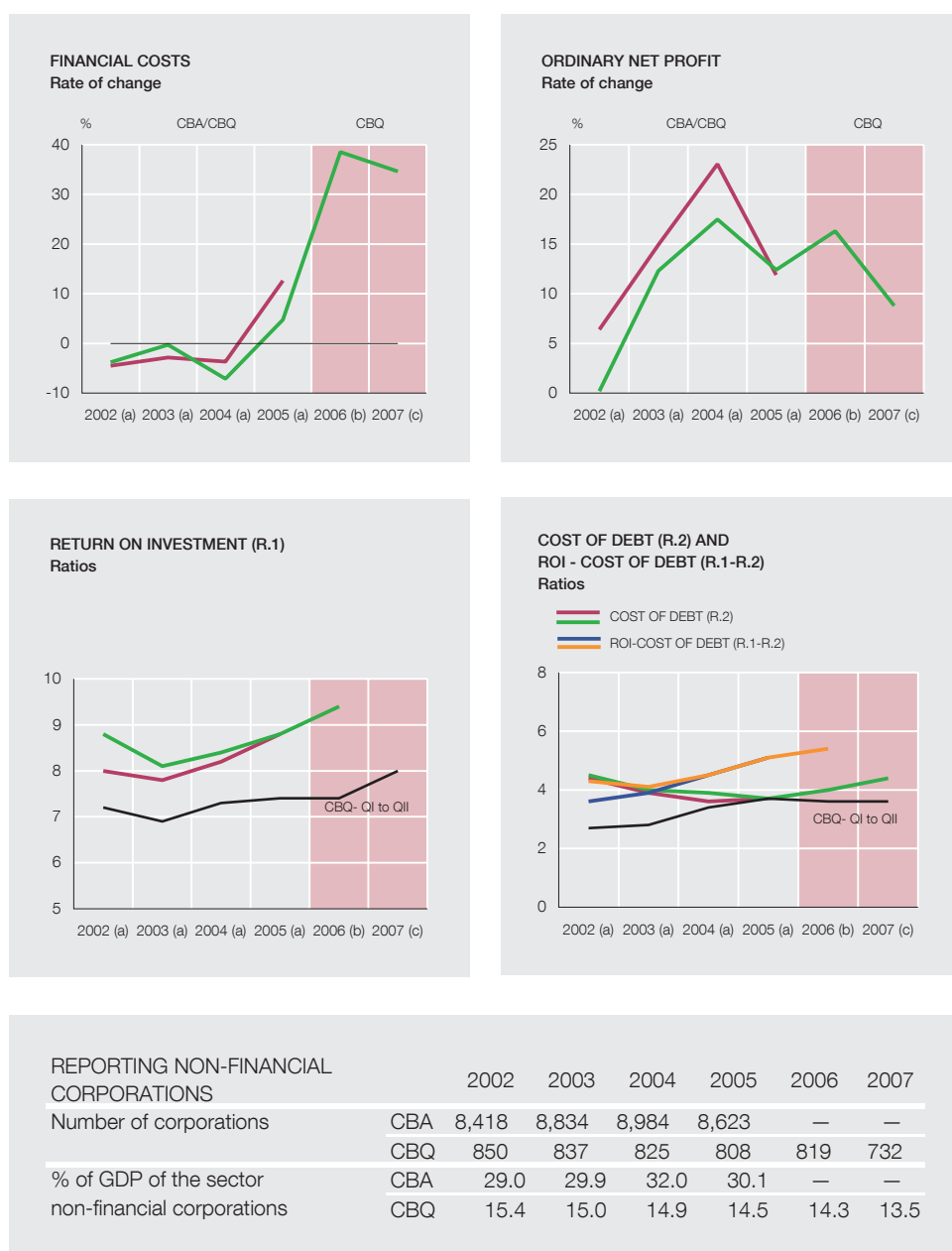
a. The 2002, 2003, 2004 and 2005 data are the average data of the four quarters of each year (CBQ) in relation to the previous year for the corporations reporting to the annual survey (CBA).

b. Average of the four quarters of 2006 in relation to the same period in 2005.

c. Average of the first two quarters of 2007 in relation to the same period in 2006.

in tangible assets, which grew 5.9% in the first half of 2007, 1.5 pp higher than in the whole of the previous year (4.2%).

Finally, an analysis of the change in extraordinary results in the first half of 2007 shows a strong decrease in expenses and revenue in comparison with 2006. Since the drop in revenue was sharper than in expenses, the 2.7% growth in net profit was lower than the above-mentioned growth rate of 8.8% posted for ONP. In any event, the change in the final surplus in the first half of 2007 was an improvement upon the same period a year earlier when it recorded a fall of -3.2%. The positive trend in the generation of surpluses by non-financial corporations is re-



SOURCE: Banco de España.

- a. 2002, 2003, 2004 and 2005 data are the average data of the four quarters of each year (CBQ) in relation to the previous year for the corporations reporting to the annual survey (CBA).
- b. Average of the four quarters of 2006 in relation to the same period in 2005.
- c. Average of the first two quarters of 2007 in relation to the same period in 2006.

flected in the high percentage represented by net profit relative to GVA, which remained around 30%, similar to the first half of 2006.

In short, the information supplied by the Central Balance Sheet Data Office confirms that the productive activity of non-financial corporations remained expansive in the first half of 2007 thanks mainly to the upturn in industry, which benefited from capital goods investment and highly buoyant exports, thus offsetting the slowdown detected in certain other sectors such as the wholesale and retail trade, influenced by the signs of weaker private consumption. The foregoing enabled job creation to remain steady against a backdrop of wage moderation. The strong increase in fi-

nancial costs, which were driven upwards by interest rate rises and higher debt levels, was somewhat alleviated by the increase in financial revenue in view of the rise in the inflow of dividends from foreign subsidiaries. Consequently, the high pace of profit generation and high returns continued at firms and exceeded those obtained a year earlier. Therefore, notwithstanding the upward trend in interest rates, the difference with respect to the cost of borrowing remained positive and was identical to that for the same period a year earlier.

Activity

The non-financial corporations reporting to the CBQ posted highly buoyant productive activity in the first half of 2007 as shown by the data compiled by the CBQ for this period. Thus, gross value added (GVA) grew 6.8% in the period analysed (see Table 1 and Chart 1), exceeding the previous year's rate of 6.3%, and is the highest growth rate in GVA posted in the first half of a year since 2000. As in 2007 Q1, this rise was against a background of very low rates of change in production and inputs resulting from the effect of oil prices on sales and purchases of the refining sector. The expansion of activity was based on a strong upturn in the industrial sector (see Table 2.A and Box 1), which was highly influenced by growth in capital goods investment, and took up the baton from other sectors with weaker GVA growth such as wholesale and retail trade, and transport and communications. The latter bore the brunt of the signs of a slight slowdown which, according to alternative sources, has seemingly become apparent in private consumption, especially in 2007 Q2. As for external activity, both exports and imports remained highly buoyant, particularly benefiting the industrial sector, an aggregate in which net external demand (exports less imports) made a clearly positive and higher contribution to output growth with respect to the first half of 2006.

A more thoroughgoing analysis of the detail by sector highlights the industrial sector since, for the reasons discussed in the preceding paragraph (expansion of capital goods investment and growth in exports), it is the sector in which this positive trend is more noticeable. Its GVA increased 16.4% in the first half of 2007, in comparison with 3.6% a year earlier, and this performance was extensive to almost all of its sub-aggregates. Table 3 confirms the expansive impact of external activity on industrial corporations which, due to more buoyant exports, led to a highly positive rate of change in net external demand (7.2%). The GVA of the transport and communications sector also continued to grow in the first half of 2007 (5.1%), slightly exceeding growth one year earlier, although the quarterly profile shows a slight slowdown resulting from the gradual weakening of private consumption, especially in 2007 Q2. This factor also had an even stronger effect on the wholesale and retail trade sector. Although this sector's GVA for the period analysed continued to increase by 2.6%, it did not exceed the increase of 6.6% achieved a year earlier. GVA growth in the energy sector was also more moderate in the first half of 2007 than in the same period of the previous year (3.9% as against 8.8%). However, this trend is solely due to the performance of the oil refining sector, whose GVA has deteriorated considerably (-21%) to date in 2007. This is the result of both lower average oil prices in the first half of 2007, in comparison with the same period in 2006 (see Chart 2), and the gradual narrowing of operating margins in the sector observed since 2005. Nevertheless, the upward trend in crude oil prices over these months has offset this situation and, if it lasts, it would reverse conditions in the sector in future quarters. Electric utilities (which make up the other large energy aggregate) continued to grow at high rates (their GVA increased 10.2% in the first half of 2007) similar to those for 2006, thanks to the sound performance of electricity demand (which according to REE data rose 2.7% in this period) and to the lower generation costs borne by these utilities (in the first half of 2007, 37% more electricity was generated than in 2006 using hydro-electric power stations, which have lower generation costs). Lastly, the data from large construction firms reporting to the CBQ show that this sector has been less buoyant in recent months following years in which it had been one of the main engines of economic growth. The information from reporting firms in the construction sector is not de-

**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)		
	2005	06 Q1-06 Q4	06 Q1-06 Q2	06 Q1-06 Q2	2005	06 Q1-06 Q4	06 Q1-06 Q2	06 Q1-06 Q2	2005	06 Q1-06 Q4	06 Q1-06 Q2	06 Q1-06 Q2	2005	06 Q1-06 Q4	06 Q1-06 Q2	06 Q1-06 Q2
Total	5.2	6.5	6.3	6.8	3.5	1.7	1.6	1.2	5.9	5.1	5.1	4.8	2.3	3.3	3.4	3.6
SIZE																
Small	4.3	—	—	—	-0.6	—	—	—	4.6	—	—	—	5.2	—	—	—
Medium	4.5	6.7	7.2	4.9	2.0	1.2	1.4	2.3	5.9	5.5	5.8	4.5	3.9	4.2	4.3	2.2
Large	5.3	6.4	6.2	6.9	3.9	1.7	1.6	1.1	6.0	5.1	5.1	4.9	2.0	3.3	3.4	3.8
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	12.1	6.3	8.8	3.9	-0.7	-1.3	-1.4	-0.9	4.6	3.0	4.4	4.0	5.4	4.4	5.9	4.9
Industry	0.2	8.2	3.6	16.4	-0.8	-0.6	-1.4	0.2	2.3	2.6	1.8	3.4	3.2	3.2	3.2	3.2
Wholesale and retail trade	5.0	6.7	6.6	2.6	5.2	2.9	3.6	0.6	6.9	7.1	7.5	2.1	1.6	4.1	3.8	1.5
Transport and communication	3.8	4.8	4.6	5.1	1.2	-0.2	-0.2	-0.4	4.7	4.2	3.8	4.8	3.4	4.4	4.0	5.2

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 07 Q1 - Q2	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations	732	472	260
PERSONNEL COSTS			
Initial situation 06 Q1-Q2 (€m)	12,767.7	6,711.2	6,056.6
Rate 07 Q1-Q2/ 06 Q1-Q2	4.8	9.4	-0.3
AVERAGE COMPENSATION			
Initial situation 06 Q1-Q2 (€)	21,467.6	20,014.7	23,345.6
Rate 07 Q1-Q2/ 06 Q1-Q2	3.6	3.8	4.2
NUMBER OF EMPLOYEES			
Initial situation 06 Q1-Q2 (000s)	595	335	260
Rate 07 Q1-Q2/ 06 Q1-Q2	1.2	5.4	-4.3
Permanent			
Initial situation 06 Q1-Q2 (000s)	491	262	229
Rate 07 Q1-Q2/ 06 Q1-Q2	2.1	6.1	-2.6
Non-permanent			
Initial situation 06 Q1-Q2 (000s)	104	73	31
Rate 07 Q1-Q2/ 06 Q1-Q2	-3.1	2.8	-17.1

SOURCE: Banco de España.

tailed separately in the tables in this article and is included in "activities with low coverage" because the sector is highly fragmented and, consequently, the performance of large corporations is less representative of this aggregate as a whole.

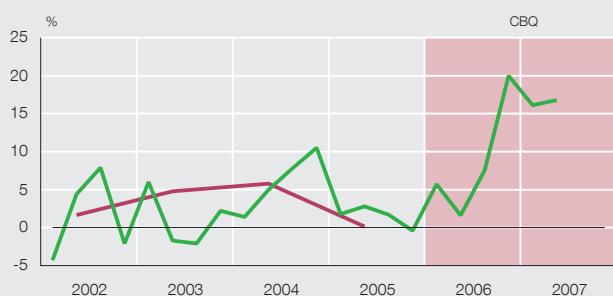
Finally, the data in Chart 3 make it possible to analyse the distribution of firms on the basis of the increases in their GVA, irrespective of their size and sector of activity. The main conclusion which can be drawn is that there are no significant changes, although slight growth can be

Activity in the industrial sector in the first six months of 2007 was very buoyant, resulting in 16.4% nominal GVA growth. This was considerably higher than the 3.6% rise in the same six-month period of the previous year thanks both to strong investment in capital goods and the sound performance of exports. These positive developments affected practically all industrial sub-sectors but, most particularly, the manufacture of glass, ceramics and metals and chemical industries sectors, whose GVA climbed 30.7% and 13.4%, respectively. The pace of growth in activity only declined in two sub-sectors: the manufacture of electrical and optical equipment and other manufacturing industries. There were moderate increases in GVA in both cases in the first half of 2007 (4.7% and 2.6%, respectively), which were lower than in the same period a year earlier. The increase recorded in personnel costs in the first half of 2007 (3.4%) was considerably higher than in 2006 (1.8%), basically due to the change of trend in employment to date in 2007. Consequently, in the first half of 2007 the average number of employees at industrial companies increased slightly (0.2%), in contrast with the decrease in the same period a year ear-

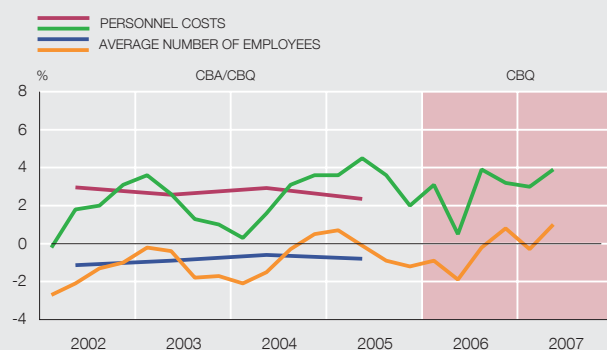
lier (-1.4%). This improvement in employment data was stronger in 2007 Q2 and extended to almost all sub-sectors except for chemical industries and the manufacture of transport equipment, which continued to feel the effects of certain staffing adjustments at big companies belonging to these aggregates. Average compensation rose 3.2% in the first half of 2007, practically unchanged on the rate recorded a year earlier, and confirms the consolidation of the climate of wage moderation prevailing in this sub-sector and in the sample as a whole. Sharp growth of activity extended to ordinary profit, resulting in strong growth of 32.9% in gross operating profit and of 50.8% in ordinary net profit (ONP) in the first six months of 2007. The increase in ONP was anchored by the strong rise in financial revenue bolstered by sizeable inflows of dividends against a backdrop of notable growth in financial expenses due to the reasons discussed above for the other corporations (knock-on effect of rate rises and higher debt). For these reasons, in the first six months of 2007 industrial corporations posted a clear increase in return on investment of up to 11% and of up to 15.6% in the case of return on equity. Both ratios were

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

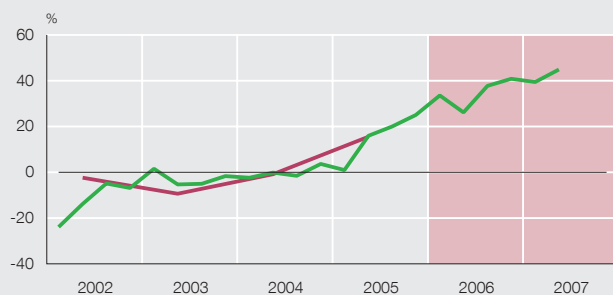
GROSS VALUE ADDED AT FACTOR COST
Rate of change



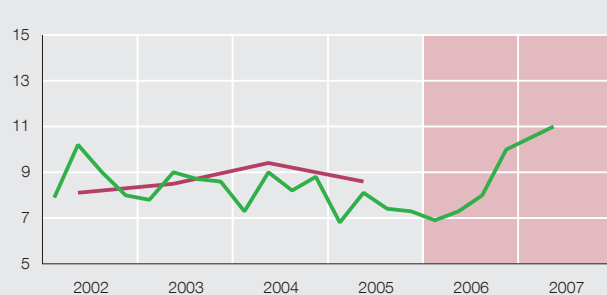
EMPLOYMENT AND WAGES
Rate of change



FINANCIAL COSTS
Rate of change



RETURN ON INVESTMENT
Ratios



REPORTING INDUSTRIAL CORPORATIONS

		2002				2003				2004				2005				2006				2007			
Number of corporations	CBA	2,715				2,624				2,517				2,332				—				—			
	CBQ	391	378	369	357	367	362	354	346	352	342	335	333	323	311	304	295	323	308	293	270	290	212	—	—
% of GDP of the sub-sector industrial corporations	CBA	26.6				27.2				28.6				26.3				—				—			
	CBQ	19.7	20.7	18.8	18.5	18.8	19.1	17.1	17.8	19.5	19.7	17.8	19.1	18.9	19.6	16.8	17.7	18.7	18.1	16.3	17.1	16.8	12.3	—	—

SOURCE: Banco de España.

considerably higher than in the previous year. Although the cost of debt climbed slightly to 3.9%, that did not prevent the ROI-cost of debt spread from widening to 7.1, double the figure recorded in the same period in 2006. These data indicate the propensity of corporations in this sector to invest, as indicated by information available in the CBQ, according to which gross fixed capital formation in tangible

assets climbed by nearly 20% in the first half of 2007. In short, the information provided by this aggregate confirms the favourable current situation of the industrial sector, whose activity is expanding, enabling it to maintain a high level of generation of surpluses and investment which are beginning to feed through into increases in employment.

seen in the percentage of firms with higher GVA in the first half of 2007 (63.2%) than in 2006 (62.2%). This indicates that the expansion in activity was widespread, covering a majority and an increasingly broad range of firms in the CBQ sample.

Employment and personnel costs

In the first half of 2007 personnel costs grew 4.8%, 0.3 pp down on a year earlier (5.1%). This modest reduction is the result of a weaker rise in employment than in the previous period of reference (the first half of 2006), although the rates of change remained significantly positive (1.2% in 2007, in comparison with 1.6% the previous year). Growth in average compensation continued to be moderate at approximately 3.6%, slightly higher than in the same period a year earlier.

As mentioned above, the CBQ data available for the first half of 2007 on the workforces of non-financial corporations have shown a slight slowdown in job creation which, however, is strongly affected by the adjustments and restructuring at large firms, mainly in the transport and communications sector. If these firms were stripped out of the aggregate, the rate of change would rise substantially. The data of the aggregate, excluding the two main firms affected, would grow to 1.8% in the first half of 2007 which, in any event, is slightly lower than the 2% growth that would be obtained a year earlier. By type of employment (see Table 2.B), permanent employment grew 2.1% to the detriment of temporary employment, whose rate of change was -3.1% since non-permanent jobs were converted into permanent ones at certain firms in the sample. If the trend by sector is analysed, the data on industrial firms, which after several quarters of negative rates have managed to return to the path of job creation, are significant. Although these increases are quantitatively low (0.2%), they represent a change in trend which is part of the positive performance of activity in this group of companies. The wholesale and retail trade sector was, out of the major sectors analysed in this article, once again that which reported the most positive data (0.6%). It was only exceeded by other service corporations which, due to their lower weight in the total sample, are not represented in the summary tables. This rise is, however, considerably lower than a year earlier (3.6%), thus confirming that the slowdown detected in the analysis of the productive activity in this sector has spread to job creation. Moderate job cuts were recorded in the other two sectors included in Table 2.A (energy and transport and communications), as is customary. The energy and water sector recorded a negative rate of change (-0.9%) for the first half of 2007, in line with previous quarters, since the processes of reorganisation and adaptation of electric utilities for operating in a deregulated market, which have been under way for several years, continued. Lastly, the rate of change in employment in the transport and communications sector was also slightly negative (-0.4%), this being accounted for by the strong influence on the employment data of the above-mentioned workforce restructuring processes that have pulled the aggregate data down. Net of this effect, the employment data in the transport and communications sector would change radically to increase by 1.4%, which is much more in keeping with the expan-

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

TABLE 3

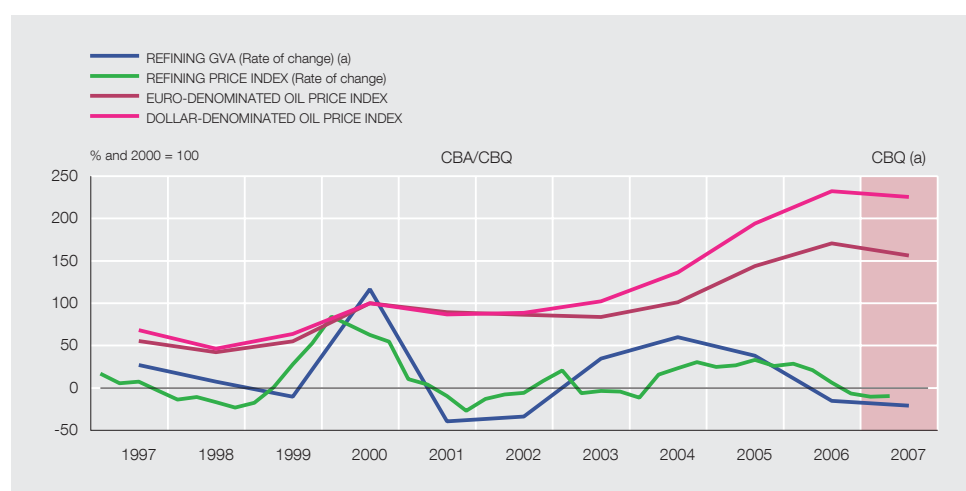
		CBA	CBQ (a)	
		2005	06 Q1-Q2	07 Q1-Q2
Total corporations		8,623	732	732
Corporations reporting source/destination		8,623	697	697
Percentage of net purchases according to source	Spain	69.9	82.3	80.2
	Total abroad	30.1	17.7	19.8
	<i>EU countries</i>	15.4	13.8	15.4
	<i>Third countries</i>	14.7	3.9	4.5
Percentage of net turnover according to destination	Spain	86.2	91.3	90.8
	Total abroad	13.8	8.7	9.2
	<i>EU countries</i>	10.0	6.5	6.5
	<i>Third countries</i>	3.8	2.3	2.6
Change in net external demand (exports less imports), rate of change	Industry	-16.3	-8.0	7.2
	Other corporations	-37.3	-12.0	-21.0

SOURCE: Banco de España.

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

IMPACT OF OIL PRICES ON THE REFINING SECTOR

CHART 2



SOURCES: Banco de España and Ministerio de Industria, Turismo y Comercio (monthly price report).

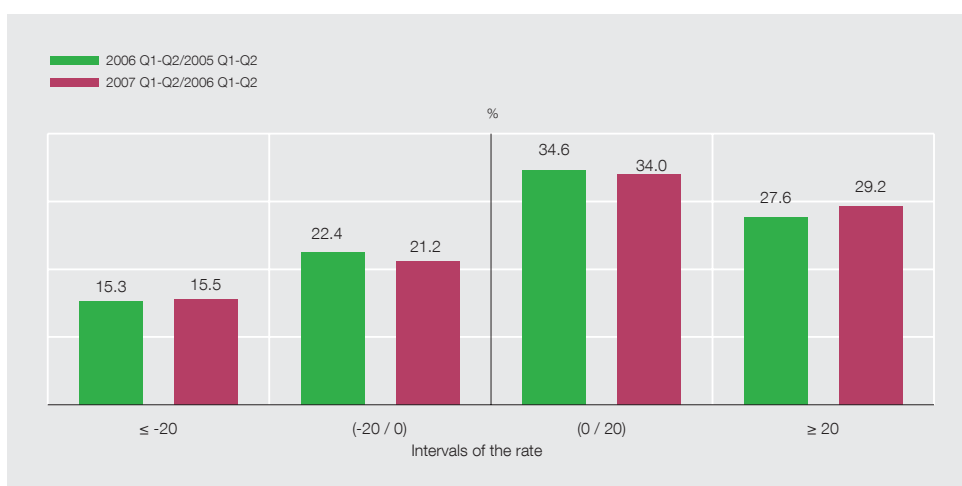
a. 2007 data relate to the CBQ.

sion of its activity. Lastly, the data in Table 4 reveal a significant increase in the percentage of firms at which employment grew (climbing from 60.8% in the first half of 2006 to 64.6% in the same period of the current year), thus confirming that job creation has been extended to an increasing number of sample firms.

Average compensation grew 3.6% in the first half of 2007, at a slightly higher rate than in the same period of the previous year (3.4%). The analysis of the trend in this item in various sectors of activity seems to confirm that the climate of wage moderation prevailing recently has

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

CHART 3



SOURCE: Banco de España.

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

TABLE 4

	CBA		CBQ (a)			
	2004	2005	05 Q1 - Q4	06 Q1 - Q4	06 Q1 - Q2	07 Q1 - Q2
Number of corporations	8,984	8,623	808	819	854	732
PERSONNEL COSTS	100	100	100	100	100	100
Falling	28.0	26.5	29.0	27.0	24.7	26.1
Constant or rising	72.0	73.5	71.0	73.0	75.3	73.9
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	31.5	30.6	40.8	39.0	39.2	35.6
Constant or rising	68.5	69.4	59.2	61.0	60.8	64.4
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	44.1	43.1	49.3	48.5	48.8	43.8
Higher or same growth (b)	55.9	56.9	50.7	51.5	51.2	56.3

SOURCE: Banco de España.

a. Weighted average of the relevant quarters for each column.

b. Twelve-month percentage change in the CPI for the CBA and quarter-on-quarter percentage change in the CPI for the CBQ.

continued; a contributing factor is the restraint shown by inflation. By sector, there is clearly different behaviour between those aggregates in which employment has increased and those in which jobs were destroyed. Aggregates creating employment include wholesale and retail trade, and industrial firms that posted a more moderate rise in average compensation with below-average rates of change (1.5% and 3.2%, respectively). Aggregates which destroyed jobs include the energy and transport and communications sectors, which posted clearly higher wage increases in the first half of 2007 (4.9% and 5.2%, respectively) both due to the effect of higher variable compensation at energy-sector companies and the costs associated with redundancies at certain large firms in the transport and communications sector. A similar conclusion can be drawn from the data in Table 2.B which, irrespective of the sector, confirm that firms which destroyed employment most in the first half of 2007 had the highest increases in average compensation (4.2%) in comparison with firms whose average number of employees remained the same or increased, at which the rise in average compensation was 3.8%.

GROSS OPERATING PROFIT, ORDINARY NET PROFIT, RETURN ON INVESTMENT AND ROI-COST OF DEBT (R.1 – R.2).

TABLE 5

BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS

Ratios and growth rates of the same corporations on the same period a year earlier

	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)		
	2005	06 Q1 - Q4	06 Q1 - Q2	07 Q1 - Q2	2005	06 Q1 - Q4	06 Q1 - Q2	07 Q1 - Q2	2005	06 Q1 - Q4	06 Q1 - Q2	07 Q1 - Q2	2005	06 Q1 - Q4	06 Q1 - Q2	07 Q1 - Q2
Total	4.4	7.5	7.2	8.2	11.9	16.3	4.8	8.8	8.8	9.4	7.4	8.0	5.1	5.4	3.6	3.6
SIZE																
Small	3.9	—	—	—	7.9	—	—	—	6.7	—	—	—	3.0	—	—	—
Medium	2.5	8.4	9.0	5.4	3.8	18.0	18.5	-4.5	7.5	7.7	7.8	7.6	4.0	4.1	4.6	3.5
Large	4.6	7.4	7.1	8.3	12.8	16.3	4.3	9.2	9.0	9.4	7.4	8.0	5.3	5.4	3.6	3.6
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	14.6	7.2	10.0	3.9	39.7	2.8	3.6	1.0	9.5	10.3	8.7	9.2	6.1	6.7	5.1	5.1
Industry	-2.8	15.5	5.9	32.9	0.8	34.1	12.9	50.8	8.6	9.0	7.4	11.0	4.9	5.0	3.6	7.1
Wholesale and retail trade	2.5	6.1	5.4	3.1	4.1	8.0	4.8	2.3	11.1	8.1	7.7	7.6	7.5	4.4	4.3	3.3
Transport and communications	3.3	5.2	5.2	5.3	5.9	9.9	9.9	9.8	11.9	12.1	11.8	12.2	7.8	7.9	7.6	7.9

SOURCE: Banco de España.

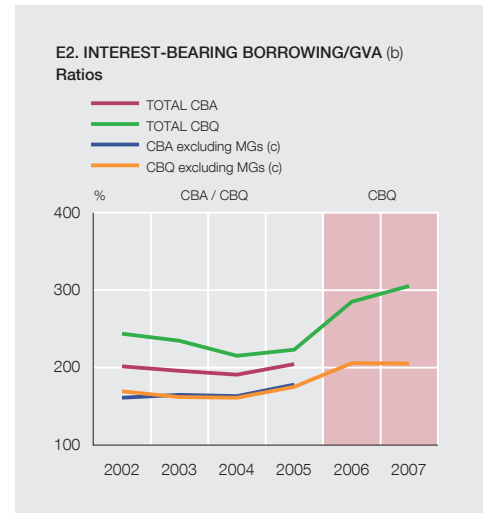
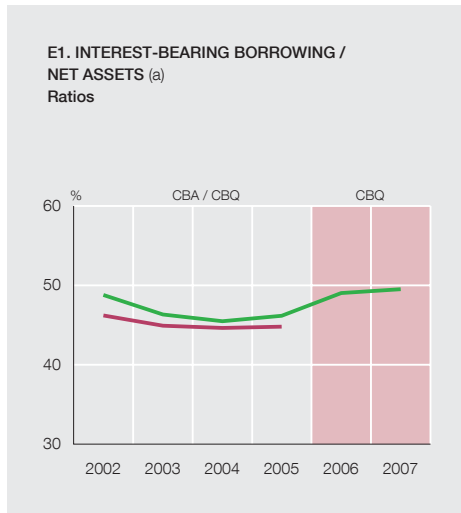
a. All the data in these columns have been calculated as the weighted average of the quarterly data.

Profits, rates of return and debt

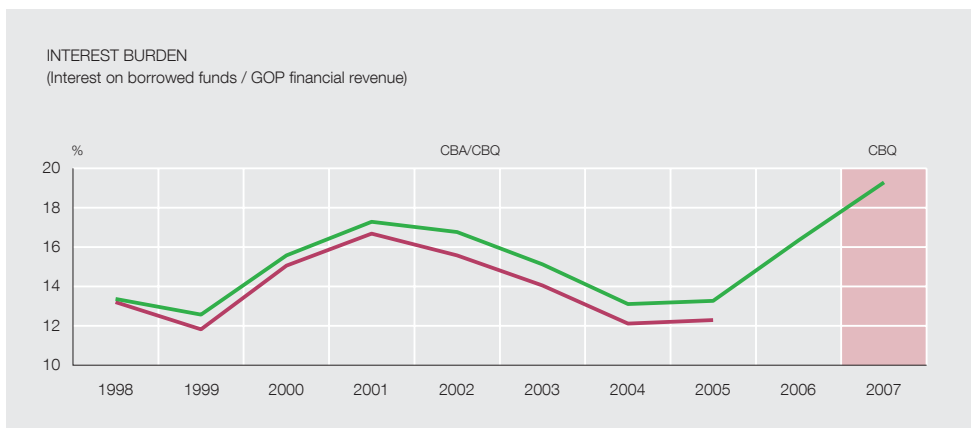
As a result of the trend described in activity and personnel costs in the first half of 2007, gross operating profit grew 8.2% in this period (Table 5), nearly 1 pp higher than in the first six months of 2006. Nevertheless, as discussed when analysing GVA, the quarterly profile shows a slight slowdown in the second part of the six-month period. Financial revenue and financial costs continued to increase very sharply by 19.8% and 34.6%, respectively, for the period under analysis. This strong increase in financial revenue is accounted for by dividends received from foreign subsidiaries, which made it possible to absorb higher financial expenses. Due to the inclusion of large multinationals in the sample, for the reporting non-financial corporations aggregate, financial revenue was equal to financial costs (for the first six months of 2007 the weight of both in the total value of production was 4.9%). The growing weight of financial costs in the profit and loss account is attributable to the pass-through of interest rate rises to corporate financial costs and greater recourse to external financing as shown in the following table:

	<u>Q1-2 07/Q1-2 06</u>
Change in financial costs	34.6%
A. <i>Interest on borrowed funds (1 + 2)</i>	35.2%
1. Due to the cost (interest rate)	17.8%
2. Due to the amount of interest-bearing debt	17.4%
B. <i>Commissions and cash discounts</i>	-0.6%

Consequently, the increase in financial costs was due equally to interest rate rises and new financing. As regards the latter, the rise in borrowed funds, which compares two static situations between June 2007 and June 2006, is accounted for by sizeable share purchase transactions in the last few months of 2006 plus new acquisitions in the first half of 2007 which have intensified the effect of this component on the growth of financial costs. In order to analyse corporate debt levels and the overall financial position in greater detail, Chart 4 shows the performance of the ratios "E1 (interest-bearing borrowing/net assets)", "E2 [(consolidated) interest-bearing borrowing/GVA] and the ratio of the "interest burden [interest on borrowed funds/GOP + financial revenue]". Firstly, the analysis of the three aforementioned ratios for the sample total indicates a worsening of the finan-



	2002	2003	2004	2005	2006	2007
CBA	201.5	195.8	190.8	204.6		
CBQ	243.6	234.7	215.3	223.3	285.2	305.5
CBA excl. MGs	161.1	165.0	163.0	177.9		
CBQ excl. MGs	169.3	162.0	161.3	175.4	205.6	205.4



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
CBA	13.2	11.8	15.1	16.7	15.6	14.0	12.1	12.3		
CBQ	13.4	12.6	15.6	17.3	16.8	15.1	13.1	13.3	16.3	19.3

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 balance sheet figures. Interest-bearing borrowing includes an adjustment to eliminate intra-group debt (approximation of consolidated debt).
- c. MGs: sample corporations belonging to the main reporting multinational groups. Large construction sector companies are not included.

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)		
	06 Q2 - Q1	07 Q2 - Q1	06 Q2 - Q1	07 Q2 - Q1	
Number of corporations	854	732	854	732	
Percentage of corporations by R <= 0% profitability bracket	22.3	21.4	25.8	26.5	
	0% < R ≤ 5%	22.8	19.8	16.5	14.0
	5% < R ≤ 10%	15.2	16.9	12.1	12.0
	10% < R ≤ 15%	11.8	12.7	8.5	10.0
	15% < R	28.0	29.3	37.1	37.6
MEMORANDUM ITEM: Average return	7.4	8.0	10.6	11.5	

SOURCE: Banco de España.

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

cial position in the last two years (2006 and 2007), which has been particularly sharp in the case of the interest burden (the ratio of interest on borrowed funds to recurrent business income to finance them, namely gross profit plus financial revenue) as a result of the above-mentioned transactions. The E2 indicator Chart, which provides details for the total aggregate excluding large multinational companies, precisely those which have been involved in the main financing operations referred to above, shows that: a) the financial position of the rest of the sample did not deteriorate in 2007 (in practice the ratio remained unchanged, 0.2% lower than in 2006), and b) the level of debt is substantially lower at the other companies (by approximately 100 pp, 305.5% for the total sample and 205.4% excluding the large multinationals). In any event, these variables must be analysed together with the trend in the return on the assets in which the new financing was invested in order to obtain a broader evaluation of the level of exposure of non-financial corporations. As will be seen, this situation has been accompanied by an improvement in returns and has not decreased firms' ability to generate funds.

The performance of financial costs and revenue pushed ordinary net profit (ONP) upwards by 8.8% in the first half of 2007 which was considerably higher than a year earlier (4.8%) and as a result returns remained high, even above the levels posted in the previous year. Consequently, the return on investment stood at 8% in comparison with 7.4% in 2006, and the return on equity rose to 11.5%, almost 1 pp higher than in the previous year. Furthermore, all sectors recorded similar or higher returns on investment than in the first half of 2006. Table 6 also confirms the positive performance of returns on investment and equity, which triggers a shift by firms towards the higher return segments. As for the cost of debt, ratio R2 continued its rising trend of recent quarters and stood at 4.4% for the first half of 2007, slightly more than 0.5 pp higher than its level a year earlier. In any event, as a result of the growth in returns, the difference between ratio R1 (return on investment) and R2 remained stable with very positive values (3.6), confirming the favourable current situation of Spanish firms. Lastly, the data gathered by the Central Balance Sheet Data Office are consistent with this statement². Thus, the gross fixed capital formation in tangible assets of the firms which make up the CBQ sample

2. As a result of the information provided by the corporations on the basis of their accounting data, the concept of "gross fixed capital formation" can be considered a proxy. Caution is warranted in relation to the conclusions which may be drawn from analysing this variable because it shows strong quarterly volatility.

grew 5.9% in 2007 Q2, higher than the increase of 4.2% for the whole of 2006. Noteworthy among all the sectors is the industrial sector, since it was the most buoyant in this area, with the result that investment in this aggregate rose by 19.5% in the period analysed.

Finally, an analysis of extraordinary results shows a sharp drop in expenses and especially in revenue in the first half of 2007, since no particularly significant operations were recorded in this period unlike the previous year. Since the fall in extraordinary revenue is higher than that in extraordinary expenses, there was weaker growth in final net profit which climbed 2.7% in the first six months of 2007, an improvement on the data obtained in the first half of the previous year (-3.2%). In any event, it is worth underlining that the above-mentioned 2.7% increase is in addition to a flow of results which is extremely high; in effect, Table 1 shows that net profit as a percentage of GVA remained above 30% in the first half of 2007.

In short, the productive activity of Spanish firms remained highly buoyant in the first half of 2007. It was underpinned by the strong expansion of the industrial sector against a background of slightly weaker private consumption, which did not prevent employment from growing at rates similar to 2006 and, on the whole, the CBQ firms continued to generate surpluses at a high rate and reported sizeable returns. In this setting, despite higher financial costs, which have been offset by the soundness of financial revenue from dividends from abroad, firms stepped up their buoyant investment, thus confirming the current positive position of Spain's corporate sector.

17.9.2007.