

RESULTS OF NON-FINANCIAL CORPORATIONS TO 2008 Q2

Overview¹

The data of the firms reporting to the Central Balance Sheet Data Office Quarterly Survey (CBQ) relating to the first half of 2008 (2008 H1) confirm the slowdown in productive activity initiated in 2007. Thus gross value added (GVA) increased in the total sample by 2.1% in the first six months of the year, which was somewhat more than three percentage points less than its growth a year earlier (5.7%). This loss of dynamism affected nearly all sectors of activity. The exception was the energy sector, the only one whose GVA grew, thanks to a sharp increase in refining company sales against a background of rising international oil prices. This increase in crude oil prices, which reached historical highs in the period covered by this article, had the opposite effect on the activity of a good part of the other productive sectors, which were hit by a sharp rise in production costs. This was so with transport and communications firms and some industrial firms, in which, moreover, the transport strike in early June had a negative effect. Meanwhile, wholesale and retail trade firms (along with transport and communications firms) recorded a decrease in their value added, as they felt the effect of the lesser vigour of private consumption detected by alternative sources in the period under analysis. Additionally, the industrial sector as a whole also saw a drop in GVA (-4.4% in 2008 H1), a development which, although due mainly to the performance of the industrial sub-sectors most closely related to construction, also includes a gradual decline in the quarter-by-quarter profile as 2008 unfolds.

Personnel costs increased by 5.2% in 2008 H1. This exceeded the increase a year earlier (4.7%), mainly as a result of the growth of average compensation, against a background of slightly slower job creation. Thus, in the first six months of 2008, CBQ corporations reported a net increase of 0.8% in the average number of employees, slightly less than in 2007 (1.1%). The sectoral breakdown shows that industrial firms and transport and communications firms reduced staff in 2008 H1 (-0.4% and -0.9%, respectively), while retail and wholesale trade firms and energy companies increased their number of employees, the former due to the opening of new shopping centres and the latter due to the expansion of their productive activity. Regarding average compensation, in 2008 so far there has been a progressive acceleration which, in the half as a whole, has brought average growth of 4.4%, up 0.8 pp on the same period of 2007 (3.6%), with a rising quarterly profile, probably related to the staff layoffs initiated in Q2.

Owing to the slowdown in activity and the increase in personnel costs, gross operating profit (GOP) failed to grow in the first six months of the year, the situation in the first quarter remaining unchanged throughout the period. Against this backdrop of stagnation in operating surpluses, it was particularly significant that the net financial charge (financial costs less financial revenue) had a positive impact on ordinary income, which was due to both lower growth of financial costs and higher growth of financial revenue than in previous periods. Indeed, although financial costs continued to grow strongly in 2008 H1 (by 28.3%), they did so at an appreciably slower rate than in the previous year (37.8%), basically because in the last few quarters firms have resorted less to additional external funds. For its part, financial revenue grew more strongly in 2008 H1 (40.4%), basically due to the inflow of substantial dividends from the foreign subsidiaries of large Spanish multinational groups. As a result, the notable

1. This article is based on information sent voluntarily by an average of 721 corporations to the Central Balance Sheet Data Office up to 17 December 2008. In terms of gross value added, this sample represents 12.9% of total of the sector non-financial corporations.

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	07 Q1-Q4/ 06 Q1-Q4	07 Q1-Q2/ 06 Q1-Q2	08 Q1-Q2/ 07 Q1-Q2
Number of corporations		9.093	8.836	821	862	721
Total national coverage		32.6%	32.2%	14.0%	14.5%	12.9%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT (including subsidiaries)	100.0	9.9	9.4	5.8	3.9	9.9
<i>Of which:</i>						
<i>Net amount of turnover and other operating income</i>	139.8	11.9	9.6	4.0	0.8	8.8
2. INPUTS (including taxes)	68.5	12.5	10.0	6.2	3.0	13.8
<i>Of which:</i>						
<i>Net purchases</i>	40.2	13.5	11.4	3.3	0.9	20.5
<i>Other operating costs</i>	28.4	12.2	8.1	7.3	7.2	5.5
S.1. GROSS VALUE ADDED AT FACTOR COST [1-2]	31.5	4.7	8.1	4.9	5.7	2.1
3. Personnel costs	16.7	5.8	6.9	4.4	4.7	5.2
S.2. GROSS OPERATING PROFIT [S.1-3]	14.9	3.6	9.4	5.2	6.3	0.0
4. Financial revenue	3.5	24.4	18.2	38.5	16.8	40.4
5. Financial costs	3.2	9.7	35.3	36.5	37.8	28.3
6. Depreciation and operating provisions	5.8	-0.1	9.7	-1.3	-1.0	0.1
S.3. ORDINARY NET PROFIT [S.2 + 4-5-6]	9.3	10.5	5.3	10.3	4.4	4.2
7. Extraordinary revenue and expenses	4.4	20.5	(b)	121.4	-42.3	(b)
8. Other (net provisioning and income tax)	4.8	-5.2	64.7	89.9	-12.1	3.7
S.4. NET PROFIT [S.3 + 7-8]	9.0	20.0	36.4	11.7	3.0	67.3
NET PROFIT/GVA (S.4/S.1)		22.1	28.4	36.4	30.4	50.5
PROFIT RATIOS						
	Formulas (c)					
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	8.7	8.9	8.8	7.6	7.6
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	3.7	4.0	4.5	4.3	5.0
R.3 Ordinary return on equity (before taxes)	S.3/E	12.8	13.1	13.0	10.8	9.9
R.4 ROI - cost of debt (R.1 - R.2)	R.1-R.2	5.0	4.9	4.3	3.3	2.6

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.

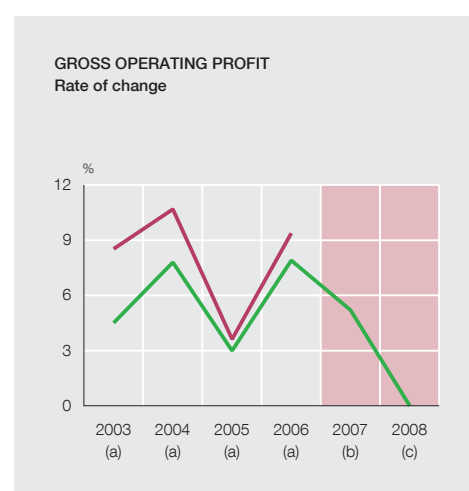
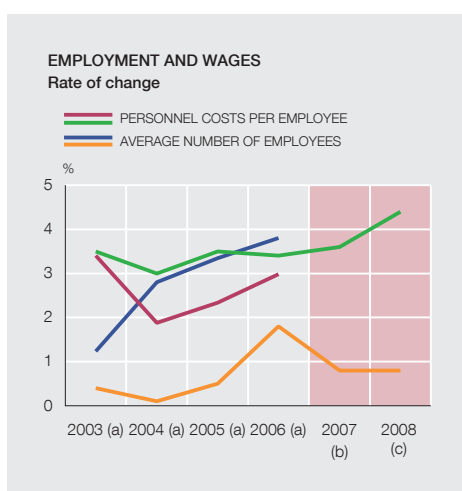
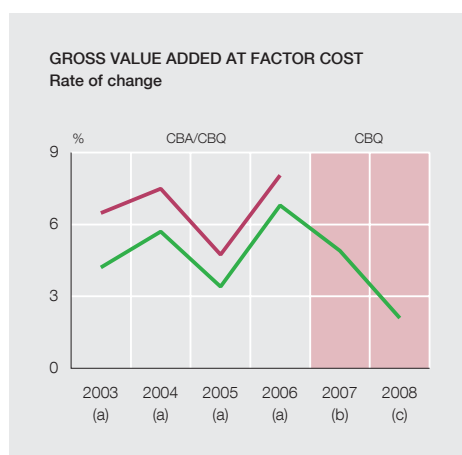
c. The items in the formulas are expressed as absolute values. NA = net assets (net of non-interest-bearing borrowing); E = Equity; IBB = Interest-bearing borrowing; NA = E + IBB. The financial costs in the numerators of ratios R.1 and R.2 only include that portion of financial costs which is interest on borrowed funds and not commissions or cash discounts.

Note: in calculating rates, internal accounting movements have been edited out of items 4, 5 and 8.

growth of financial revenue offset that of financial costs and led ordinary net profit (ONP) to post a positive rate, which at 4.2% was down 0.2 pp on the figure a year earlier (4.4%).

These developments meant that the sum of ONP and financial costs (the numerator used in profitability ratios) was sufficient for firms to maintain their profitability levels, which, in the case of return on investment, were equal in the current and in the previous year (7.6% in both 2007 H1 and 2008 H1). Meanwhile, the ratio that approximates the cost of borrowing held on its upward trend (as a result of the pass-through of interest rate rises to firms), moving up by 0.7 pp with respect to the previous year to stand at 5% in 2008 H1. As a result, the difference between the return on investment and the cost of debt remained positive, albeit dropping to 2.6, somewhat more than 0.5 below the level in the same period of 2007.

Coming on top of the positive impact of financial revenue on the results of non-financial corporations for the half was the sharp increase in extraordinary revenue. This revenue,

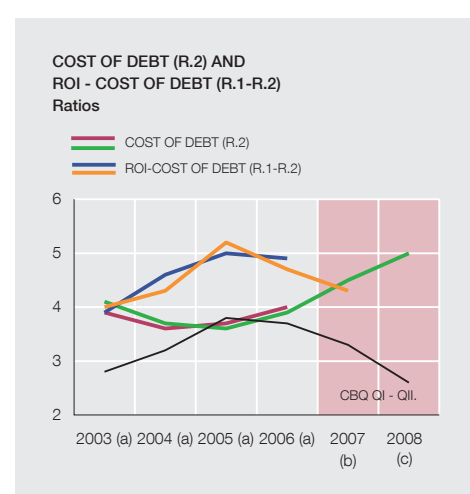
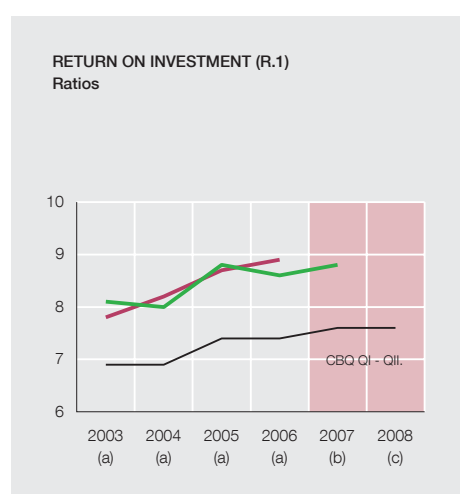
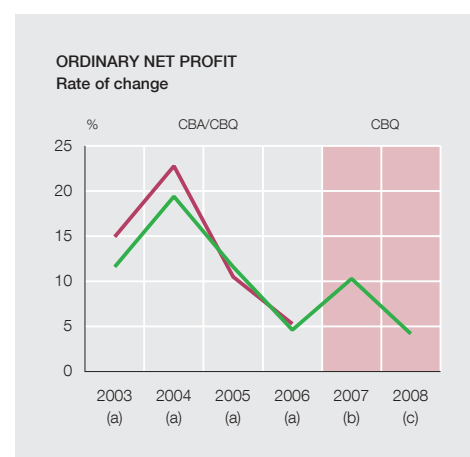
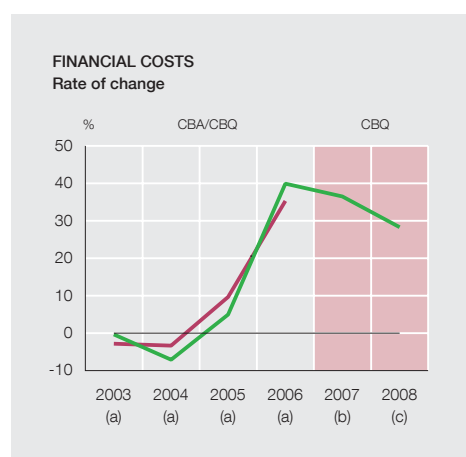


REPORTING NON-FINANCIAL CORPORATIONS		2003	2004	2005	2006	2007	2008
Number of corporations	CBA	8,834	9,063	9,093	8,836	—	—
	CBQ	838	831	812	830	821	721
% of GDP of the sector non-financial corporations	CBA	29.9	32.3	32.6	32.2	—	—
	CBQ	15.1	15.0	14.6	14.6	14.0	12.9

SOURCE: Banco de España.

- a. 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
c. Data for the first two quarters of 2008 in relation to the same period in 2007.

basically capital gains on the sale of shares and other assets, was extraordinarily high in the period under analysis, basically due to the capital gains arising from execution of the sales agreed in negotiations by an external operator to take up a majority holding in a large Spanish electricity sector firm. As a result of this extraordinary revenue, final net profit grew exceptionally in 2008 H1 by 67.3% and amounted to 50.5% of GVA. This value must be considered atypical in the quarterly series as a whole (disregarding the aforementioned transaction, net profit would have grown at a rate of 12% in H1 and amounted to 34.5% of GVA).



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In short, the CBQ information for 2008 H1 confirms the slowdown in productive activity of Spanish firms, which dampened the growth of the main surpluses (GVA and GOP) and of job creation. Nevertheless, the growth of financial revenue (basically dividends) received by the large Spanish multinationals from their subsidiaries abroad not only offset the growth of financial costs, but also enabled ordinary net profit and profitability to remain at levels similar to those a year earlier. Additionally, the large gains on asset sales by Spanish firms boosted growth of the final surplus extraordinarily in 2008 H1.

**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)	
	2006	07 Q1-Q4	07 Q1-Q2	08 Q1-Q2	2006	07 Q1-Q4	07 Q1-Q2	08 Q1-Q2	2006	07 Q1-Q4	07 Q1-Q2	08 Q1-Q2	2006	07 Q1-Q4	07 Q1-Q2	08 Q1-Q2
Total	8.1	4.9	5.7	2.1	3.8	0.8	1.1	0.8	6.9	4.4	4.7	5.2	3.0	3.6	3.6	4.4
SIZE																
Small	4.3	—	—	—	0.0	—	—	—	4.8	—	—	—	4.7	—	—	—
Medium	8.4	6.3	5.4	1.3	2.3	1.9	1.8	-0.3	6.3	5.2	4.5	4.8	4.0	3.2	2.7	5.1
Large	8.1	4.8	5.7	2.1	4.1	0.7	1.0	0.8	7.0	4.4	4.7	5.2	2.8	3.7	3.7	4.4
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	7.5	0.9	-0.9	12.9	-1.3	-0.3	-0.9	2.1	3.6	3.1	3.8	5.7	4.9	3.4	4.7	3.5
Industry	5.5	7.5	13.5	-4.4	-0.7	-0.7	-0.3	-0.4	3.1	2.8	3.0	4.1	3.8	3.5	3.3	4.5
Wholesale and retail trade, and repairs	8.0	1.7	3.5	-3.7	2.7	0.4	0.7	2.6	7.9	1.3	2.2	6.0	5.0	0.9	1.5	3.3
Transport and communications	4.0	5.8	5.2	0.9	1.3	-0.2	-0.1	-0.9	4.8	5.4	5.0	3.8	3.5	5.6	5.1	4.7

SOURCE: Banco de España.

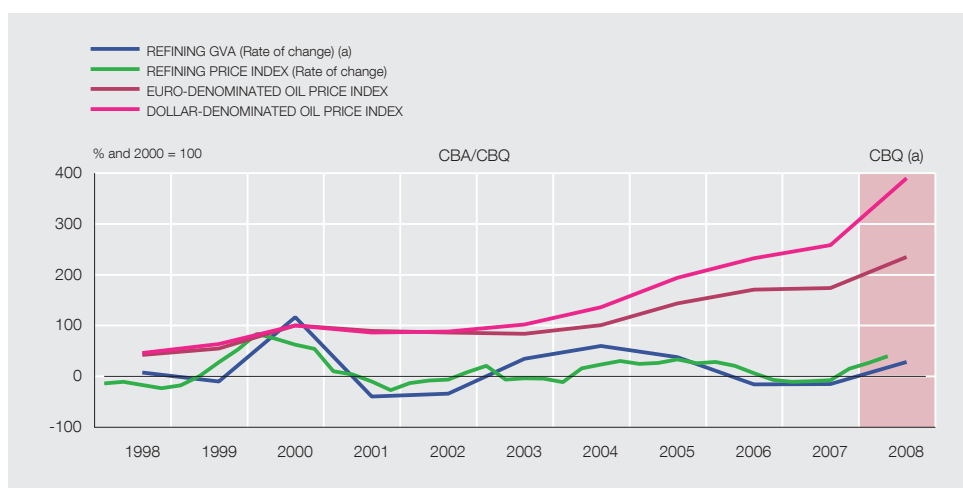
a. All the data in these columns have been calculated as the weighted average of the quarterly data.

EMPLOYMENT AND PERSONNEL COSTS
Details based on changes in staff levels

TABLE 2.B

	TOTAL CBQ CORPORATIONS 08 Q1 - Q2	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations	721	419	302
PERSONNEL COSTS			
Initial situation 07 Q1-Q2 (€m)	13,066.3	7,058.6	6,007.7
Rate 08 Q1-Q2/ 07 Q1-Q2	5.2	9.1	0.6
AVERAGE COMPENSATION			
Initial situation 07 Q1-Q2 (€)	22,829.5	22,439.2	23,305.9
Rate 08 Q1-Q2/ 07 Q1-Q2	4.4	4.0	5.1
NUMBER OF EMPLOYEES			
Initial situation 07 Q1-Q2 (000s)	573	315	258
Rate 08 Q1-Q2/ 07 Q1-Q2	0.8	4.9	-4.3
Permanent			
Initial situation 07 Q1-Q2 (000s)	488	264	224
Rate 08 Q1-Q2/ 07 Q1-Q2	0.8	3.8	-2.9
Non-permanent			
Initial situation 07 Q1-Q2 (000s)	85	51	34
Rate 08 Q1-Q2/ 07 Q1-Q2	0.9	10.4	-13.6

SOURCE: Banco de España.



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

a. 2008 data relate to the CBQ.

Activity

In 2008 H1 the productive activity of Spanish firms slowed sharply, as evidenced by the CBQ data for this period, which show GVA growth of 2.1%, down by more than 3.5 pp on the same period of 2007 (5.7%) (see Table 1 and Chart 1). This slowdown in activity was felt by most sectors, save energy, which was the only one in which the GVA increases in 2008 H1 exceeded those of the previous year (12.9% against -0.9%) (see Table 2.A), thanks to the strong performance of the electricity sector and, in particular, to the positive impact of the rising oil prices on refining companies (see Chart 2).

More detailed analysis of the other sectors shows that the industrial sector suffered the greatest deterioration in activity. Thus in 2008 H1 the GVA of this aggregate fell by -4.4%, compared with growth of 13.5% in 2007. This performance is partly explained by the loss of momentum of capital goods investment, against a background in which, as already seen in 2008 Q1, the industrial sub-sectors most closely linked to construction underwent the sharpest adjustment in productive activity. The two main factors behind the contraction in industrial sector activity are the increase in energy input prices and the impact that the June transport strike had on the inventory provision and on the manufacture and distribution of industrial products. In any event, the aggregate industrial information masks the robustness of some sub-sectors (see breakdown in Box 1), although practically all of them show a downward quarterly trend.

The trade and repairs sector also saw a notable decrease in activity during the period because it was strongly affected by the fall in private consumption, as a result of which its GVA contracted by -3.7%, as against an increase of 3.5% a year earlier. This same pattern of deceleration was shown by the firms in the transport and communications sector, which were also less buoyant in the period of 2008 under analysis, posting GVA growth of 0.9%, well down on the increase of 5.2% recorded a year earlier. The aforementioned deterioration in private consumption and the impact of the high fuel prices on transport firm costs explain this performance.

Lastly, analysis of the sub-sectors comprising the energy sector shows that the intense GVA growth of this sector in the half (12.9%) is, as indicated above, mainly due to the extraordinary growth of oil refining activity, although the electricity, gas and water companies also contributed.

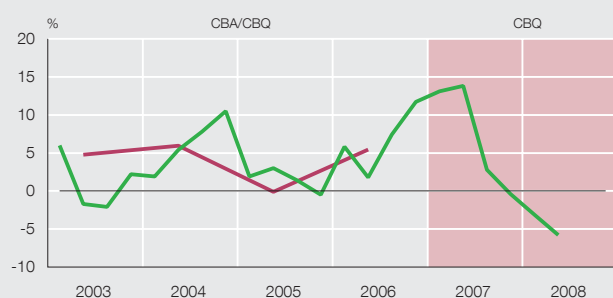
According to the information gathered by the Central Balance Sheet Data Office for the industrial sector as a whole, the activity of this aggregate contracted in 2008 H1. Thus the GVA of these firms decreased by -4.4% in the period under analysis, while in the same period of the previous year their GVA had grown sharply at 13.5%. This change of trend was due both to the loss of vigour by capital goods investment in recent quarters and to the tribulations of the construction sector, which affected the related industrial sub-sectors. Account should also be taken of the negative impact which the transport strike in the second quarter of the year had on the production of a good part of the firms comprising this aggregate. Accordingly, the sub-sectors most affected by the negative performance of activity were chemicals, other manufacturing industries and, in particular, glass, ceramics and metal products, the GVA of which contracted by -18.9%.

By contrast, the activity of food, beverages and tobacco firms, and especially those of the electrical and optical equipment manufac-

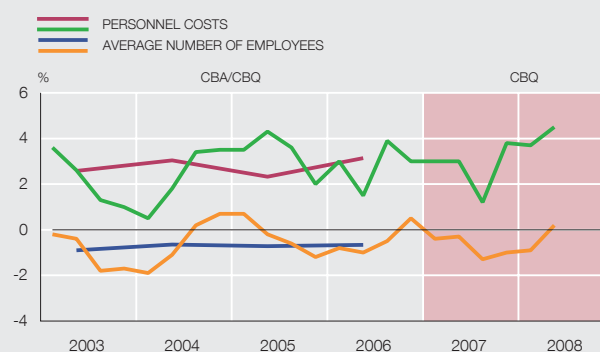
turing industry, expanded moderately. Meanwhile, the employment data continued to perform negatively, with a reduction of -0.4% in 2008 H1, slightly more than in the preceding year (-0.3%). The employment figures of most industrial sub-sectors worsened, although the sharpest staff reductions were in other manufacturing industries and in the manufacture of transport equipment, where the average number of employees dropped by -2.4% and -2.2%, respectively. Average compensation increased more rapidly than in the previous year, recording a sharp rise of 4.5% for 2008 H1, against 3.3% in 2007. This upward trend in wage costs is due both to the impact in certain cases of variable compensation and the effect of the higher costs associated with staff cuts, which impinged particularly on certain industrial sectors such as food, beverages and tobacco and transport equipment manufacturing. The developments in employment and average compensation led personnel costs to grow at a rate of 4.1% in 2008 H1, 1 pp more than in the same period of 2007. This, along with the sharp increase in

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

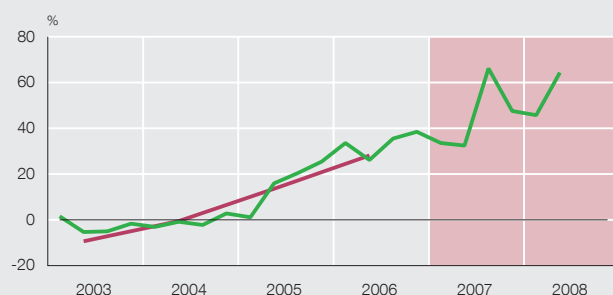
GROSS VALUE ADDED AT FACTOR COST
Rate of change



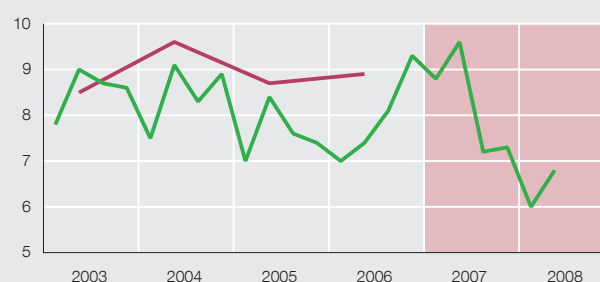
EMPLOYMENT AND WAGES
Rate of change



FINANCIAL COSTS
Rate of change



RETURN ON INVESTMENT
Ratios



REPORTING INDUSTRIAL CORPORATIONS		2003				2004				2005				2006				2007				2008			
		CBA				CBQ				CBA				CBQ				CBA				CBQ			
Number of corporations	CBA	2,624				2,530				2,457				2,355				—				—			
	CBQ	367	362	354	346	353	343	336	334	325	313	306	298	321	305	293	283	314	299	281	271	270	232	—	—
% of GDP of the sub-sector industrial corporations	CBA	28.5				29.0				28.6				30.1				—				—			
	CBQ	18.8	19.1	17.1	17.8	20.0	20.3	18.3	19.7	19.5	20.2	17.2	17.7	18.9	17.9	16.5	17.6	19.6	19.5	15.4	16.2	15.9	14.0	—	—

SOURCE: Banco de España.

financial costs, which grew by 53.9% in 2008 H1, meant that the ordinary net profit of the sector shrank sharply by -31.2% in the period under analysis. Nevertheless, the overall performance of ONP and financial costs enabled both return on investment and return on equity to remain at a healthy level (6.5% and 8%, respectively), albeit well below the levels of 2007 (9.6% and 13.7%). Since the ratio which approximates the cost of debt grew further to 5.1%

in 2008 H1 (1 pp more than in 2007), the difference between return on investment and this ratio narrowed notably to 1.4, somewhat less than one-third of the figure a year earlier (5.5). In short, after a clearly expansionary year in 2007, the activity of the non-financial corporations in some industrial sub-sectors showed signs of weakness at the beginning of 2008, which has spread to the industrial aggregate reflected in the CBQ.

The latter companies significantly stepped up their activity in the first six months of the year, although more moderately than in the case of refining (their GVA grew by 4.1% in 2007 and by 10% in 2008 H1). This increase was concentrated in gas sub-sector firms and in electricity generating companies which, particularly in the second quarter of the year, enjoyed lower production costs amidst increasing electricity demand (up nearly 2%) and rates (up around 3%).

Finally, Chart 3 shows the distribution of firms by rate of change of GVA, irrespective of their size or sector of activity. The data for 2008 H1 show the gradual shift of companies towards lower rates of change in GVA and the higher percentage of companies with a fall in GVA. Thus in 2007 H1, 37.2% of firms had negative rates, while in 2008 H1 this percentage was 44.6%, which confirms that the deceleration in activity shown by the aggregate data is a phenomenon affecting an increasingly higher number of firms in the quarterly sample.

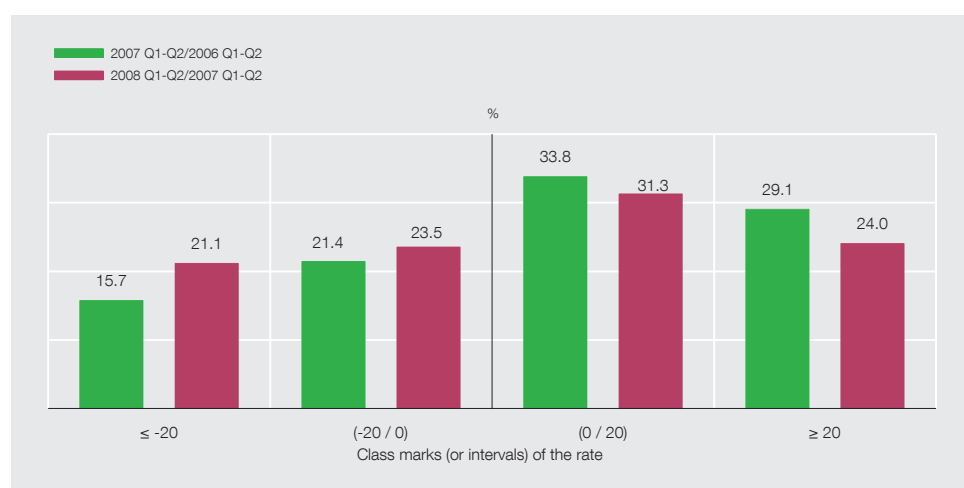
Employment and personnel costs

In 2008 Q1 personnel costs rose by 5.2%, which was 0.5 pp more than in the same period of the previous year. This acceleration is due exclusively to the faster growth of average compensation, against a background of slightly slower job creation. Thus the average number of employees of CBQ firms increased by 0.8% in 2008 H1, against 1.1% in 2007 H1. In terms of contract type (see Table 2.B), permanent and temporary employment both grew slightly and at similar rates, specifically at 0.8% and 0.9%, respectively.

Sectoral analysis shows that in 2008 H1 the energy and the retail and wholesale trade sectors were again the most dynamic in job creation, as in the first quarter of the year. Employment in the trade and repairs sector increased by 2.6% (against 0.7% in the previous year), basically thanks to the new shopping centres opened by hypermarket chains in late 2007. The average number of employees in the energy sector increased by 2.1% due to the effect of the staff increases of 7.2% in oil refining companies and to the job growth in the electricity, gas and water sector, which at 1.5% was more moderate. Notable in the latter case was the qualitative importance of the increase in the electricity, gas and water sector, since traditionally it has recorded net job losses, so the developments so far in 2008 constitute a significant change in trend. By contrast, the transport and communications and the industrial sectors continued to post declining employment figures, with falls of -0.9% and -0.4%, respectively. While both sectors are strongly influenced by significant staff cuts highly concentrated in certain large companies, the job losses are now affecting a growing number of firms in these sectors. For the sample firms as a whole, the information in Table 4 shows that in 2008 to date the firms which have shed jobs continue to be a minority, although their number has risen to stand at 41.8% of the sample, against 36.5% of companies reducing staff in 2007 Q1.

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

CHART 3



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)	
		2006	07 Q1-Q2	08 Q1-Q2
Total corporations		8,836	721	721
Corporations reporting source/destination		8,836	676	676
Percentage of net purchases according to source	Spain	68.8	78.2	78.5
	Total abroad	31.2	21.8	21.5
	<i>EU countries</i>	17.1	16.9	16.3
	<i>Third countries</i>	14.1	4.9	5.2
Percentage of net turnover according to destination	Spain	84.4	91.5	91.0
	Total abroad	15.6	8.5	9.0
	<i>EU countries</i>	10.4	6.4	6.8
	<i>Third countries</i>	5.3	2.2	2.2
Change in net external demand (exports less imports), rate of change	Industry	-7.7	-0.8	-11.4
	Other corporations	-35.3	-16.5	9.8

SOURCE: Banco de España.

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

Average compensation in 2008 H1 increased by 4.4%, up 0.8 pp on the same period of 2007, confirming the trend of progressive acceleration of wage costs which had started to become apparent in previous quarters. This observation is supported by the information available for 2008 Q2, which shows that this variable is on a rising path and has reached the values of 2001 (for 2008 Q2, the rate is 4.6%).

The transport and communications and the industrial sectors recorded the highest wage increases (4.7% and 4.5%, respectively). The behaviour of these aggregates can be ex-

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

TABLE 4

	CBA		CBQ (a)			
	2005	2006	06 Q1 - Q4	07 Q1 - Q4	07 Q1 - Q2	08 Q1 - Q2
Number of corporations	9,093	8,836	830	821	862	721
PERSONNEL COSTS	100	100	100	100	100	100
Falling	26.6	25.6	27.0	27.4	26.9	27.3
Constant or rising	73.4	74.4	73.0	72.6	73.1	72.7
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	30.9	30.6	39.2	37.1	36.5	41.8
Constant or rising	69.1	69.4	60.8	62.9	63.5	58.2
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	43.3	42.6	48.2	45.9	43.7	50.3
Higher or same growth (b)	56.7	57.4	51.8	54.1	56.3	49.7

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.

plained in some cases by the existence of variable compensation and in others by the costs associated with workforce reduction. By contrast, more moderate wage rises were recorded in trade and repairs and in energy, with increases of 3.3% and 3.5%, respectively, undoubtedly favoured by the positive behaviour of employment in these sectors. Table 2.B confirms this observation also for the total sample, since the firms with a decrease in average staff showed larger increases (5.1%) in average compensation than those in which staff numbers rose (4%).

**Profits, rates of return
and debt**

The slowdown in productive activity and the higher personnel costs in 2008 H1 meant that gross operating profit did not grow with respect to 2007 H1, when growth was 6.3%. This flatness of operating surpluses was offset in the aggregate of reporting corporations by the overall behaviour of financial costs and revenue, so that the rate of change of ONP stood at levels similar to those a year earlier.

Financial costs continued to grow at high rates (28.3%) and again gained relative weight in the corporate cost structure, since, as a percentage of total production, they amounted to 6.1%, which is the highest value since 1995. The interest burden ratio (see Chart 4) confirms that accrued interest on borrowed funds with respect to ordinary income (i.e. gross operating profit) and with respect to income received (sum of interest and dividends collected) by firms continued the upward trend initiated in 2005. In any event, in 2008 financial costs increased appreciably less than in previous years (by 28.3%, against 31.9% in 2006 and 37.8% in 2007, in the CBQ sample). The reasons for this are analysed in greater detail in the following table, which separates financial costs into their two components:

	<u>08 Q1-Q2/07 Q1-Q2</u>
Change in financial costs	28.3%
A. <i>Interest on borrowed funds (1+2)</i>	27.6%
1. Due to the cost (interest rate)	17.3%
2. Due to the amount of interest-bearing debt	10.3%
B. <i>Commissions and cash discounts</i>	0.7%

Box 1 of the article on the results of the CBQ reporting firms for 2008 Q1 described the main effects which the roll-out of the new general chart of accounts (PGC-2007) had had on their aggregate results. This box updates that analysis for 2008 Q1. Set forth below are comments on the most notable features of the accompanying table:

Adaptation to the new chart of accounts

In 2008 the Central Balance Sheet Data Office offered firms the option of reporting their information in a survey with the old format (PGC-1990), if they so desired. The cumulative data up to Q2 show a decrease in the percentage of firms still replying in this format: 16.8% (against 19% in Q1) sent in the old format, which confirms progressive adaptation of a growing number of firms to the new accounting legislation.

Uniformity of information (PGC-1990/PGC-2007)

Of the 598 firms which replied using the PGC-2007 format, 35 stated that there are accounting alterations which affect the uniformity of their data with respect to the previous year, although in only two cases was it impossible to remedy these problems. These companies therefore do not form part of the aggregate considered in this article.

Impact of the PGC-2007 on aggregate results

The table in this box also includes information on the impact which the adoption of the fair-value valuation method (one of the main new

features of the PGC-2007) has had on the balance sheet and on the income statement. First, approximately 10% of the firms comprising the CBQ sample recorded adjustments to equity due to changes in value. Their materiality relative to both equity and total assets of these firms was very limited (2.1% and 0.8%, respectively). In regard to the income statement, less than 5% of the firms recorded any amount due to variations in fair value and, once again, their quantitative significance was fairly low, whether measured with respect to either the turnover plus financial revenue of these firms or their net profit (3.5% and 7.4%, respectively). These percentages are even lower if compared with those of the total sample, since in this case the changes in fair value would amount to only 0.4% of the sum of turnover plus financial revenue and to 3.5% of the total net profit for the half.

However, it should be noted that the low impact on net profit is strongly influenced by the extraordinary growth of this surplus in the period analysed, as a result of the considerable capital gains in the second quarter of the year (a development discussed in the article).

In short, firms are progressively adapting to the requirements derived from the new general chart of accounts and the impact on the accounting figures is limited, albeit somewhat greater in the income statement than in the balance sheet. In no case have these new developments significantly affected the analysis by the Central Balance Sheet Data Office in this article.

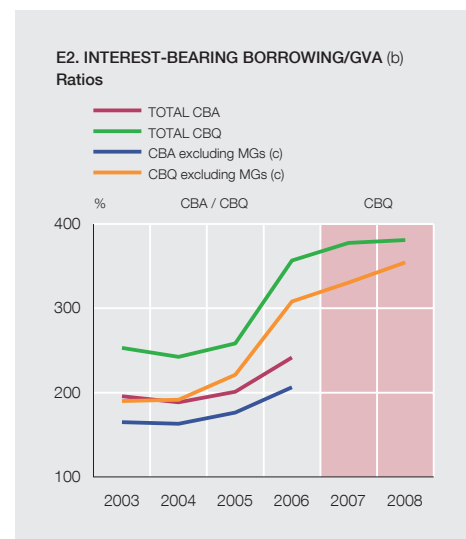
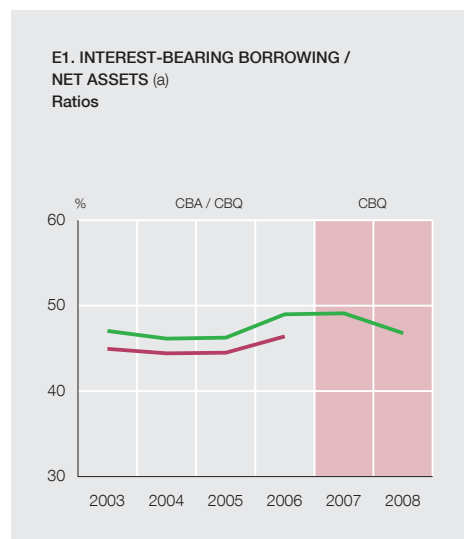
USE OF THE QUESTIONNAIRE ADAPTED TO THE PGC 2007 BY CBQ REPORTING FIRMS

Principal results

	Total firms 08 Q1 - Q2	Questionnaire	
		PGC 1990	PGC 2007
1 Use of new questionnaire	719	121	598
	Total firms 08 Q1 - Q2 (PGC 2007)	Reported having comparability problems	
		Number	Percentage
2 Comparability problems due to application of PGC 2007	598	35 (a)	5.9%
3 Impact of fair value	No. of firms	Adjustment/Equity (b)	Adjustment/Total assets (a)
a) Balance sheet (adjustment to equity due to change in value)	69	2.1%	0.8%
	719	0.7%	0.2%
	No. of firms	Change/Turnover plus financial revenue (b)	Change/Net profit (b)
b) Income statement (change in fair value)	35	3.5%	7.4%
	719	0.4%	3.5%

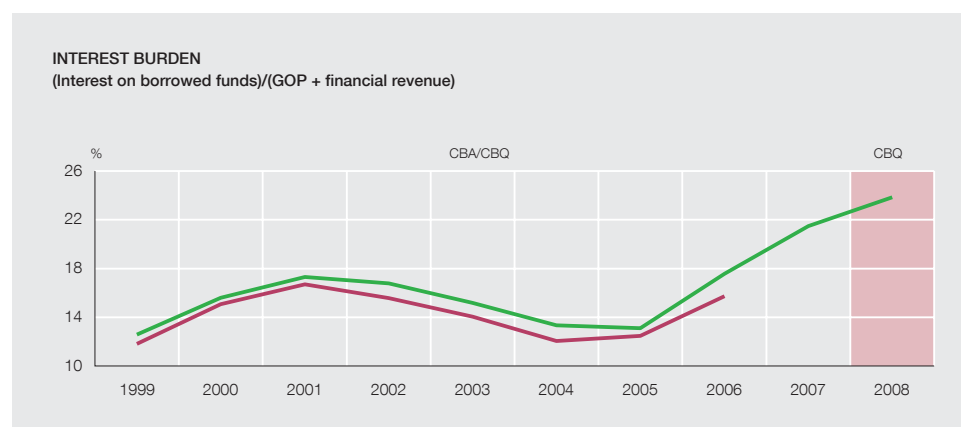
a. After making the adjustments required to connect the time series, 33 firms which reported having comparability problems were included in the study (only two were excluded).

b. The weight of the adjustments is calculated, for the stated variables, both for the firms reporting these impacts due to fair value and as a percentage of the total corporations included in the sample.



	2003	2004	2005	2006	2007	2008
CBA	44.9	44.4	44.5	46.4	49.1	46.8
CBQ	47.0	46.2	46.3	49.0	49.1	46.8

	2003	2004	2005	2006	2007	2008
CBA	195.8	188.4	201.2	241.6	377.4	381.1
CBQ	252.9	242.3	258.5	356.8	377.4	381.1
CBA excl. MGs	165.0	163.0	176.3	206.3	330.4	354.5
CBQ excl. MGs	189.9	191.5	221.1	308.2	330.4	354.5



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
CBA	11.8	15.1	16.7	15.6	14.0	12.0	12.5	15.7	21.5	23.9
CBQ	12.6	15.6	17.3	16.8	15.2	13.3	13.1	17.6	21.5	23.9

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

TABLE 8

	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)		
	2006	07 Q1-Q4	07 Q1-Q2	08 Q1-Q2	2006	07 Q1-Q4	07 Q1-Q2	08 Q1-Q2	2006	07 Q1-Q4	07 Q1-Q2	08 Q1-Q2	2006	07 Q1-Q4	07 Q1-Q2	08 Q1-Q2
Total	9.4	5.2	6.3	0.0	5.3	10.3	4.4	4.2	8.9	8.8	7.6	7.6	4.9	4.3	3.3	2.6
SIZE																
Small	3.5	—	—	—	8.3	—	—	—	6.7	—	—	—	2.6	—	—	—
Medium	11.6	7.7	6.4	-2.7	17.7	2.1	-0.9	-1.5	7.8	7.7	7.7	7.0	3.9	3.3	3.7	2.2
Large	9.3	5.1	6.3	0.1	4.2	10.5	4.6	4.4	9.0	8.9	7.6	7.6	5.0	4.4	3.3	2.6
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	8.6	0.4	-2.1	14.6	2.6	-0.6	-6.0	18.5	9.8	8.9	8.4	9.0	6.2	4.6	4.4	4.6
Industry	8.8	13.0	26.1	-13.2	9.5	5.6	38.3	-31.2	8.9	8.8	9.6	6.5	4.7	4.2	5.5	1.4
Wholesale and retail trade, and repairs	8.3	2.2	5.3	-16.9	11.5	-2.2	3.7	-18.8	11.4	7.0	7.0	5.6	6.8	2.3	2.8	1.4
Transport and communications	3.3	6.1	5.4	-1.1	-4.9	12.2	10.6	-1.8	7.1	12.2	11.7	11.2	3.0	7.8	7.4	6.7

SOURCE: Banco de España.

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

The above table confirms that the increase in financial costs in 2008 H1 was mainly due to the effect of interest rate rises on the interest paid by non-financial corporations, rather than to increased borrowing. Although the recourse to new sources of borrowing did increase (the impact on the increase in financial costs was 10.3%), it did so more moderately than in previous periods (21.9% 2007 and 33.8% in 2006).

As a supplement to this analysis, Chart 4 shows the debt ratios E1 (ratio of interest-bearing borrowing to net assets) and E2 (which measures the repayment capacity of firms by expressing their debt with respect to GVA generated). Both ratios show an improvement in the levels of indebtedness in the year to date. This improvement has its origin in the large firms belonging to multinational groups, since other firms continue to show a slight increase in debt levels, along with decreases in gross value added, as shown by the E2 ratio.

Meanwhile, financial revenue grew strongly in 2008 H1, posting a rate of 40.4%, well above the 16.8% of 2007. This was due mainly to the receipt of substantial dividends from foreign subsidiaries, many of them linked to the oil sector (the rate of change of the dividends received in the period was 50.4%). In any event, the gradual rise in interest rates was also reflected in the increase in interest received by firms, up by 26.5%.

This strong performance of financial revenue offset the increase in financial costs and also enabled ONP to grow by 4.2% in 2008 H1, a slightly lower rate than in the same period of the previous year (4.4%). Thus the overall performance of ONP plus financial costs enabled the CBQ reporting firms to sustain their levels of profitability. Specifically, the ratio which measures the return on investment (R1) stood at 7.6% in 2008 H1, exactly the same as in 2007. The return on equity (R3) was 9.9%, which, nevertheless, was slightly lower than a year earlier (10.8%) as a result of the behaviour of the cost of debt. In short, it can be said that, at a time of deceleration in the activity in Spain of the CBQ sample firms, the performance of financial revenue, and, more specifically, the dividends received by large Spanish multinational-

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)	
		04 Q2 - Q1	05 Q2 - Q1	04 Q2 - Q1	05 Q2 - Q1
Number of corporations		862	721	862	721
Percentage of corporations by profitability bracket	R ≤ 0%	21.8	24.0	27.2	31.0
	0% < R ≤ 5%	20.2	22.1	13.9	14.5
	5% < R ≤ 10%	17.0	17.3	12.4	12.9
	10% < R ≤ 15%	11.3	10.9	9.2	9.3
	15% < R	29.6	25.7	37.3	32.3
MEMORANDUM ITEM: Average return		7.6	7.6	10.8	9.9

SOURCE: Banco de España.

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

als from their investments abroad, allowed profitability to hold up at similar levels to those a year earlier.

Sectoral analysis of the performance of return on investment shows that this ratio improved in the energy sector and was contained in industry (down from 9.6% in 2007 to 6.5% in 2008) and in trade and repairs (down from 7% to 5.6% in those same periods), in connection with their productive activity (see Table 5). Regarding the cost of debt (R.2), this ratio continued to show the same growing trend as in recent years, which took it to 5% in 2008 H1, up 0.7 pp on the previous year. Finally, as a result of the performance of the return on investment (R.1) and the cost of debt (R.2), in 2008 the difference between them decreased to 2.6, which was 0.7 pp less than in 2007 H1, but still positive.

Lastly, most notable in regard to the performance of extraordinary results was the sharp increase in extraordinary revenue in 2008 to date. This was due to the significant capital gains on the sale of shares and other assets linked to large firms, particularly the sale of shares of investees and of electric power stations agreed in the process of acquisition of a major firm in the Spanish electricity sector by a non-resident operator. These capital gains helped to boost exceptionally the growth of final net profit, since in 2008 the rate of change of this surplus was 67.3%, amply exceeding that of the first half of the previous year, when net profit grew by 3%. As a result, net profit as a percentage of GVA amounted to 50.5%, well above the 30.4% recorded in 2007 H1 and an atypical value in the overall quarterly series of this ratio (disregarding this transaction, net profit would have grown by 12% in the first half and would have amounted to 34.5% of GVA). As noted previously, net profit is more volatile than other variables because it includes extraordinary items (by their very nature, these have a highly volatile component which is always atypical and, on occasions, unique and unrepeatable), such as that mentioned above.

18.9.2008.