

RESULTS OF NON-FINANCIAL CORPORATIONS TO 2008 Q4 AND SUMMARY YEAR-END
DATA

Overview¹

The information gathered by the Central Balance Sheet Data Office Quarterly Survey (CBQ) to 2008 Q4 represents the preliminary results of changes in the year as a whole experienced by the aggregate of sample non-financial corporations. These preliminary results will be finalised in November 2009 with the data of corporations which report annually and constitute the Central Balance Sheet Data Office Annual Survey (CBA). The quarterly information provided by reporting non-financial corporations showed a gradual deceleration in the rate of productive activity as 2008 unfolded, turning negative for the year as a whole. Thus, gross value added (GVA), which in 2008 H1 reflected a moderate rise in activity, recorded declines in 2008 Q3 and, especially, in 2008 Q4. For the year as a whole, GVA fell –1.8%, representing a low in the CBQ time series since it began in 1994. This negative performance, which affected practically all sample sectors (except for energy for the reasons discussed below) particularly impacted corporations in the industry and wholesale and retail trade sectors, and is a reflection of the loss of momentum in 2008 in consumption and investment, which was also seen in other alternative sources of information.

The fall in productive activity was accompanied by a slowdown in the growth of personnel costs which increased by 3.9% in 2008, 0.8 pp lower than the related 2007 increase. This deceleration was a result of the moderation in growth of average compensation, mainly due to the impact on this variable of the drop in variable compensation at large firms in the sample and slacker job creation (the rate for the year as a whole decreased from 0.7% in 2007 to 0.4% in 2008). CBQ firms, in line with developments in productive activity, showed a slowing rate of job creation, which became more evident as 2008 progressed, and indeed posted a negative rate of change for Q4 (–1.4%) in the sample total. Although personnel costs grew more moderately, the contraction of productive activity fed through to gross operating profit (GOP) which posted a negative rate of change of –5.9% for 2008, considerably lower than the 5.6% increase in the previous year. This performance was much more accentuated at industrial corporations (where GOP fell 24.3% compared to a rise of 12.9% in 2007) and at wholesale and retail trade firms (where GOP decreased by 17.5%); energy firms, in keeping with growth of their activity, were the only ones whose surplus rose in 2008.

Financial costs and revenue grew less strongly than in 2007, especially revenue which increased 2.3% in 2008, as opposed to 34.6% in 2007. This notable decrease was due to the lower inflow of dividends from foreign subsidiaries, an item whose exceptionally positive performance in 2007, is difficult to maintain under the current conditions of the international economy. Financial costs grew 18.9% in 2008 in comparison with 37.5% in the previous year.

As a result of the combined performance of gross operating profit and financial costs and revenue, ordinary net profit (ONP) recorded a contraction of –15.4% in the year and the level of ratios measuring corporate profitability showed a significant decrease in 2008. Consequently, return on investment stood at 7.9% almost 1 pp lower than in 2007, and return on equity dropped to 10.7%, slightly more than 2 pp below the figure of 12.9% the previous year. The reduction in corporate profitability levels affected all the sectors of activity analysed in the accompanying tables; the comparison of current profitability levels with the historic references

1. The information which serves as a basis for this article is that sent by 737 corporations which, on average, reported their data to the Central Balance Sheet Data Office to 18 March 2009. The GVA generated by this aggregate accounts for 12% of the total GVA of non-financial corporations for the same period.

available in the CBQ series, reveals lows at industrial corporations and wholesale and retail trade corporations, as opposed to energy and transport and communications firms whose returns held at the average of the time series. The ratio which measures financial cost stood at 4.9% for the year as a whole, nearly 0.5 pp above the previous year. The decrease in the profitability ratio and the increase in the ratio which measures financial cost prompted the difference between the two to continue to narrow, as had occurred in previous quarters, to 3.0. This drop was particularly sharp for industrial and wholesale and retail trade corporations.

Finally, there was a significant reduction in extraordinary results in 2008 in comparison with the very high levels of a year earlier. Both extraordinary revenue and expenses fell (-61.9%), as did other extraordinary items, essentially portfolio provisions (-43.8%). It should be taken into account that in 2008 Q4 capital losses were recorded on certain financial investments which, due to their high amount, actually absorbed the capital gains arising in 2008 H1 from asset sales linked to the M&A activity in the electricity sector discussed in previous articles. Due to the foregoing, there was a negative trend in final profit which was similar to, and even slightly stronger than, that in ordinary surpluses. Thus, corporate profits dropped at a rate of -24.0% in 2008, in stark contrast to 12.0% growth in 2007. These developments are also reflected in the ratio between net profit and GVA, which fell from 37.9% in 2007 to 29.3% in 2008, although it still holds at relatively high levels.

In short, the data of CBQ firms show a gradual deterioration of their productive activity in 2008, which prompted strong contractions in all their surpluses, especially in the closing months of the year. Job creation, albeit still positive in terms of the annual average, also lost momentum as the year unfolded, until in 2008 Q4 jobs were destroyed in practically all sample sectors. These developments were accompanied by moderate increases in average compensation related to the drop in variable compensation linked to corporate results. The relative weight of financial costs in firms' profit and loss accounts continued to rise, while financial revenue could not keep up the pace of growth of previous periods. The foregoing led to non-financial corporations experiencing drastic declines in their ordinary surpluses in 2008, which affected their profitability levels and net profits although, given the initial levels involved, they still remained relatively high in 2008.

Activity

According to the information obtained from the firms which make up the CBQ sample, during 2008 business activity experienced a gradual decline which centred on a -1.8% reduction in GVA in comparison with 5.2% growth in the previous year (see Table 1 and Chart 1). The negative trend in activity became more evident as the year progressed; in comparison with 2008 H1, when growth in GVA was still moderate, in 2008 H2, and particularly in 2008 Q4, GVA reflected a sharper and more widespread decline.

In a more detailed sectoral analysis (see Table 2.a), it can be seen that the contraction of activity affected practically all aggregates, except for energy, the only one in which GVA held at a positive rate. Conversely, the industrial sector experienced the highest decreases in GVA in 2008, down -10.5% for the year as a whole, in sharp contrast to growth of 7.3% posted a year earlier. This negative trend is explained by the strong impact on firms in the industrial sector of the adjustment of investment in capital goods and the loss of momentum of industrial activities linked to the construction and car industries. GVA in the wholesale and retail trade sector decreased substantially, turning around from growth of 2.7% in 2007 to -4.0%, for the first time in the available CBQ time series. The turnaround in this case, is the result of the strong slowdown in consumption in 2008. The GVA of firms in the transport and communications sector also performed negatively, with rates of -1.3%, lower than those posted a year earlier (+5.8%). This behaviour is mainly accounted for, aside from the deterioration in consumption, by the

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	2007	2006	2007	06 Q1-Q4/ 05 Q1-Q4	07 Q1-Q4/ 06 Q1-Q4	08 Q1-Q4/ 07 Q1-Q4
Number of corporations		9.255	8.165	829	846	737
Total national coverage		33,5%	30,5%	14,5%	14,4%	12,0%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT (including subsidiaries)	100.0	9.6	7.7	10.3	5.8	3.4
<i>Of which:</i>						
— <i>Net amount of turnover and other operating income</i>	137.7	9.7	5.6	9.8	4.0	4.1
2. INPUTS (including taxes)	69.0	10.3	8.5	12.2	6.1	5.9
<i>Of which:</i>						
— <i>Net purchases</i>	40.6	12.4	7.8	14.2	3.5	5.6
— <i>Other operating costs</i>	28.3	7.7	8.6	5.7	7.8	4.9
S.1. GROSS VALUE ADDED AT FACTOR COST [1 – 2]	31.0	8.0	5.8	6.8	5.2	-1.8
3. Personnel costs	16.1	6.9	6.3	5.3	4.7	3.9
S.2. GROSS OPERATING PROFIT [S.1 – 3]	14.9	9.3	5.3	7.9	5.6	-5.9
4. Financial revenue	4.2	17.6	31.3	13.4	34.6	2.3
5. Financial costs	4.1	34.4	39.2	39.6	37.5	18.9
6. Depreciation and operating provisions	5.5	9.5	-0.3	2.0	0.1	0.2
S.3. ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.6	5.3	6.8	4.9	9.5	-15.4
7. Extraordinary revenue and expenses	4.5	(b)	70.1	(b)	79.5	-61.9
8. Other (net provisioning and income tax)	5.8	46.3	43.0	91.7	60.0	-43.8
S.4. NET PROFIT [S.3 + 7-8]	8.2	18.4	9.2	10.2	12.0	-24.0
NET PROFIT/GVA (S.4/S.1)		24.9	26.4	35.7	37.9	29.3
PROFIT RATIOS						
	Formulas (c)					
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	9.0	8.9	9.3	8.8	7.9
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	4.0	4.8	3.9	4.5	4.9
R.3 Ordinary return on equity (before taxes)	S.3/E	13.2	12.5	14.2	12.9	10.7
R.4 ROI - cost of debt (R.1 – R.2)	R.1-R.2	4.9	4.1	5.4	4.3	3.0

SOURCE: Banco de España.

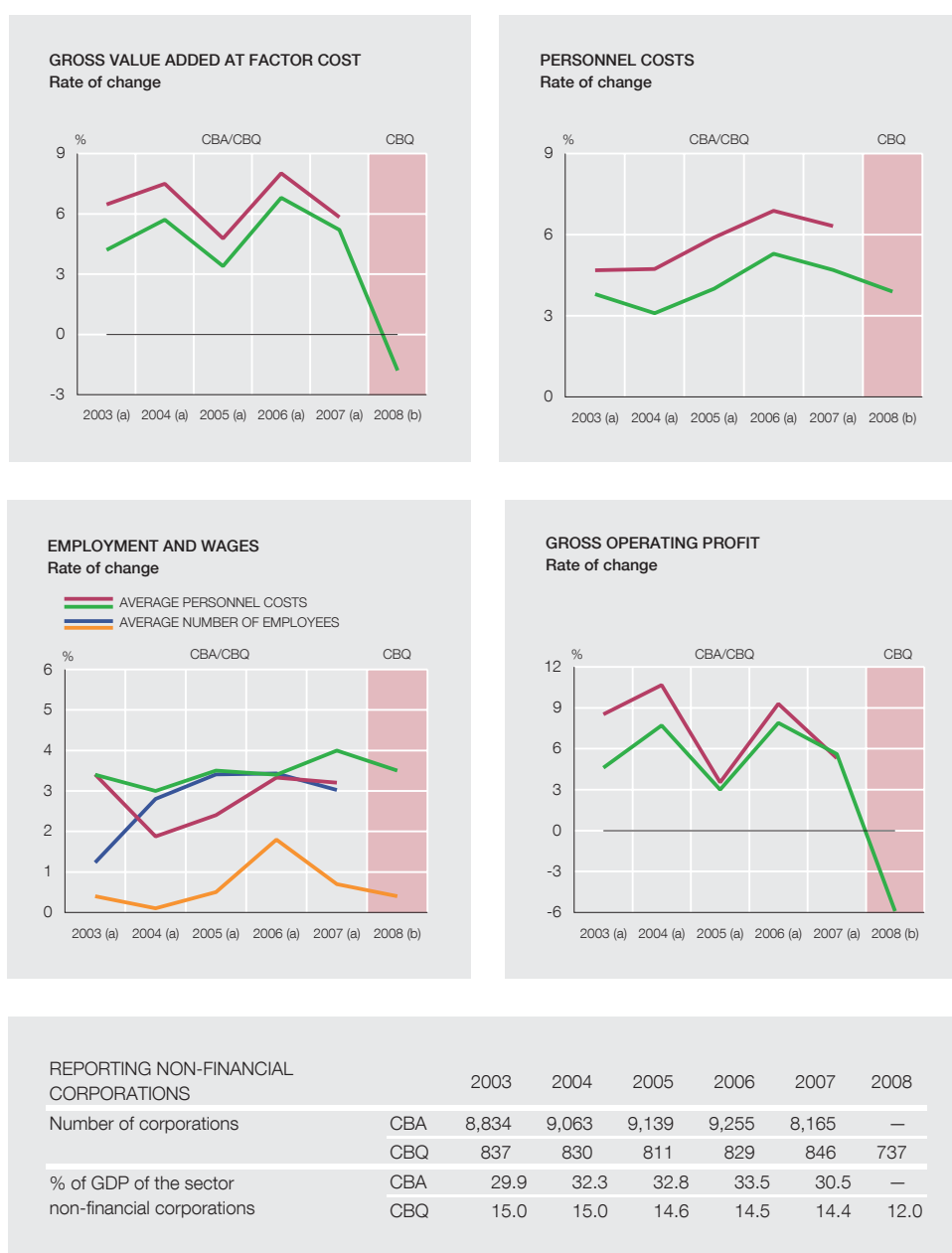
a. All the data in these columns have been calculated as the weighted average of the quarterly data.

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 (which is not specified in the table and is numbered as 5.1) and not commissions or cash discounts.

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

negative impact of high fuel prices during 2008 on transport firms' costs. Lastly, the energy sector stands out as the only one, as discussed above, whose GVA continued to expand in 2008, rising by 4.3%, a higher rate than that recorded in 2007 (2.4%). This increase is due, firstly to a less negative performance in 2008 than in 2007 of companies in the refining sector. These firms, which were affected by volatile crude oil prices, saw their GVA fall by -9.3% in 2008 as a whole (solely due to the strong fall in prices in 2008 Q4), (see Chart 2), recording a fall which was less steep than a year earlier (-17.5%). The second contributing factor in the expansion of energy utilities' activity lies in the electricity, gas and water sub-sector (the other major aggregate of the energy sector), which saw its GVA increase by 6.2%, 0.5 pp down on a year previously. This change was due to the growth, throughout 2008, of firms in the gas sub-sector and, to a lesser degree, those in the electricity sector, against a backdrop of moderate growth in demand for electricity (0.9% for the year as a whole, according to data from Red Eléctrica) and a drop in production costs which benefited from higher rainfall. Lastly, it should be underlined that the external activity of sample firms in 2008 remained slightly expan-



SOURCE: Banco de España.

a. 2003, 2004, 2005, 2006 and 2007 data drawn from corporations reporting to the annual survey (CBA), and average data of the four quarters of each year in relation to the previous year (CBQ).

b. Average of the four quarters of 2008 relative to the same period in 2007.

sive (see Table 3); industrial firms' net external demand (exports less imports) grew strongly in this period (77.5%), mainly due to the containment of imports in 2008.

Lastly, the analysis of the information in Chart 3, on the distribution of CBQ firms based on the performance of their GVA, irrespective of size and sector, indicates that the downturn in productive activity in 2008, has spread to a larger number of firms. Indeed, the chart indicates that the percentage of firms which recorded falls in their GVA during 2008 increased (48.9%, compared with 38.3% of firms which were in this situation the previous year) and that, furthermore, there was a gradual shift in the statistical distribution to more negative values: the percentage



SOURCE: Banco de España.

a. 2003, 2004, 2005, 2006 and 2007 data drawn from corporations reporting to the annual survey (CBA), and average data of the four quarters of each year in relation to the previous year (CBQ).
b. Average for the four quarters of 2008 in relation to the same period in 2007.

of firms whose GVA fell by more than 20% rose from 16.4% in 2007 to 23.7% for 2008 as a whole.

Employment and personnel costs

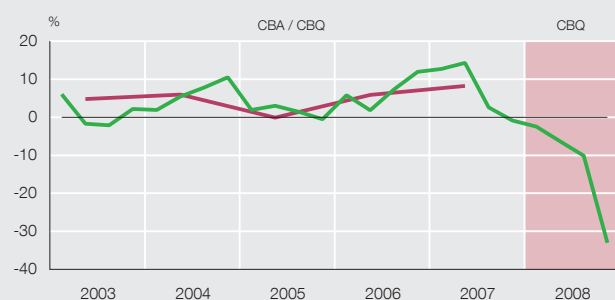
The rise of 3.9% in personnel costs in 2008 was 0.8 pp less than a year earlier, mainly due to the more moderate growth of average compensation in the four quarters of 2008, against a background of progressively worsening employment figures. The workforces of the sample corporations increased slightly in 2008 by 0.4%, 0.3 pp less than a year earlier (0.7%). However, the quarterly profile of the path of this variable shows a progressive deterioration as the year advanced, which gave rise to a decrease of -1.4% in the average number of employees

In 2008, the industrial firms reporting to the CBQ showed a considerable deterioration in their productive activity, evidenced by a decrease in GVA of -10.5% in this aggregate (the largest fall in industrial sector GVA in the whole of the CBQ series) and by a break in the six-year run of uninterrupted growth in the GVA of this aggregate. This loss of dynamism of industrial activity became more marked as the year progressed, also affecting an increasing number of sub-sectors, although, in 2008 as a whole, those most affected were the manufacture of glass, ceramics and metal products (with GVA falls of -23.8%), manufacture of transport equipment (-11.6%) and other manufacturing (-8.9%). The reasons for this fall-off lie mainly in the more sluggish investment in capital goods, the higher energy costs, the impact of the crisis in the construction sector on some related industrial activities and the fall in motor vehicle sales. By contrast, the manufacture of electrical and optical equipment was the only sub-sector to continue to expand in 2008, posting an increase in GVA which was higher than that of the previous year (12.8% compared with 2.8%). Personnel costs nudged up by 2.1%, a slightly lower increase than in 2007 (2.5%), mainly due to more moderate growth in average compensation in this aggregate (3.2% in 2008 as opposed to 3.9% in the

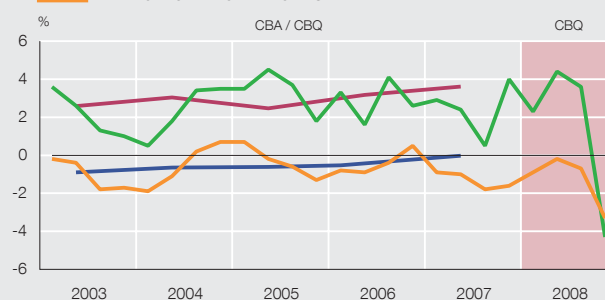
previous year). As also applies for the total sample, the lower variable compensation than in 2007 earned at large industrial firms largely explains the above-mentioned performance. The employment data for this sector remained negative, showing a fall of -1.1%, similar to that of previous years, and a year-on-year trend towards progressively more negative rates, given that in 2008 Q4 the rate at which jobs were destroyed in this aggregate rose to -3.3%. Against this backdrop, there were strong reductions in gross operating profit and ordinary net profit for the year as a whole (-24.3% and -47.6%, respectively), resulting in a highly significant decrease in profitability levels. Thus, in 2008 return on investment stood at 6.2%, 3 pp less than in 2007, while return on equity dropped from 12.8% in 2007 to 7.2% in 2008. The ratio which measures the cost of debt continued to grow to 5.1% (0.6 pp up on 2007) and the spread between the return on investment and the cost of debt continued to narrow to 1.1 in 2008. In short, in 2008 the industrial sector recorded a strong fall-off in its productive activity which resulted in a reduction of its surpluses and profitability levels and a decrease in the average number of employees in this aggregate, a trend which stepped up as the year progressed.

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

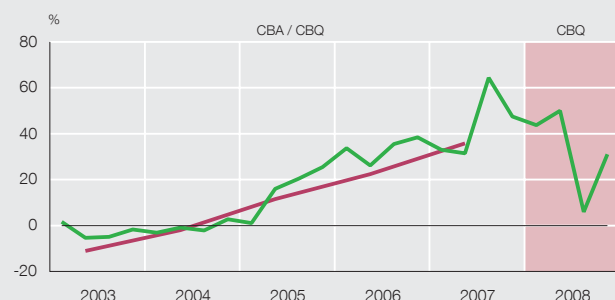
GROSS VALUE ADDED AT FACTOR COST Rate of change



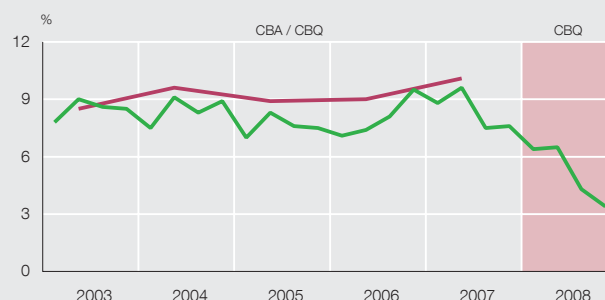
EMPLOYMENT AND WAGES Rate of change



FINANCIAL COSTS Rate of change



RETURN ON INVESTMENT Ratios



REPORTING INDUSTRIAL CORPORATIONS	2003				2004				2005				2006				2007				2008			
Number of corporations	CBA 2,624				2,530				2,475				2,464				2,155				—			
	367	362	354	346	353	343	336	334	325	313	306	298	321	305	292	284	318	306	289	284	289	274	250	178
% of GDP of the sub-sector industrial corporations	CBA 27.1				28.8				28.4				29.6				25.8							
	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	18.0	16.5	17.7	20.3	20.4	16.4	17.1	17.3	16.4	11.9	6.8

SOURCE: Banco de España.

**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)	
	2006	2007	07 Q1-08 Q1- Q4 Q4	07 Q1-08 Q1- Q4 Q4	2006	2007	07 Q1-08 Q1- Q4 Q4	07 Q1-08 Q1- Q4 Q4	2006	2007	07 Q1-08 Q1- Q4 Q4	07 Q1-08 Q1- Q4 Q4	2006	2007	07 Q1-08 Q1- Q4 Q4	07 Q1-08 Q1- Q4 Q4
Total	8.0	5.8	5.2	-1.8	3.4	3.0	0.7	0.4	6.9	6.3	4.7	3.9	3.3	3.2	4.0	3.5
SIZE																
Small	4.0	3.3	—	—	0.1	-0.4	—	—	4.9	4.9	—	—	4.8	5.4	—	—
Medium	8.3	6.1	6.5	-0.4	2.1	1.8	1.5	-1.5	6.5	6.8	5.4	3.1	4.3	4.9	3.8	4.7
Large	8.1	5.9	5.2	-1.8	3.8	3.3	0.6	0.6	7.0	6.3	4.6	4.0	3.1	2.9	4.0	3.4
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	7.4	1.4	2.4	4.3	-1.0	0.2	-0.1	1.8	3.8	5.1	4.1	4.8	4.8	4.9	4.2	2.9
Industry	5.9	8.2	7.3	-10.5	-0.5	0.0	-1.3	-1.1	3.2	3.6	2.5	2.1	3.7	3.6	3.9	3.2
Wholesale and retail trade	7.8	6.1	2.7	-4.0	2.7	3.5	0.4	1.3	7.8	6.6	1.6	4.8	4.9	3.0	1.2	3.5
Transport and communications	3.9	7.0	5.8	-1.3	1.2	1.6	-0.2	-1.1	4.8	5.5	5.4	2.2	3.5	3.8	5.6	3.3

SOURCE: Banco de España.

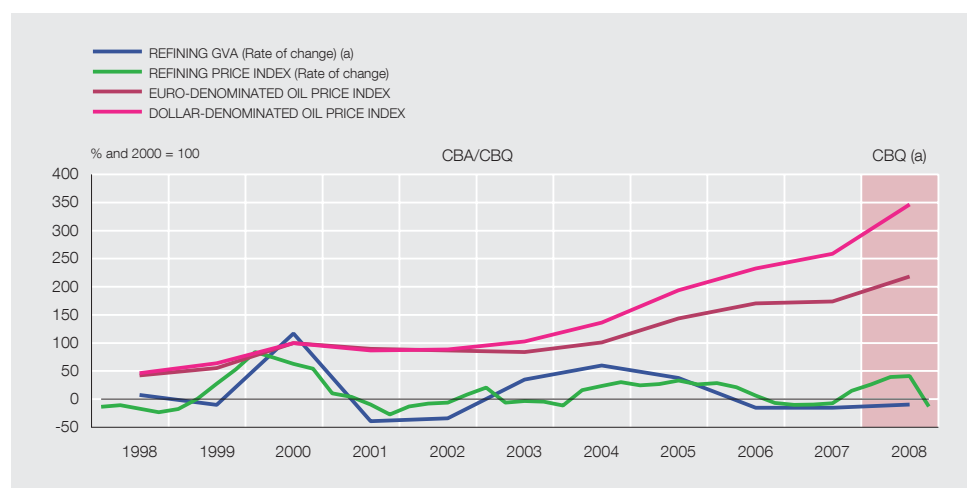
a. All the data in these columns have been calculated as the weighted average of the quarterly data.

EMPLOYMENT AND PERSONNEL COSTS
Details based on changes in staff levels

TABLE 2.B

	TOTAL CBQ CORPORATIONS 2008 Q1 - Q4	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations	737	407	330
PERSONNEL COSTS			
Initial situation 07 Q1-Q4 (€m)	25,763.9	12,779.0	12,984.9
Rate 08 Q1-Q4/ 07 Q1-Q4	3.9	8.8	-0.9
AVERAGE COMPENSATION			
Initial situation 07 Q1-Q4 (€)	45,543.0	45,436.3	45,648.4
Rate 08 Q1-Q4/ 07 Q1-Q4	3.5	3.3	3.7
NUMBER OF EMPLOYEES			
Initial situation 07 Q1-Q4 (000s)	566	281	284
Rate 08 Q1-Q4/ 07 Q1-Q4	0.4	5.3	-4.4
Permanent			
Initial situation 07 Q1-Q4 (000s)	471	229	242
Rate 08 Q1-Q4/ 07 Q1-Q4	0.5	4.1	-2.8
Non-permanent			
Initial situation 07 Q1-Q4 (000s)	95	52	43
Rate 08 Q1-Q4/ 07 Q1-Q4	-0.1	10.9	-13.5

SOURCE: Banco de España.



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

a. The 2008 data relate to the CBQ.

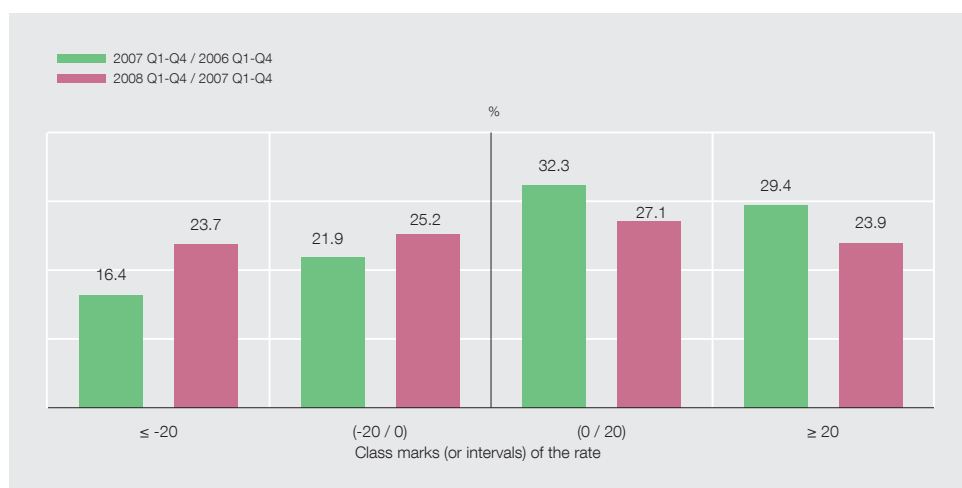
PURCHASES AND TURNOVER OF CORPORATIONS REPORTING DATA ON PURCHASING SOURCES AND SALES DESTINATIONS
Structure and rate of change

TABLE 3

		CBA		CBQ (a)	
		2006	2007	07 Q1-Q4	08 Q1-Q4
Total corporations		8,165	8,165	737	737
Corporations reporting source/destination		8,165	8,165	690	690
Percentage of net purchases according to source	Spain	68.3	67.5	77.2	77.8
	Total abroad	31.7	32.5	22.8	22.2
	EU countries	17.2	18.2	15.7	15.4
	Third countries	14.5	14.3	7.2	6.8
Percentage of net turnover according to destination	Spain	84.4	84.7	91.2	90.4
	Total abroad	15.6	15.3	8.8	9.6
	EU countries	10.3	10.4	6.3	7.0
	Third countries	5.2	4.9	2.5	2.6
Change in net external demand (exports less imports), rate of change	Industry	-10.2	-10.4	1.7	77.5
	Other corporations	-3.9	-7.0	-6.3	20.1

SOURCE: Banco de España.

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



SOURCE: Banco de España.

in Q4, a trend shared by practically all economic sectors. Analysis of employment by type of contract (see Table 2.b) shows that the contraction affected temporary employment most significantly, as evidenced by the falls of 0.1% in the year as a whole and 6.1% in 2008 Q4. Industry and transport and communications were the sectors in which employment performed most negatively in 2008 as a whole, with decreases of -1.1%. In the case of industry, this performance affected practically all its sub-sectors (except for the manufacture of electrical and optical equipment).

The deterioration in transport and communications in 2008 was largely due to the significant staff reductions in recent years in some of the large firms in this sector. By contrast, wholesale and retail trade and energy posted positive employment rates in 2008. In the first case, the average number of employees in wholesale and retail trade grew by 1.3% in the year as a whole. This was despite the negative growth of productive activity as a direct result of long-term decisions on the opening of new shopping centres taken by some hypermarket chains, mainly in the first half of the year. Finally, energy firms saw staff numbers increase by 1.8%, basically due to the expansionary behaviour of oil refining firms, although a positive contribution was also made by the main electric utilities, which in 2008 seem to have concluded the process of adjustment under way during the last few years.

Average compensation in 2008 grew by 3.5%, 0.5 pp less than in the previous year. This containment of wage costs is largely due to the figure for 2008 Q4, a period which saw sharp falls in variable compensation in some large firms compared with the previous year. The nature of this compensation, generally linked to the achievement of certain targets and results by the end of each year, explains this behaviour, whose effects were noticeable in 2008 Q4. Wage behaviour was very similar and uniform across all economic sectors, with increases in wage costs ranging between 2.9% and 3.5% in all cases. Finally, Table 4 shows a rise in the number of firms which lowered their personnel costs (31.1% in 2008, against 27.7% in the previous year) and a significantly higher percentage of firms whose wage costs posted an increase below the inflation rate (up from 46.2% in 2007 to 49.6% 2008), confirming the more moderate behaviour of firms in this area.

Profits, rates of return and debt

The sharp deterioration in productive activity in 2008 progressively passed through to the other ordinary surpluses and, as a result, gross operating profit in this period fell by -5.9%, a

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

TABLE 4

	CBA			CBQ (a)		
	2005	2006	2007	06 Q1-Q4	07 Q1-Q4	08 Q1-Q4
Number of corporations	9,139	9,255	8,165	829	846	737
PERSONNEL COSTS	100	100	100	100	100	100
Falling	26.6	25.5	26.4	27.1	27.7	31.1
Constant or rising	73.4	74.5	73.6	72.9	72.3	68.9
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	30.9	30.9	31.3	39.4	37.4	44.6
Constant or rising	69.1	69.1	68.7	60.6	62.6	55.4
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	42.1	43.6	38.5	49.0	46.2	49.6
Higher or same growth (b)	57.9	56.4	61.5	51.0	53.8	50.4

SOURCE: Banco de España.

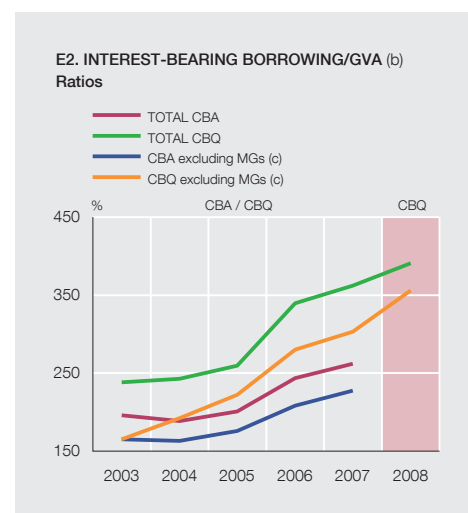
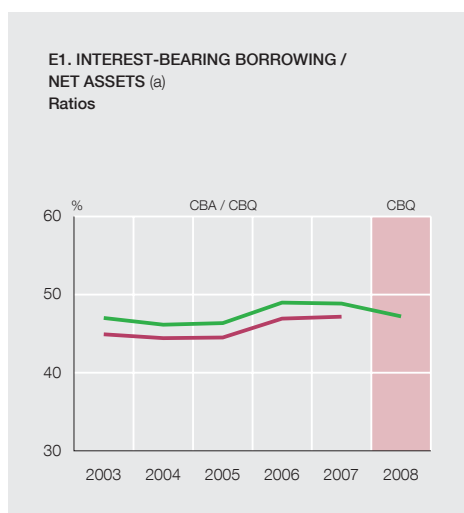
a. Weighted average of the relevant quarters for each column.

b. Year-on-year rate of the CPI in December of the year preceding the reference year.

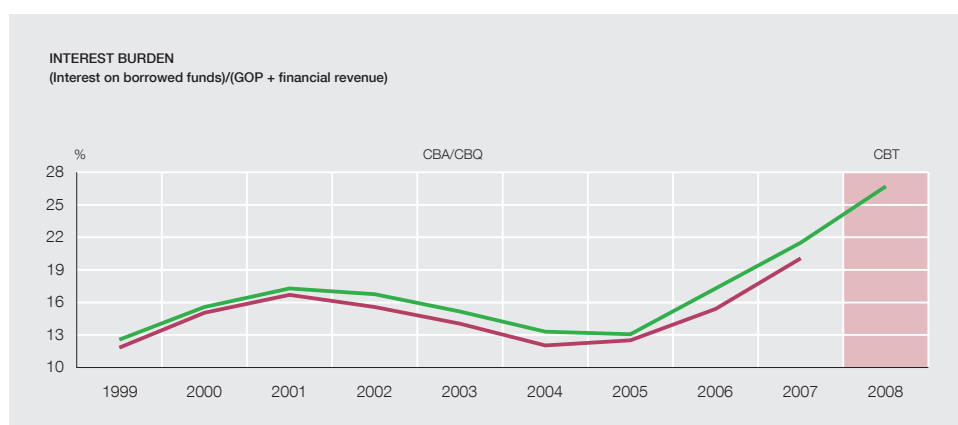
sharp change of trend compared with the increase of 5.6% a year earlier (see Table 5). Financial costs again grew briskly in 2008 (by 18.9%) and gained relative weight in corporate cost structures, so that, at end-2008, they accounted for somewhat more than 7% with respect to production, 2 pp more than a year earlier. Also, the ratio which measures the interest burden (see Chart 4) confirms this trend, showing that the weight of financial costs relative to gross operating profit plus financial revenue (the denominator of this ratio) continued to increase. The 2008 rate, however, reveals a trend toward more moderate growth when compared with that of previous periods (37.5% in 2007 and 39.6% in 2006). The following table gives insight into the factors behind the behaviour of financial costs:

	<u>08 Q1-Q4/07 Q1-Q4</u>
Change in financial costs	18.9%
A. <i>Interest on borrowed funds (1+2)</i>	18.4%
1. Due to the cost (interest rate)	8.7%
2. Due to the amount of interest-bearing debt	9.7%
B. <i>Commissions and cash discounts</i>	0.5%

The above data show that the factors contributing to the growth of financial costs, practically in equal measure, were the increase in interest rates borne by firms in 2008 and the inflow of new external financing, although their impact in both instances has been waning compared with past periods. After several years of rising interest rates, which led the ratio measuring the cost of debt of the sample corporations to hold steady in 2008 at nearly 5%, it can be expected that, as interest rate cuts are passed through to corporate loans, the coming quarters will see a decrease in this cost in firms' profit and loss accounts. Furthermore, the change due to the amount of interest-bearing debt also became progressively less important, since in 2006 it accounted for increases in financial costs of more than 20 pp, while in 2008 it explained an increase of nearly 10 pp, thus confirming the lesser recourse by firms to additional financing. This analysis is completed by the picture offered by the ratios E1 and E2. The first (E1) shows that firms' level of debt has not changed substantially in the last two years, a slight downward trend being observed in 2008. Meanwhile, E2, which approximates the repayment ability of firms by expressing their debt as a proportion of GVA, continued to grow in 2008,



	2003	2004	2005	2006	2007	2008
CBA	195.8	188.4	200.9	243.6	262.2	
CBQ	238.2	242.8	259.4	339.6	362.3	390.7
CBA excl. MGs	165.0	163.0	176.0	208.5	227.6	
CBQ excl. MGs	165.3	192.1	222.3	280.2	303.1	356.2



	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	15.4	20.1	
CBQ	12.6	15.6	17.3	16.8	15.2	13.3	13.1	17.3	21.5	26.7

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.

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)	
	2006	2007	07 Q1-Q4	08 Q1-Q4	2006	2007	07 Q1-Q4	08 Q1-Q4	2006	2007	07 Q1-Q4	08 Q1-Q4	2006	2007	07 Q1-Q4	08 Q1-Q4
Total	9.3	5.3	5.6	-5.9	5.3	6.8	9.5	-15.4	9.0	8.9	8.8	7.9	4.9	4.1	4.3	3.0
SIZE																
Small	2.6	0.7	—	—	7.9	-1.8	—	—	6.8	7.3	—	—	2.7	2.4	—	—
Medium	10.9	5.2	7.9	-4.5	17.3	-2.6	2.4	-0.6	7.6	8.0	7.8	7.7	3.7	3.1	3.4	2.7
Large	9.3	5.4	5.6	-5.9	4.3	7.9	9.7	-15.8	9.1	9.0	8.8	7.9	5.1	4.2	4.3	3.0
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	8.5	0.4	2.0	4.2	2.2	-0.7	1.4	-2.4	9.9	8.7	9.0	8.3	6.2	4.4	4.8	3.6
Industry	9.7	14.2	12.9	-24.3	10.3	13.9	11.5	-47.6	9.0	10.1	9.0	6.2	4.8	4.9	4.5	1.1
Wholesale and retail trade	7.8	5.5	4.2	-17.5	12.5	2.7	-0.8	-11.6	11.3	10.8	7.2	5.4	6.8	5.9	2.5	1.1
Transport and communications	3.2	8.0	6.0	-3.6	-4.1	27.6	12.3	-2.9	7.9	9.9	12.1	11.6	3.9	5.4	7.8	7.0

SOURCE: Banco de España.

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

mainly due to the negative behaviour of gross value added (the denominator of the ratio) in this period.

Financial revenue grew by 2.3% in 2008. This was much less than in the previous year because the interest received had a lower impact on this item and, above all, because of the lesser dividends received from foreign subsidiaries, which were down by -5.3% after the exceptional increase in 2007. The changes described in financial costs and revenue accentuated the downward trend shown by GOP, giving rise to a fall of -15.4% in ONP. As a result, firms' rates of return on investment and equity also decreased significantly in 2008 to stand, in the case of return on investment, at 7.9% (against 8.8% in 2007) and in that of return on equity, at 10.7% (12.9% in 2007), this trend being equally apparent in all economic sectors. In this respect, Table 6, which presents the distribution of firms by level of return, shows a significant increase in the percentage of firms with lower returns. In particular, the segment of firms with a negative return on investment amounted to 27% in 2008, nearly 4 pp more than in the previous year. Meanwhile, the ratio which approximates the cost of borrowing held on its upward trend of recent years to stand at 4.9% (nearly half a percentage point more than in 2007). All this meant that the difference between the return on investment and the cost of debt narrowed to 3.0 in 2008.

Table 1 provides information on extraordinary revenue and expenses, inter alia, in the results (either positive or negative overall²) derived from asset disposals. Analysis of their behaviour in 2008 shows some significant changes which, however, largely offset each other. First, in 2008 there was a sharp decrease in revenue and expenses of this nature (-61.9%) due to the high level reached by this item in 2007 (in which period extraordinary revenue minus extraordinary expenses increased by 79.5%), despite some sizeable gains on financial asset sales in the first

2. In line with the information required under the new Spanish general chart of accounts (PGC-2007), this information is expressed net, which partially limits the study of these items. Nevertheless, analysis of the transactions detected in specific firms allows the reasons for changes in them to be analysed.

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)	
		07 Q1-Q4	08 Q1-Q4	07 Q1-Q4	08 Q1-Q4
Number of corporations		846	737	846	737
Percentage of corporations by profitability bracket	R ≤ 0%	23.3	27.0	28.9	34.1
	0% < R ≤ 5%	19.9	21.7	13.7	14.3
	5% < R ≤ 10%	17.4	16.7	12.8	12.0
	10% < R ≤ 15%	10.6	9.1	8.8	7.9
	15% < R	28.8	25.5	35.8	31.7
MEMORANDUM ITEM: Average return		8.8	7.9	12.9	10.7

SOURCE: Banco de España.

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

half of 2008. These large gains in the first half of 2008 linked to corporate transactions in the electricity sector were offset by others of opposite sign in 2008 Q4 in the real estate and telephony sectors, due to losses arising from impairment of their financial investments. Second, portfolio provisions also decreased substantially in 2008 (-43.8%), again largely attributable to the strong growth of the previous year (60.0%).³ As a result of all this, net profit was down by -24.0%, which was an even sharper fall than that of ONP, and very different from that recorded in 2007, when corporate profits grew by 12.0%. In any event, the aggregate level of net profit of the reporting non-financial corporations remained high, albeit on a downward path. Thus, net profit as a percentage of GVA decreased from 37.9% in 2007 to 29.3% in the current year.

20.3.2009.

3. Table 1 follows the format and terminology used in the 1990 chart of accounts because it includes information from the annual database, with information relating to 2007, to which the new chart of accounts does not yet apply. In November 2009, coinciding with the publication of the annual results for 2008 (first data under the PGC-2007), the structure, details and terminology of Table 1 will be adjusted to those defined in the PGC-2007. As regards losses of value of financial investments, the notion of losses derived from the securities portfolio provision will be replaced by that of impairment losses, to which reference is made in this article.