

RESULTS OF NON-FINANCIAL CORPORATIONS TO 2007 Q4
AND SUMMARY YEAR-END DATA

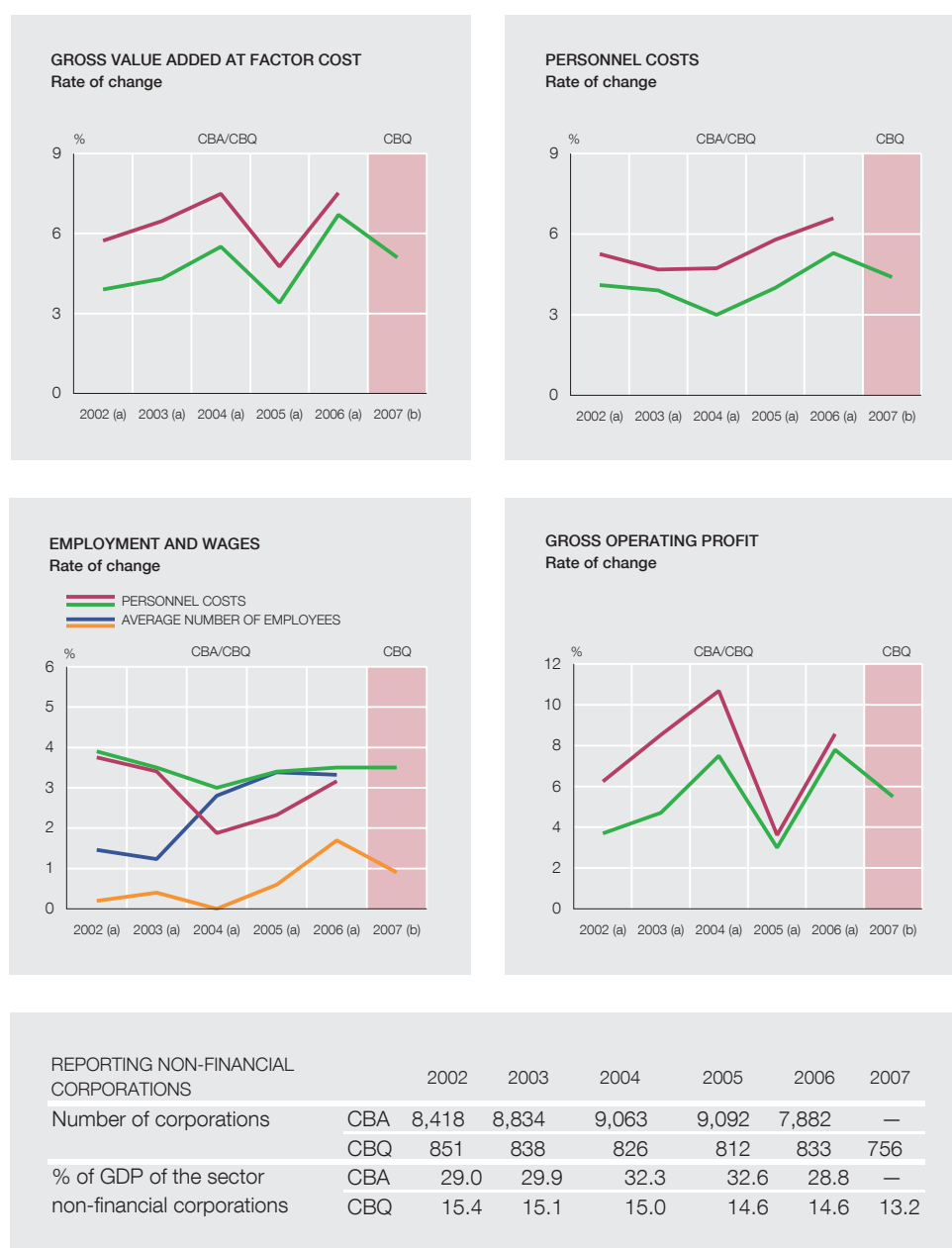
Overview¹

The data of the Central Balance Sheet Data Office Quarterly Survey (CBQ) to 2007 Q4 represent the preliminary results of changes in the non-financial corporations sector for the year as a whole, which will be finalised when the results of the Central Balance Sheet Data Office Annual Survey (CBA) are disseminated in November. Although the information of the nearly 800 firms in the CBQ makes it possible to reliably approximate the trends later reflected in the CBA, which includes information on approximately 9,000 firms (see Chart 1), it is worth taking into account that large firms and certain economic sectors are more highly represented in the CBQ, and this unavoidably introduces certain biases. Broadly speaking, the information available for the whole of 2007 confirms the trend of a moderate, yet gradual, slowdown of productive activity seen in the first three quarters of the year, which reduced the growth of gross value added (GVA) in 2007 as a whole to 5.1% in comparison with 6.7% the year before. This lower buoyancy particularly affected certain sectors of activity, such as wholesale and retail trade and energy, which in 2007 posted considerably lower GVA growth than in the previous year. Conversely, the more expansionary behaviour of the industrial sector continued, since throughout 2007 capital goods investment and exports remained strong, which had a more direct effect on the firms of this aggregate.

Personnel costs increased by 4.4% in 2007, almost 1 pp less than in the previous year (5.3%), mainly as a result of the slowdown in job creation at sample firms and of the continued moderate pace of growth of average compensation. In 2007 the average number of employees increased by 0.9%, nearly half the previous year's rate of increase (1.7%). Part of the change in the employment data is accounted for by certain large firms with a high weight in the CBQ sample which are still involved in workforce restructuring processes. The wholesale and retail sector, in keeping with the slowdown in its activity, was the sector which experienced the highest decline in job creation, down from a growth rate of 2.7% in 2006 to practically zero in 2007 (0.1%). The growth rate of average compensation in 2007 remained moderate at 3.5%, similar to that of the previous two years (3.5% in 2006 and 3.4% in 2005). However, it showed an upward trend throughout 2007, which was particularly pronounced in the last quarter of the year when average wage costs rose by 3.9%.

The slowdown in GVA and the developments in personnel costs gave rise to 5.5% growth of gross operating profit (GOP) in 2007, just over 2 pp less than the previous year's figure. Financial revenue grew strongly in 2007 (22.8%) at a higher rate than in 2006 (13.3%), mainly as a result of the increase in interest received by firms because of rising interest rates. Financial costs continued to increase sharply in 2007 (33.6%), although to a lesser extent than in 2006 (39.8%). Rising financial costs were the result of more expensive loans and higher corporate indebtedness linked to sizeable share purchase transactions in 2007. The combined performance of financial revenue and costs gave rise to 5.7% growth in ordinary net profit (ONP) in 2007, which was more than 1 pp higher than in the previous year (4.4%), and enabled firms to hold their profitability levels at very similar levels to those in 2006. Thus, the return on investment stood at 8.6% in 2007, only 0.1 pp down on the previous year, while the return on equity slipped slightly from 13.1% to 12.6% in 2007. Meanwhile, the ratio that approximates the cost of borrowing continued along its upward path of recent years (it rose half a percentage

1. This article is based on the information obtained by the Central Balance Sheet Data Office from the 756 corporations that, on average, reported their data to 14 March 2008. The GVA of this aggregate accounts for 13.2% of the total GVA of the sector non-financial corporations (according to CNE data).



SOURCE: Banco de España.

a. The 2002, 2003, 2004, 2005 and 2006 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 2007 in relation to the same period in 2006.

point above the previous year's figure to 4.5%), due to the effect of interest rate rises on these costs and, consequently, the difference between ROI and the cost of debt narrowed clearly to 4.1 (in comparison with 4.8 in 2006). Therefore, despite the slowdown in activity in 2007, non-financial corporations still have high profitability levels and a clearly positive differential with regard to the cost of debt.

Finally, extraordinary expenses and, in particular, extraordinary revenue posted a notable increase in 2007, since the latter included sizeable gains generated on the sale of fixed assets (both tangible and financial). Consequently, final net profit grew faster than ONP at a rate of



SOURCE: Banco de España.

b. The 2002, 2003, 2004, 2005 and 2006 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 2007 in relation to the same period in 2006.

14.9% throughout 2007, slightly lower than the growth rate of 18% recorded the previous year. Nevertheless, in view of the slowdown in GVA in 2007, the CBQ firms' profit level, expressed as a percentage of GVA, stood at 38.1%, 3 pp up on 2006.

In short, the data of non-financial firms reporting to the CBQ showed in 2007 a gradual deceleration of their productive activity which resulted in slackening growth of their operating surpluses and a slowdown of job creation. This trend did not have the same effect on all sectors since while some aggregates like manufacturing industry continued to expand, others like wholesale and retail trade and energy were more sharply affected by the loss of momentum in

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)		
DATABASES	2006	2005	2006	05 Q1-Q4/ 04 Q1-Q4	06 Q1-Q4/ 05 Q1-Q4	07 Q1-Q4/ 06 Q1-Q4
Number of corporations		9,092	7,882	812	833	756
Total national coverage		32,6%	28,8%	14,6%	14,6%	13,2%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT (including subsidies)	100.0	9.9	9.4	12.2	10.4	5.9
<i>Of which:</i>						
— Net amount of turnover and other operating income	140.4	11.9	9.8	15.8	9.7	3.9
2. INPUTS (including taxes)	68.9	12.5	10.3	17.2	12.3	6.3
<i>Of which:</i>						
— Net purchases	41.5	13.5	11.9	19.9	14.3	5.9
— Other operating costs	27.6	12.2	7.8	12.4	5.8	6.9
S.1. GROSS VALUE ADDED AT FACTOR COST [1 – 2]	31.1	4.8	7.5	3.4	6.7	5.1
3. Personnel costs	16.2	5.8	6.6	4.0	5.3	4.4
S.2. GROSS OPERATING PROFIT [S.1 – 3]	14.8	3.6	8.6	3.0	7.8	5.5
4. Financial revenue	3.6	24.4	16.7	24.7	13.3	22.8
5. Financial costs	3.2	9.7	35.3	5.0	39.8	33.6
6. Depreciation and operating provisions	5.9	-0.1	7.9	-0.4	2.0	-1.3
S.3. ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.3	10.5	4.6	11.6	4.4	5.7
7. Capital gains and extraordinary revenue	7.3	33.6	71.4	26.5	50.1	95.3
8. Capital losses and extraordinary expenses	2.6	35.5	-26.4	61.1	-27.4	26.3
9. Other (provisions and taxes)	4.8	-5.2	67.3	-41.9	61.6	84.2
S.4. NET PROFIT [S.3 + 7 – 8 – 9]	9.1	20.0	36.4	40.7	18.0	14.9
NET PROFIT/GVA (S.4/S.1)		22.1	29.4	32.5	34.8	38.1
PROFIT RATIOS						
	Formulas (b)					
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	8.7	8.8	8.8	8.7	8.6
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	3.7	4.1	3.6	3.9	4.5
R.3 Ordinary return on equity (before taxes)	S.3/E	12.8	13.0	13.4	13.1	12.6
R.4 ROI - cost of debt (R.1 – R.2)	R.1-R.2	5.0	4.8	5.2	4.8	4.1

SOURCE: Banco de España.

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

b. The items 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.

private consumption and posted lower GVA growth. Nevertheless, firms' profitability levels remained high and the difference with respect to the cost of borrowing was clearly positive, although in both cases they were lower than in preceding periods. Therefore, at the data cut-off for the 2007 CBQ there was a less favourable outlook than in the previous year and it was subject to greater uncertainty derived from the international economic situation (financial market turbulence and considerably higher crude oil prices) and the slowdown of the Spanish economy, which mainly affects construction and real estate companies.

Activity

On CBQ information, in 2007 there was a gradual, moderate slowdown of the productive activity of non-financial corporations. GVA grew by 5.1% in comparison with 6.7% in 2006 (see Table 1 and Chart 1). This lower buoyancy did not have the same effect on all sectors: there was a contrast between the notable slowdown of the productive activity of the wholesale and retail trade and energy sectors, and the more expansionary performance of transport and communications and, in particular, industrial firms.

VALUE ADDED, EMPLOYEES, PERSONNEL COSTS AND COMPENSATION PER EMPLOYEE. BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS

TABLE 2.A

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

	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	2006	06 Q1-Q4	07 Q1-Q4	2005	2006	06 Q1-Q4	07 Q1-Q4	2005	2006	06 Q1-Q4	07 Q1-Q4	2005	2006	06 Q1-Q4	07 Q1-Q4
Total	4.8	7.5	6.7	5.1	3.4	3.3	1.7	0.9	5.8	6.6	5.3	4.4	2.3	3.2	3.5	3.5
SIZE																
Small	4.7	4.2	—	—	-0.6	0.0	—	—	4.7	4.7	—	—	5.3	4.7	—	—
Medium	4.5	9.0	6.0	6.2	2.0	2.3	1.1	2.5	6.0	6.3	5.3	5.6	3.9	3.9	4.2	3.0
Large	4.8	7.5	6.7	5.0	3.8	3.6	1.8	0.7	5.8	6.7	5.3	4.4	2.0	3.0	3.4	3.7
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	12.3	5.6	6.0	0.8	-0.9	-2.0	-1.4	-0.3	4.4	3.2	4.0	3.0	5.3	5.3	5.5	3.3
Industry	-0.1	5.5	6.3	10.8	-0.7	-0.7	-0.7	-0.5	2.3	3.2	2.6	2.6	3.1	3.9	3.3	3.1
Wholesale and retail trade	5.3	8.2	6.0	0.9	5.2	2.4	2.7	0.1	6.9	7.6	7.2	1.3	1.6	5.1	4.4	1.2
Transport and communications	1.9	3.7	4.7	5.7	0.9	1.0	-0.2	-0.4	4.0	4.6	4.2	5.1	3.0	3.6	4.4	5.5

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 2007 Q1 - Q4	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations	756	479	277
PERSONNEL COSTS			
Initial situation 06 Q1-Q4 (€m)	25,350.8	12,554.8	12,796.0
Rate 07 Q1-Q4/ 06 Q1-Q4	4.4	10.1	-1.1
AVERAGE COMPENSATION			
Initial situation 06 Q1-Q4 (€m)	43,394.2	41,182.1	45,808.4
Rate 07 Q1-Q4/ 06 Q1-Q4	3.5	4.0	3.7
NUMBER OF EMPLOYEES			
Initial situation 06 Q1-Q4 (000s)	584	305	279
Rate 07 Q1-Q4/ 06 Q1-Q4	0.9	5.9	-4.6
Permanent			
Initial situation 06 Q1-Q4 (000s)	482	238	244
Rate 07 Q1-Q4/ 06 Q1-Q4	1.9	6.8	-2.9
Non-permanent			
Initial situation 06 Q1-Q4 (000s)	102	67	35
Rate 07 Q1-Q4/ 06 Q1-Q4	-4.2	2.4	-16.6

SOURCE: Banco de España.

The sample corporations in the wholesale and retail trade sector, which were affected by the deceleration in private consumption, posted a meagre 0.9% rate of change in GVA in 2007. This was considerably lower than the rate of 6% recorded in 2006, and was the lowest of the whole quarterly series. Activity in the energy sector also dropped off notably, down from a 6% rate of change of GVA in 2006 to 0.8% in 2007. In this aggregate the electricity, gas and water utilities experienced the largest slowdown, with the GVA increases of 4.5% amounting to less than half the previous year's rises. This slowdown is due to two factors: firstly, lower

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

TABLE 3

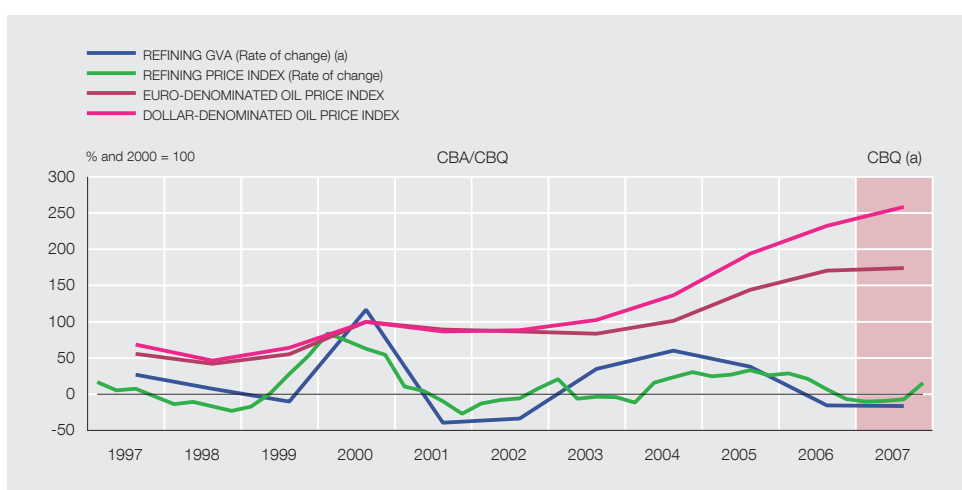
		CBA		CBQ (a)	
		2005	2006	06 Q1-Q4	07 Q1-Q4
Total corporations		7,882	7,882	756	756
Corporations reporting source/destination		7,882	7,882	714	714
Percentage of net purchases according to source	Spain	69.0	68.4	81.6	80.3
	Total abroad	31.0	31.6	18.4	19.7
	EU countries	16.9	16.6	14.1	14.9
	Third countries	14.0	15.0	4.3	4.9
Percentage of net turnover according to destination	Spain	84.5	84.2	90.8	90.6
	Total abroad	15.5	15.8	9.2	9.4
	EU countries	10.9	10.5	6.7	6.8
	Third countries	4.6	5.3	2.5	2.5
Change in net external demand (exports less imports), rate of change	Industry	-9.1	-7.8	-18.2	2.5
	Other corporations	-33.3	-5.5	-9.4	-15.0

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

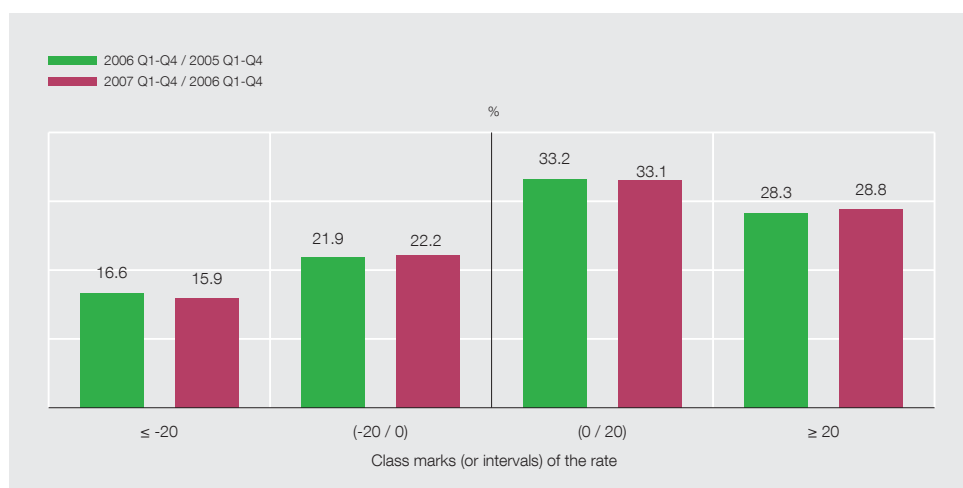
CHART 2



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

a. 2007 data relate to the CBQ.

growth of gas utilities in comparison with their exceptional expansion in 2006 and, secondly, the narrower margins of electricity generating utilities linked to the sharp fall in wholesale market prices and higher generating costs in a year of low rainfall, particularly in the closing months of 2007. The performance of the other large group of firms in the energy sector, which includes refining companies, was very similar in 2006 and 2007, with decreases in GVA of 15.3% and 16.2%, respectively, due to these firms' shrinking margins over the last two years. Conversely, the GVA of transport and communications firms grew by 5.7% in 2007, up 1 pp on the previous year bolstered by the expansion of the telecommunications sector and



SOURCE: Banco de España.

the favourable performance of certain large transport firms. Lastly, the fastest rate of expansion in 2007 was shown by the industrial sector, albeit with a declining profile over the year. Firms in this sector posted a 10.8% increase in GVA for the year as a whole boosted by the positive performance of investment in capital goods and of exports, which were highly buoyant and in 2007 grew at a similar rate to that of the previous year (7.5%). Also, as a result of the notable decline in the pace of import growth from 22.3% in 2006 to a mere 9.4% in 2007, net external demand (exports less imports) improved ostensibly in comparison with previous years and the industrial aggregate posted a slightly positive rate of change of 2.5% throughout 2007 (see Table 3).

Finally, Chart 3 includes the distribution of firms by rate of change of GVA, irrespective of their size or sector of activity. The data for the whole year show a very similar distribution in each of the last two years. There was a very slight increase in the percentage of companies whose GVA increased in 2007 in comparison with the previous year (61.9% as against 61.5%). This confirms that the slowdown in activity, although gradual, continued throughout the year at moderate rates and that it did not have the same effect on all sample corporations, since, as indicated above, certain sectors suffered the consequences of the decline more acutely than others which posted even higher growth than in the previous year.

Employment and personnel costs

In 2007 personnel costs rose by 4.4%, almost 1 pp less than a year earlier, mainly due to the smaller increase in employment in the period under analysis, while average compensation continued to grow at similar rates to those in previous periods.

The average number of persons employed by the CBQ firms increased by 0.9% in 2007, considerably lower than the rate of 1.7% recorded in 2006. By contract type, non-permanent employment performed more negatively (-4.2%), while permanent employment clearly increased, even more than in the previous year (1.9% in 2007 in comparison with 0.6% in 2006), due to the impact of permanent job creation policies on recruitment decisions. By sector, the development which accounts most for this trend is the considerable drop in the rate of change of employment in the wholesale and retail sector, which had been the most buoyant in this respect. However, in 2007 this sector had the most negative performance (growth in employment in this aggregate fell from 2.7% in 2006 to only 0.1% in 2007), on a par with the deceleration in its productive activity. Among the other sectors, the slight improvement

According to CBSO data on firms in the industrial sector, the productive activity of this aggregate expanded strongly in 2007 since its GVA increased by 10.8% in this period, as against 6.3% in 2006. The continued high buoyancy of investment in capital goods and the favourable performance of exports are the two main reasons for this growth. Export data provided by reporting industrial firms confirm that in 2007 export growth was strong (7.5%). It contributed to the expansion of this sector, and the rate of change of net external demand (exports less imports) turned slightly positive (2.5%, see Table 3), a development which is also accounted for by the slowdown in imports in the same period. The positive performance of productive activity affected practically all industrial sub-sectors, including most notably "chemicals" and "manufacture of glass, ceramics and metal products", since their GVA increased most strongly (by 17.2% and 13.2%, respectively). As for employment, the 2007 data indicate the continued absence of job creation at industrial firms with their slightly negative rate of -0.5%, which was less negative than in 2006 (-0.7%). Although this figure was influenced by workforce reductions which had a greater

impact on specific sub-sectors (employment in the "manufacture of transport equipment" sector fell by 3.6%), job creation continues to be the unresolved problem of this aggregate, all the more so considering that, if the quarterly series for full years is analysed, the industrial sector has not recorded positive employment rates since 2000. Average compensation grew moderately in 2007 at a rate of 3.1%, slightly lower than in 2006 (3.3%), although quarterly developments underline a quickening of these costs in the latter part of the year. In line with the remarks made on the sample total, growth in compensation should be analysed with caution. Although it has remained moderate in recent years, a slight gradual upward trend can be seen, which could worsen if the increase in inflation in recent months is passed through to salaries via indexation clauses. The combined trend in compensation and employment resulted in an increase of 2.6% in personnel costs which enabled growth in gross operating profit (GOP) to rise to 20.7% (in comparison with 11.1% in 2006). Since financial revenue and costs grew strongly, the growth of ordinary net profit (ONP) moved up to 28.3%, which explains why the upward trend in profit ratios

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

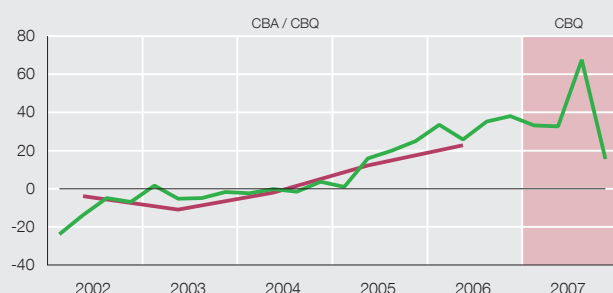
GROSS VALUE ADDED AT FACTOR COST
Rate of change



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	2,530	2,457	2,130	—
	CBQ 391 378 369 357 367 362 354 346	352 342 335 333 323 311 304 296	321 305 292 281 313 295 267 190			
% of GDP of the sub-sector industrial corporations	CBA 26.6	27.1	28.9	28.2	24.6	
	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 16.7 17.2	18.5 17.5 16.1 17.0 18.7 18.9 14.9 10.6			

SOURCE: Banco de España.

continued in 2007, as in the previous year. Thus the return on investment stood at 9.4% in 2007 against 8.8% a year earlier, while the return on equity rose to 13.2%, up 1 pp on 2006. The ratio that approximates the cost of debt continued to increase gradually in 2007 to 4.5% (up 0.5 pp on the previous year) due to the pass-through of higher interest rates to corporate costs. As a result of the upward path followed by return on investment and financial costs, the difference between them remained at a high positive value of 4.9, very similar to that in 2006. In short, the productive activity of Spanish industry con-

tinued to expand in 2007, underpinned by the buoyant investment in capital goods and the sound performance of exports, thus consolidating the previous year's positive trend. However, these positive developments have not resulted in net increases in employment in this sector. Perceived risks and uncertainties (high oil prices, international financial tensions, rising inflation and the real estate sector crisis) could affect the confidence of economic agents and, consequently, the absence of workforce growth in the aggregate could become more widespread in the next few quarters.

in the energy and industry sectors should be noted, although this did not lead them to record positive rates of change (-0.3% and -0.5%, respectively). Employment in the transport and communications sector continued to be slightly negative both in 2006 (-0.2%) and in 2007 (-0.4%). These data were strongly influenced by the impact of certain workforce reductions that were highly focused on two large firms in this aggregate. Finally, in 2007 the average number of employees increased most markedly at firms in the other services sector (specific data for this aggregate are not presented in the tables in this article), which posted an increase of 6% in 2007. Lastly, the data in Table 4 show that, irrespective of events in other sectors, a clear majority of firms (63.1%) in the CBQ sample continued to increase their workforces in 2007 and that, moreover, this percentage was 3 pp higher than a year earlier.

The growth rate of average compensation in 2007 (3.5%) was very similar to that of the two previous years (3.5% and 3.4% in 2006 and 2005, respectively). Conversely, the quarterly profile shows a quickening of these costs, particularly in 2007 Q4, when average salaries increased by nearly 4%, so developments in this variable over the next few quarters should be interpreted with caution. In this respect, the data of Table 4 show, among other things, how in the last two years the percentage of firms whose average compensation increased at or above the rate of inflation has gradually risen (from 50.7% in 2005 to 54.7% in 2007). By sector, wage increases were highest in transport and communications (5.5%), partly because of the greater costs associated with the above-mentioned workforce reductions. By contrast, the wholesale and retail sector posted the lowest increases (1.2%), while energy and industrial firms were in the intermediate range and, with salary increases slightly above 3%, showed a moderate trend similar to that for the sample total.

Profits, rates of return and debt

The slowdown of productive activity coupled with lower growth of personnel costs pushed GOP up by 5.5% in 2007, compared with 7.8% in 2006. Financial costs and revenue increased sharply in 2007 and posted rates of change of 22.8% and 33.6%, respectively. The following table shows the reasons for this behaviour of financial costs and revenue:

	<i>07 Q1-Q4/06 Q1-Q4</i>
Change in financial costs	33.6%
A. <i>Interest on borrowed funds (1+2)</i>	35.3%
1. Due to the cost (interest rate)	15.7%
2. Due to the amount of interest-bearing debt	19.6%
B. <i>Commissions and cash discounts</i>	-1.3%

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

TABLE 4

	CBA			CBQ (a)		
	2004	2005	2006	05 Q1-Q4	06 Q1-Q4	07 Q1-Q4
Number of corporations	9,063	9,092	7,882	812	833	756
PERSONNEL COSTS	100	100	100	100	100	100
Falling	28.1	26.6	25.7	29.0	26.9	26.9
Constant or rising	71.9	73.4	74.3	71.0	73.1	73.1
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	31.4	30.9	30.6	41.1	39.2	36.8
Constant or rising	68.6	69.1	69.4	58.9	60.8	63.2
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	44.0	43.3	42.3	49.3	48.4	45.3
Higher or same growth (b)	56.0	56.7	57.7	50.7	51.6	54.7

SOURCE: Banco de España.

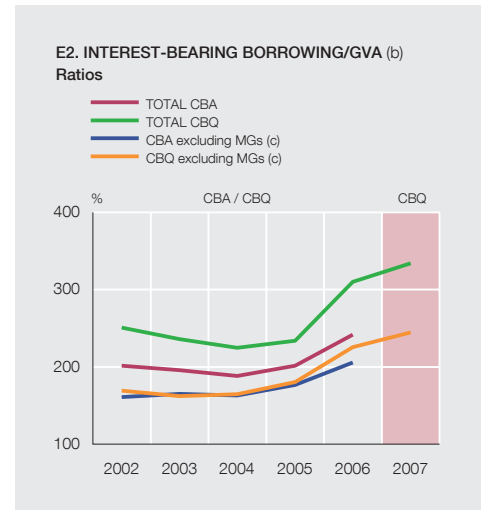
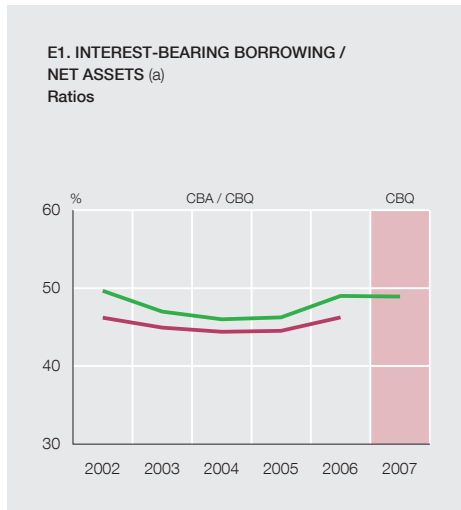
a. Weighted average of the relevant quarters for each column.

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

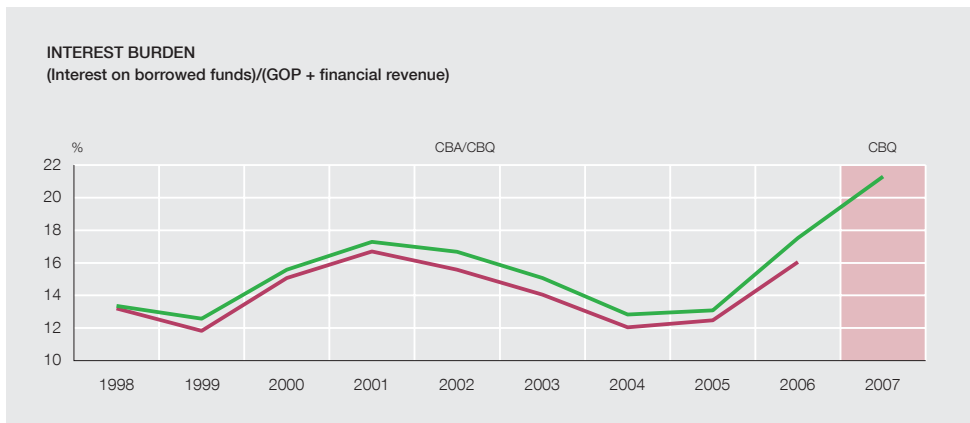
As shown by the above table, the increase in financial costs in 2007 is mainly accounted for by the rise in borrowing against a background in which benchmark interest rates have also exerted considerable upward pressure on these costs. The growth in indebtedness in 2007 is related to certain sizeable acquisitions mainly made by large corporations the financing of which required them to secure borrowed funds. Despite this rise in debt, ratio E1 (see Chart 4), i.e. interest-bearing borrowing to net assets, did not increase with respect to its level in 2006, since similar proportions of these acquisitions were financed with the equity of the firms involved (mainly through the issuance of shares) and with borrowed funds. The ratio E2, which can be used to analyse the ability to repay the principal of the debt contracted and shows debt relative to value added generated, presented a clear upward trend as a result of the increase in debt levels (the numerator) and the slowdown in GVA (the denominator of the ratio) in 2007. Lastly, Chart 4 also depicts the interest burden, showing interest on borrowed funds relative to the firm's income. In 2007 the upward trend initiated by this ratio in the previous year continued as a direct consequence of the increasing weight of interest on borrowed funds in firms' profit and loss accounts.

Financial revenue also grew strongly in 2007 (22.8%), in this case mainly due to the increase in interest received on loans granted, since although there was a rise in the dividends received, it was not as sharp as in previous years. Financial revenue outpaced the rise in financial costs and, as a result, ONP grew at a rate of 5.7%, slightly up on that of 4.4% obtained in 2006. The performance of ONP, together with that of the funds assigned to financial costs (the numerator used to calculate the return on investment), enabled firms to continue to earn high returns, although they were slightly lower than those of the immediately preceding periods.

Specifically, the return on investment (R1) was 8.6% for 2007 (8.7% in 2006), while the return on equity reached 12.6% in 2007 (13.1% in 2006). The ratio that approximates the cost of borrowing (R.2) remained on the upward path of recent years and moved up to 4.5% in 2007, slightly more than 0.5 pp higher than the figure for the whole of 2006 (3.9%), as interest rate rises were passed through to business costs. Consequently, the difference between return on investment and the cost of debt remained positive and high at 4.1, although it clearly stands below the value obtained a year earlier (4.8).



	2002	2003	2004	2005	2006	2007
CBA	201.5	195.8	188.4	201.3	241.7	
CBQ	250.7	235.9	224.9	233.8	310.0	334.0
CBA excl. MGs	161.1	165.0	163.0	176.5	205.8	
CBQ excl. MGs	169.3	162.2	164.8	180.6	225.5	244.6



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
CBA	13.2	11.8	15.1	16.7	15.6	14.0	12.0	12.5	16.0	21.3
CBQ	13.4	12.6	15.6	17.3	16.7	15.1	12.8	13.1	17.5	21.3

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 intragroup debt (approximation of consolidated debt).
- c. MGs: sample corporations belonging to the main reporting multinational groups. Excluding large corporations in the construction sector.

**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**

TABLE 5

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	2006	06 Q1-Q4	07 Q1-Q4	2005	2006	06 Q1-Q4	07 Q1-Q4	2005	2006	06 Q1-Q4	07 Q1-Q4	2005	2006	06 Q1-Q4	07 Q1-Q4
Total	3.6	8.6	7.8	5.5	10.5	4.6	4.4	5.7	8.7	8.8	8.7	8.6	5.0	4.8	4.8	4.1
SIZE																
Small	4.7	3.4	—	—	9.2	8.0	—	—	6.7	6.9	—	—	3.1	2.8	—	—
Medium	2.3	12.9	6.9	6.8	4.0	20.7	17.9	0.0	7.4	7.7	7.1	7.5	3.9	3.9	3.6	3.2
Large	3.7	8.3	7.8	5.5	11.2	3.3	4.0	5.9	8.9	9.0	8.7	8.6	5.2	4.9	4.8	4.1
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	14.9	6.3	6.5	0.2	39.6	-2.4	0.9	0.1	9.5	9.6	9.9	9.0	6.1	5.9	6.3	4.7
Industry	-3.4	8.7	11.1	20.7	-0.6	8.4	27.8	28.3	8.7	8.9	8.8	9.4	4.9	4.7	4.8	4.9
Wholesale and retail trade	3.3	9.0	4.4	0.3	6.2	12.1	7.5	-3.6	11.6	11.4	8.0	7.1	7.9	6.9	4.3	2.8
Transport and communications	0.5	3.0	5.1	6.1	3.5	-5.4	8.3	12.1	9.2	7.1	11.8	13.3	5.4	3.0	7.6	8.9

SOURCE: Banco de España.

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

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 Q1-Q4	07 Q1-Q4	06 Q1-Q4	07 Q1-Q4
Number of corporations		833	756	833	756
Percentage of corporations by profitability bracket	R ≤ 0%	23.9	23.5	27.8	28.4
	0% < R ≤ 5%	22.4	19.3	16.7	13.6
	5% < R ≤ 10%	14.9	17.5	11.2	12.9
	10% < R ≤ 15%	11.3	10.9	8.6	9.0
	15% < R	27.5	28.7	35.7	36.2
MEMORANDUM ITEM: Average return		8.7	8.6	13.1	12.6

SOURCE: Banco de España.

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

Lastly, extraordinary results had a positive impact on final net profit, primarily because there were significant capital gains generated by fixed assets sales, in a setting in which extraordinary expenses also grew sharply, especially due to certain provisioning for shares. All told, in 2007 final net profit increased by 14.9% and although this growth rate did not exceed the 18% recorded the previous year, as a percentage of GVA final net profit stood at 38.1%, clearly higher than the 34.8% of the previous year.

14.3.2008.