

RESULTS OF NON-FINANCIAL CORPORATIONS IN 2011 Q2

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Overview¹

The information compiled by the Central Balance Sheet Data Office up to 2011 Q2 reveals a contraction of 0.7% in the gross value added (GVA) of the sample of reporting firms in the first half, relative to the same period of the previous year, which means that the slow-down observed in Q1 intensified. However, it should be noted that this year-on-year rate was affected by the bringing forward of spending decisions by consumers in 2010 Q2, in response to the announcement that VAT was going to be raised on 1 July 2010, which resulted in an extraordinary increase in activity in that period.

Personnel costs grew by 0.3%, after falling by almost 1 pp in the first half of 2010. This was a consequence of a 1% fall in employment, which was offset by an increase of 1.3% in average compensation. The decline in employment is, however, smaller than the 2.1% fall observed a year earlier. By type of contract, it was temporary employment that continued to absorb the impact of workforce reductions, with a decline of 8.7%, while permanent employment was practically unchanged. The rise in average compensation was very similar to that seen in the same period of 2010 (1.2%).

Gross operating profit (GOP) fell by 1.6%, having grown by 13.1% in the same period of 2010. There was an increase in both financial costs (6.6%) and, especially, in financial revenue (23.4%), due to the impact of rising interest rates in recent months and also, in the case of revenue, as a consequence of the higher dividends received, mainly from foreign subsidiaries. The notable growth in this item enabled ordinary net profit (ONP) to grow by 3.5%, which was nonetheless lower than the rate observed a year earlier (8%). This rise in ONP was insufficient to sustain the profit ratios, so that the return on investment fell by 0.3 pp, from its 2010 level, to 5%. This decline affected all sectors, and especially those in which the decline in productive activity was most pronounced, such as wholesale and retail trade and accommodation and food service activities and information and communication. However, this aggregate performance was compatible with a certain shift in the distribution of individual profit ratios towards higher levels, which would suggest that the deterioration in the aggregate data is basically due to the performance of the largest firms. At the same time, the indicator that measures the cost of borrowing for firms rose slightly to 3.5%, up 0.2 pp from a year earlier. As a result, the difference between the return on investment and the cost of debt remained positive, at 1.5%, although that was half a percentage point lower than in 2010.

Finally, there were significant extraordinary losses in the first half of 2011, in comparison with the same period of 2010. The sharp decline, by 70.9%, in the item reflecting gains (losses) from disposals and impairment was notable, owing to the large amount recorded under this heading in the first half of 2010 (the period of comparison), as a consequence of significant capital gains. This meant that net profit actually fell in the first half of 2011, by 18.1%.

¹ This article was prepared on the basis of the information obtained from the 742 firms that reported their quarterly data to the Central Balance Sheet Data Office. This sample of firms accounts for 12.4% of the value added generated by the entire non-financial corporations sector in Spain.

In short, the GVA of the firms reporting to the Central Balance Sheet Data Office contracted slightly in the first half of 2011, against a background of slack domestic spending, which was partially offset by buoyant external demand, although the latter has been losing momentum this year. Employment at these firms continued to decline, albeit at a lower rate than in previous years, while average compensation continued to grow. As a result, and despite the significant growth in financial revenue, the firms did not manage to generate sufficient surpluses to maintain their ordinary net profit, against a background of a slight rise in the cost of borrowing. The uncertainty regarding corporate earnings over the coming quarters is high and has recently increased, as a consequence of the financial market strains and the weakness of growth in some of the more developed economies.

Activity

The GVA of the firms reporting quarterly data to the Central Balance Sheet Data Office contracted by 0.7% in the first half of 2011, relative to the same period in 2010 (see Table 1 and Chart 1), when it grew by 6.1%. The slowdown in activity observed in the Q1 data, thus appears to have intensified in Q2, with a 2% year-on-year fall in GVA. This negative performance occurred against the background of slackness in domestic demand and, especially, in private consumption, which affected some productive sectors, such as wholesale and retail trade and information and communication, more than others. Conversely, external demand remained highly buoyant, leading to an increase in the weight of exports, to 14% of total sales, as against 12.3% a year earlier (see Table 2). That said, it should be noted that the year-on-year rates of change in GVA in the first half of 2011 are affected by the bringing forward of spending decisions by consumers in 2010 Q2, in response to the announcement that VAT was going to be raised on 1 July 2010.

At the sector level there was a worsening in the performance of activity across the board (see Table 3). This worsening was most severe in wholesale and retail trade and accommodation and food service activities and in information and communication, both of which recorded declines in GVA in the first half of 2011. As already mentioned, these sectors were adversely affected by the weakness of private consumption. Thus, the GVA of the firms in the wholesale and retail trade and accommodation and food service activities sector fell by 4.3% in the first six months of 2011, when in 2010 it had increased by 8.3%. In the information and communication sector GVA decreased by 3.5%, partly due to the squeezing of the mark-ups of telecommunications firms, as a result of the strong competition currently existing in this sub-sector. By contrast, GVA increased by 1.6% in energy and by 6.2% in industry, although in both cases these rates were lower than those recorded a year earlier. In energy, the modest rise in GVA basically stemmed from the behaviour of electricity, gas and water supply companies, whose GVA grew by 1.8%, although this was lower than the rate a year earlier (of 10%). The GVA of oil refining companies (the other large energy sub-sector) decreased by 2.6%, owing to the reductions in their mark-ups, especially in Q2, against a background in which oil prices remained above their 2010 levels (see Chart 2). GVA in industry rose by 6.2%, although this was lower than the rate in the first half of 2010 (18.2%). The growth in industrial activity is largely explained by the momentum of exports which, as already mentioned, remained highly buoyant in the first half of the year. Within this sector, the highest increases in GVA were recorded in transport equipment (18.5%), mineral and metal products (7.2%) and chemicals and chemical products (5.8%). Finally, there was a 1.3% fall in the GVA of the aggregate that covers the rest of the firms, as compared with an increase of 5.1% in 2010.

Lastly, the data in Chart 3 show that the lower growth of GVA was basically concentrated in the upper part of the distribution of firms based on the growth of this variable,

PROFIT AND LOSS ACCOUNT. PROFIT RATIOS

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

TABLE 1

	CBA Structure	CBA		CBQ (a)		
	2009	2008	2009	2010 Q1-Q4/ 2009 Q1-Q4	2010 Q1-Q2/ 2009 Q1-Q2	2011 Q1-Q4/ 2010 Q1-Q4
DATABASES						
Number of corporations		9,639	9,626	801	830	742
Total national coverage		31.6%	30.4%	13.1%	13.9%	12.4%
PROFIT AND LOSS ACCOUNT						
1 VALUE OF OUTPUT (including subsidies)	100.0	-0.1	-13.3	8.2	11.5	11.1
<i>Of which:</i>						
<i>Net amount of turnover and other operating income</i>	147.1	1.3	-13.6	9.2	12.9	12.4
2 INPUTS (including taxes)	65.0	1.2	-16.0	11.0	14.7	17.3
<i>Of which:</i>						
<i>Net purchases</i>	89.1	0.8	-19.0	15.6	22.4	25.1
<i>Other operating costs</i>	22.7	2.2	-6.6	8.6	7.7	0.5
S.1 GROSS VALUE ADDED AT FACTOR COST [1 - 2]	35.0	-2.7	-7.7	3.1	6.1	-0.7
3 Personnel costs	21.3	3.9	-3.4	-1.3	-0.9	0.3
S.2 GROSS OPERATING PROFIT [S.1 - 3]	13.7	-10.1	-13.7	7.4	13.1	-1.6
4 Financial revenue	5.0	8.2	-17.1	-4.3	-15.5	23.4
5 Financial costs	4.3	13.7	-29.2	5.1	-2.3	6.6
6 Depreciation and operating provisions	6.3	7.5	-5.0	4.3	4.5	4.2
S.3 ORDINARY NET PROFIT [S.2 + 4 - 5 - 6]	8.0	-20.9	-11.9	3.0	8.0	3.5
7 Capital gains and extraordinary revenue (b)	1.6	—	—	—	44.0	-70.9
7' As a percentage of GVA (7 / S.1)		-6.7	4.6	-2.1	13.1	4.0
8 Changes in fair value and other gains (losses) (b)	-1.8	—	-3.0	59.5	—	4.4
8' As a percentage of GVA (8/ S.1)		-4.3	-5.0	-3.3	-2.1	-1.9
9 Other (net provisioning and income tax)	0.9	-66.5	39.9	22.8	52.0	-19.8
S.4 NET PROFIT [S.3 + 7 + 8 - 9]	7.0	-56.8	50.2	-9.8	6.5	-18.1
S. 4' As a percentage of GVA (S.4 / S.1)		12.4	20.0	24.5	36.5	30.1
NET PROFIT/GVA (S.4/S.1)	Formulas (c)					
R.1 Return on investment (before taxes)	(S.3 + 5.1) / AN	7.7	6.2	6.2	5.3	5.0
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1 / RAC	5.2	3.6	3.4	3.3	3.5
R.3 Ordinary return on equity (before taxes)	S.3 / PN	9.9	8.6	8.7	7.1	6.3
R.4 ROI - cost of debt (R.1 - R.2)	R.1 - R.2	2.5	2.6	2.8	2.0	1.5

SOURCE: Banco de España.

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

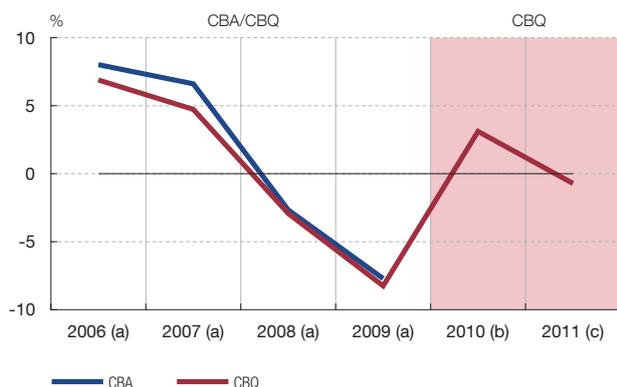
b New P&L headings resulting from application of the new General Chart of Accounts (PGC 2007).

c NA = Net assets (net of non-interest-bearing borrowing); NW = Net worth; IBB = Interest-bearing borrowing; NA = NW + IBB. The financial costs in the numerators of ratios R.1 y R.2 only include the portion of financial costs that is interest on borrowed funds (5.1) and not other financial costs (5.2).

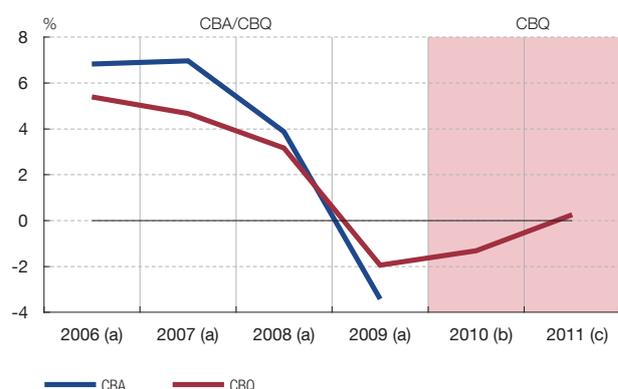
NOTE: In calculating rates, internal accounting movements have been edited out of items 4, 5, 7 and 8.

which includes the companies whose activity is most buoyant. Thus, the 75th percentile (which indicates the level of growth of GVA below which the GVA growth of 75% of the sample of firms lies) stood at 16.5% in the first half of 2011, somewhat more than 4 pp below the level a year earlier. By contrast, in the lower part of the distribution there was a slight improvement (the 25th percentile rose from -14.5% to -13.8%). Finally, the contraction in GVA at the aggregate level was compatible with positive median growth (1.8%), although this was lower than the median rate in the same period of 2010 (2.4%).

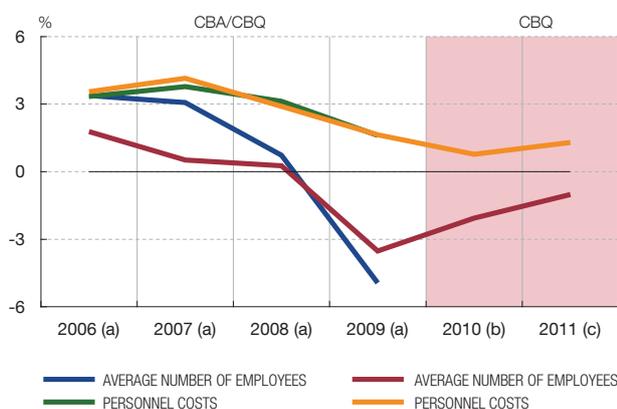
GROSS VALUE ADDED AT FACTOR COST
Rate of change



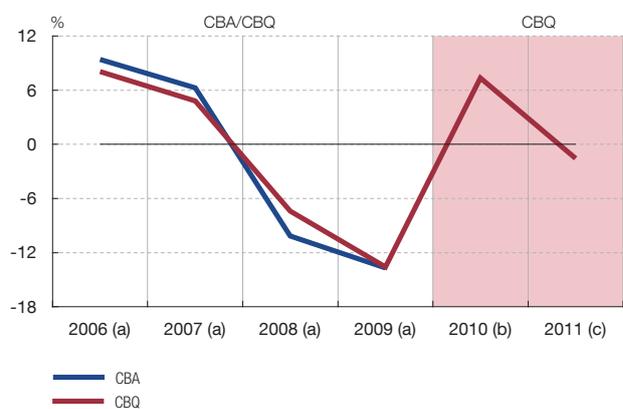
PERSONNEL COSTS
Rate of change



EMPLOYMENT AND WAGES
Rate of change



GROSS OPERATING PROFIT
Rate of change



NON-FINANCIAL CORPORATIONS		2006	2007	2008	2009	2010	2011
Number of corporations	CBA	9,276	9,321	9,639	9,626	—	—
	CBQ	830	849	816	805	801	742
% of GDP of the sector non-financial corporations	CBA	33.5	33.9	31.6	30.4	—	—
	CBQ	14.6	14.3	13.1	12.8	13.1	12.4

SOURCE: Banco de España.

- a 2006, 2007, 2008 and 2009 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 2010 relative to the same period in 2009.
c Data up to 2011 Q2 vis-à-vis the same period in 2010.

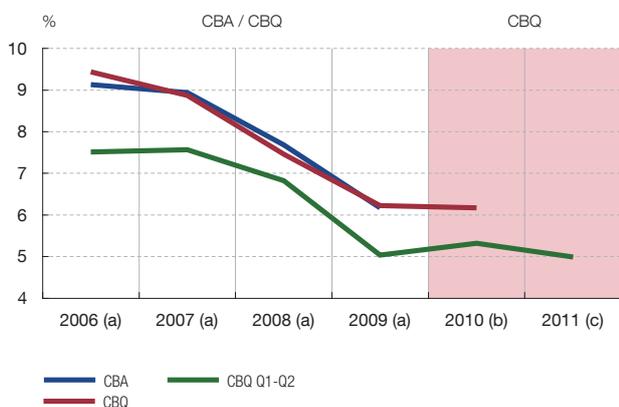
FINANCIAL COSTS
Rate of change



ORDINARY NET PROFIT
Rate of change



RETURN ON INVESTMENT (R.1)
Ratios



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



NON-FINANCIAL CORPORATIONS

		2006	2007	2008	2009	2010
Number of corporations	CBA	9,276	9,321	9,639	9,626	—
	CBQ	830	849	816	805	801
% of GDP of the sector non-financial corporations	CBA	33.5	33.9	31.6	30.4	—
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- c Data up to 2011 Q2 vis-à-vis the same period in 2010.

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

TABLE 2

		CBQ (a)		
		CBA	2010 Q1-Q2	2011 Q1-Q2
Total corporations		9,626	742	742
Corporations reporting source/destination		9,626	708	708
Percentage of net purchases according to source	Spain	68.9	81.1	81.8
	Total abroad	31.1	18.9	18.2
	EU countries	16.7	14.2	13.8
	Third countries	14.3	4.7	4.3
Percentage of net turnover according to destination	Spain	85.0	87.7	86.1
	Total abroad	15.0	12.3	13.9
	EU countries	10.0	8.6	10.2
	Third countries	5.0	3.7	3.7
Change in net external demand (exports less imports), rate of change	Industry	21.2	-44.7	69.1
	Other corporations	39.3	-3.5	86.7

SOURCE: Banco de España.

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

**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 3

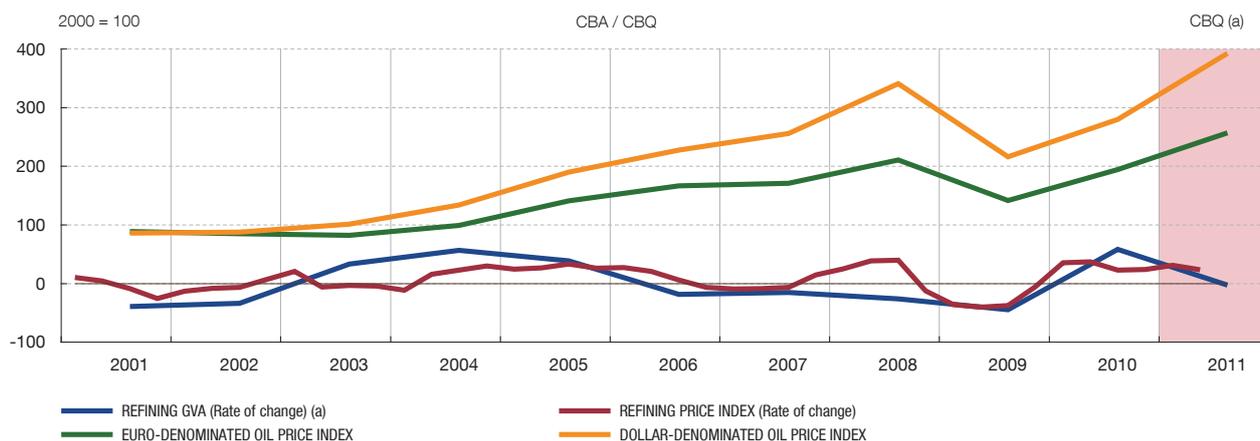
	Gross value added at factor cost				Employees (average for period)				Personnel costs				Compensation per employee			
	CBA		CBQ (a)		CBA		CBQ (a)		CBA		CBQ (a)		CBA		CBQ (a)	
	2009	2010 Q1-Q4	2010 Q1-Q2	2011 Q1-Q2	2009	2010 Q1-Q4	2010 Q1-Q2	2011 Q1-Q2	2009	2010 Q1-Q4	2010 Q1-Q2	2011 Q1-Q2	2009	2010 Q1-Q4	2010 Q1-Q2	2011 Q1-Q2
TOTAL	-7.7	3.1	6.1	-0.7	-4.9	-2.1	-2.1	-1.0	-3.4	-1.3	-0.9	0.3	1.6	0.8	1.2	1.3
SIZE:																
Small	-11.4	—	—	—	-7.2	—	—	—	-6.2	—	—	—	1.0	—	—	—
Medium	-8.9	3.6	3.9	7.1	-5.9	-3.4	-4.0	-0.9	-4.2	-1.5	-2.3	1.1	1.8	1.9	1.7	2.0
Large	-7.5	3.1	6.2	-1.0	-4.8	-2.0	-2.0	-1.0	-3.2	-1.3	-0.9	0.2	1.6	0.7	1.1	1.3
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Energy	-6.3	7.6	11.9	1.6	-1.9	-2.1	-2.2	-1.5	0.8	-0.3	0.2	0.2	2.8	1.8	2.4	1.8
Industry	-16.1	18.5	18.2	6.2	-7.1	-2.7	-3.3	0.1	-6.8	-1.2	-1.4	3.1	0.3	1.6	1.9	2.9
Wholesale & retail trade & accommodation & food service activities	-6.3	3.2	8.3	-4.3	-5.1	-0.8	-2.4	1.8	-3.8	0.2	-0.9	2.5	1.3	1.0	1.6	0.6
Information and communication	-4.6	-5.6	-5.1	-3.5	-3.0	-1.8	-2.1	-0.3	-1.1	0.4	-0.1	2.7	1.9	2.3	2.0	3.0
Other activities	-4.6	1.6	5.1	-1.3	-4.6	-2.8	-1.5	-3.4	-2.5	-2.8	-1.3	-2.6	2.2	0.0	0.2	0.8

SOURCE: Banco de España.

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

IMPACT OF OIL PRICES ON THE REFINING SECTOR

CHART 2

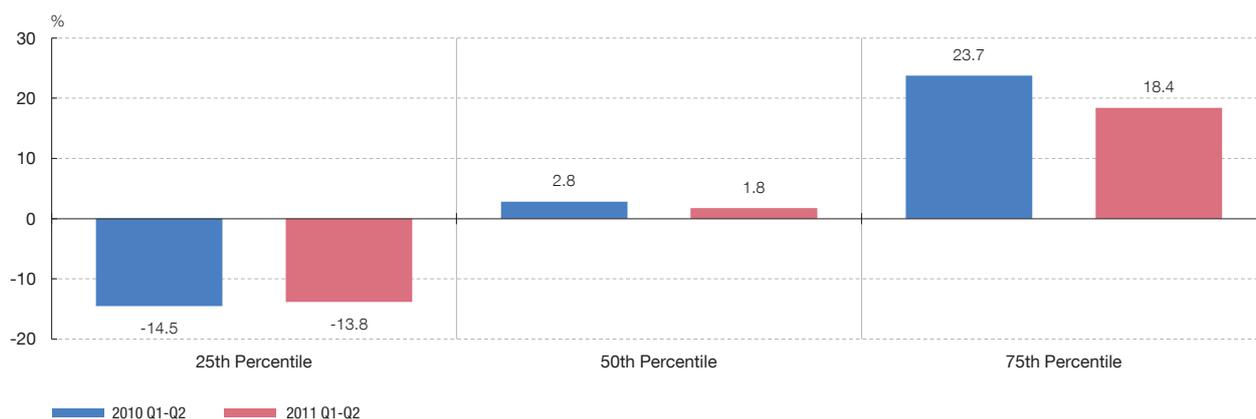


SOURCES: Banco de España and Ministerio de Industria, Turismo y Comercio (monthly report on prices).

a 2011 data relate to the CBQ.

PERCENTILES OF THE DISTRIBUTION OF CORPORATIONS BY RATE OF CHANGE IN GVA

CHART 3



SOURCE: Banco de España.

Employment and personnel costs

Personnel costs grew in the first half of 2011 (by 0.3% year-on-year), after falling by 0.9% a year earlier. This was a consequence of the increase in average compensation to June, of 1.3%, which was partly offset by the 1% decline in employment in the same period.

In fact, during the first six months of 2011 employment in the CBQ sample of firms continued to decline, for the third consecutive year, although the year-on-year growth rate of -1% (see Table 3) was less negative than in the two preceding years (-3.4% and -2.1%, respectively). By type of contract, once again the adjustment was basically concentrated in temporary employment, with falls of almost 9%, while permanent employment barely changed (rising by 0.2%; see Table 4). The sector breakdown shows an improvement in all sectors with respect to the trends observed in 2010, except in the one that includes other activities, the only one in which the data for the first half of 2011 (fall of 3.6%) were worse than in the same period of the preceding year (decline of 1.5%), which is largely explained by the poor performance of the construction firms included in this group. Among the other

EMPLOYMENT AND PERSONNEL COSTS
Details based on changes in staff levels

TABLE 4

	Total CBQ corporations 2011 Q1 - Q2	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
NUMBER OF CORPORATIONS	742	373	369
PERSONNEL COSTS			
Initial situation 2010 Q1-Q2 (€m)	14,991.4	7,194.0	7,797.3
Rate 2011 Q1-Q2/ 2010 Q1-Q2	0.3	4.6	-3.8
AVERAGE COMPENSATION			
Initial situation 2010 Q1-Q2 (€)	22,423.3	21,249.8	23,631.2
Rate 2011 Q1-Q2/ 2010 Q1-Q2	1.3	0.1	3.1
NUMBER OF EMPLOYEES			
Initial situation 2010 Q1-Q2 (000s)	669	339	330
Rate 2011 Q1-Q2/ 2010 Q1-Q2	-1.0	4.5	-6.7
Permanent			
Initial situation 2010 Q1-Q2 (000s)	577	294	283
Rate 2011 Q1-Q2/ 2010 Q1-Q2	0.2	3.9	-3.7
Non-permanent			
Initial situation 2010 Q1-Q2 (000s)	92	45	47
Rate 2011 Q1-Q2/ 2010 Q1-Q2	-8.7	8.3	-24.8

SOURCE: Banco de España.

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

TABLE 5

	CBA		CBQ (a)			
	2008	2009	2009 Q1 - Q4	2010 Q1 - Q4	2010 Q1 - Q2	2011 Q1 - Q2
NUMBER OF CORPORATIONS	9,639	9,626	805	801	830	742
PERSONNEL COSTS	100	100	100	100	100	100
Falling	32.1	57.4	57.4	49.9	52.1	48.3
Constant or rising	67.9	42.6	42.6	50.1	47.9	51.7
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	42.1	54.5	62.6	55.8	57.2	53.5
Constant or rising	57.9	45.5	37.4	44.2	42.8	46.5

SOURCE: Banco de España.

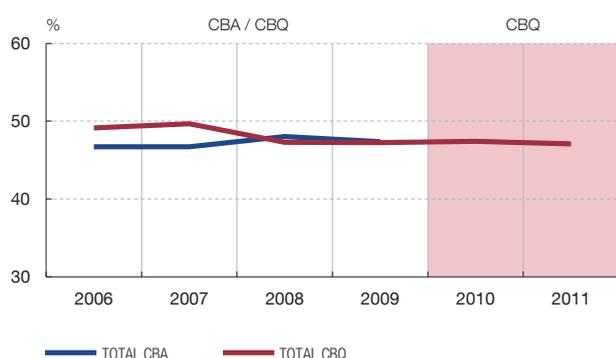
a Weighted average of the relevant quarters for each column.

sectors, wholesale and retail trade and accommodation and food service activities stands out as the one with the highest employment growth rate (1.8%), as against a fall of 2.4% in the first half of 2010. The change in employment in industrial companies was virtually zero (0.1%), this being the first time since 2005 that employment did not decline in this sector in the first half of the year. In energy and in information and communication the number of workers decreased by 1.6% and 0.3%, respectively, these falls being more moderate than those recorded a year earlier. Finally, the data in Table 5 show that, in the first half of 2011, in most of the firms of the sample (53.3%) workforce adjustments con-

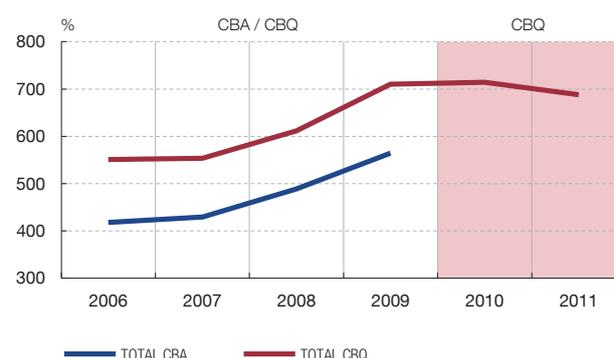
DEBT RATIOS

CHART 4

E1. INTEREST-BEARING BORROWING / NET ASSETS (a)
Ratios



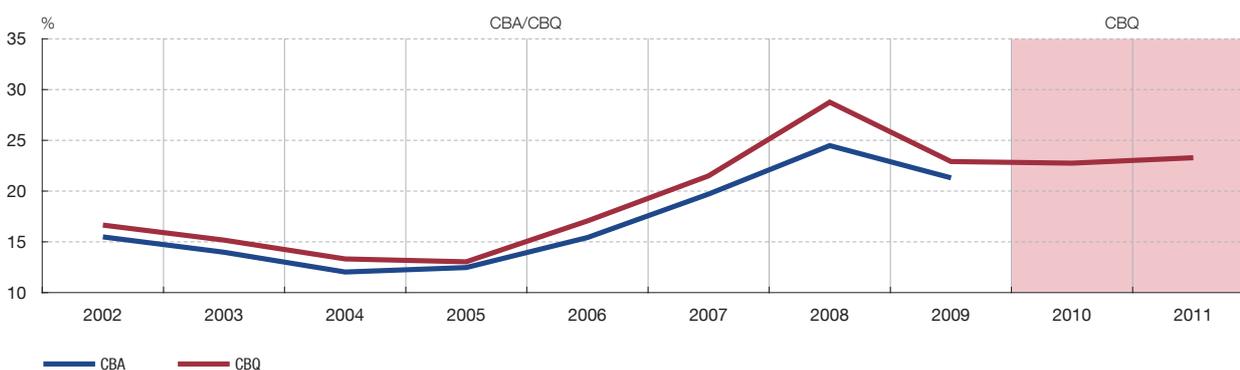
E2. INTEREST-BEARING BORROWING / (GOP+FR) (b)
Ratios



	2006	2007	2008	2009	2010	2011
CBA	46.7	46.7	48.0	47.4	47.4	47.1
CBQ	49.1	49.7	47.3	47.3	47.4	47.1

	2006	2007	2008	2009	2010	2011
CBA	418.0	429.4	488.9	564.3	714.2	687.8
CBQ	551.0	553.8	611.5	710.4	714.2	687.8

INTEREST BURDEN
(Interest on borrowed funds) / (GOP + FR)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CBA	15.5	14.0	12.0	12.5	15.4	19.7	24.5	21.3	22.7	23.3
CBQ	16.7	15.2	13.3	13.0	17.1	21.5	28.7	22.9	22.7	23.3

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).

tinued to take place. However, this percentage is almost 4 pp lower than in the same period of 2010.

Average compensation grew by 1.3%, a very similar rate to that recorded in the first half of 2010 (1.2%), although it was 0.5 pp higher than the average increase recorded for 2010 as a whole. Across sectors developments were mixed, the increases being most pronounced in industry and in information and communication (2.9% and 3%, respectively). In other sectors behaviour was less expansionary, with average growth of around 2% in energy and barely 0.5% in the wholesale and retail trade. Finally, as can be seen in Table 4, wage costs per employee grew less fast in firms that created employment (0.2%) than

**GROSS OPERATING PROFIT, ORDINARY NET PROFIT, RETURN ON INVESTMENT AND ROI-COST OF DEBT (R.1 – R.2). TABLE 6
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)	
	2009	2010 Q1-Q4	2010 Q1-Q2	2011 Q1-Q2	2009	2010 Q1-Q4	2010 Q1-Q2	2011 Q1-Q2	2009	2010 Q1-Q4	2010 Q1-Q2	2011 Q1-Q2	2009	2010 Q1-Q4	2010 Q1-Q2	2011 Q1-Q2
TOTAL	-13.7	7.4	13.1	-1.6	-11.9	3.0	8.0	3.5	6.2	6.2	5.3	5.0	2.6	2.8	2.0	1.5
SIZE:																
Small	-24.0	—	—	—	-42.9	—	—	—	3.7	—	—	—	-0.9	—	—	—
Medium	-17.2	12.2	15.3	16.0	-22.6	31.2	26.0	35.7	4.7	5.6	4.9	6.6	0.9	2.5	2.1	3.7
Large	-13.2	7.2	13.1	-2.0	-10.7	2.4	7.7	2.7	6.3	6.2	5.3	5.0	2.7	2.8	2.0	1.5
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Energy	-9.6	10.0	15.5	2.0	-9.6	-5.0	-5.3	1.4	6.9	6.3	5.6	5.5	3.3	3.1	2.3	2.2
Industry	-30.5	76.9	77.9	12.1	-52.7	149.1	-	90.9	3.8	4.6	4.0	3.3	0.2	0.7	0.3	-0.7
Wholesale & retail trade & accommodation & food service activities	-10.6	8.9	27.6	-15.5	-3.7	16.2	68.1	-17.7	7.0	5.7	6.1	5.0	3.3	2.3	2.9	1.5
Information & communication	-6.5	-7.5	-6.8	-5.9	-13.3	-11.0	-9.8	-8.2	20.4	27.5	27.6	25.3	15.6	22.8	22.7	20.2
Other activities	-10.3	12.4	22.1	1.9	31.5	23.5	32.4	32.7	5.2	5.1	3.9	3.7	1.8	1.8	0.7	0.2

SOURCE: Banco de España.

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

in those that destroyed jobs (3.1%), a phenomenon that has also been detected in previous years.

Profits, rates of return and debt

The slight contraction in productive activity in the first half of 2011 fed through to GOP, meaning that this latter variable also declined (by 1.6%) in this period, a development in contrast, however, to the growth of 13.1% recorded the previous year.

	<u>2011 Q1-Q2 / 2010 Q1-Q2</u>
Change in financial costs	+6.6%
A. <i>Interest on borrowed funds</i>	+6.9%
1 Due to the cost (interest rate)	+6.2%
2 Due to the amount of interest-bearing debt	+0.7%
B. Other financial costs	-0.3%

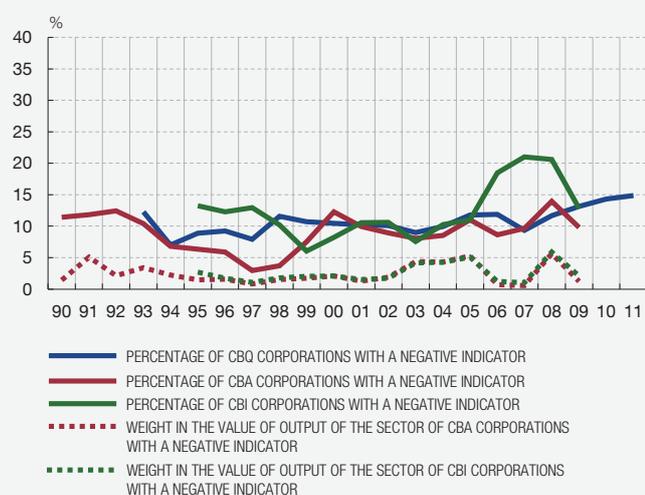
In this setting, financial costs grew by 6.6%. As can be seen in the accompanying table, this increase arose essentially from the rise in the average cost of financing, which climbed to 3.5% (0.2 pp up on a year earlier). The impact associated with changes in debt has been virtually zero since, against a background of less dynamic investment (which contracted by 12% year-on-year), the resort to new borrowed funds by corporations in the sample scarcely increased. Along with the stability of the size of balance sheets, this led to the virtually unchanged maintenance of the debt/net assets ratio (E1), while the increase in GOP plus financial revenue (the denominator of the E2 ratio) allowed for a slight improvement in the ability to repay this debt (see Chart 4). Nonetheless, as a result of the growing profile of the cost of funds, the proportion of income earmarked for interest payments increased somewhat.

The use of the Central Balance Sheet Data Office's (CB) individual data provides for the extension and deepening of analyses based on aggregate variables. Thus, for instance, identifying the number of corporations that are in a less favourable financial position is a valuable source of information, especially in periods of economic crisis. One useful indicator in this respect is that which measures the percentage of companies whose financial costs exceed the profit generated by ordinary activity (gross operating profit plus financial revenue).

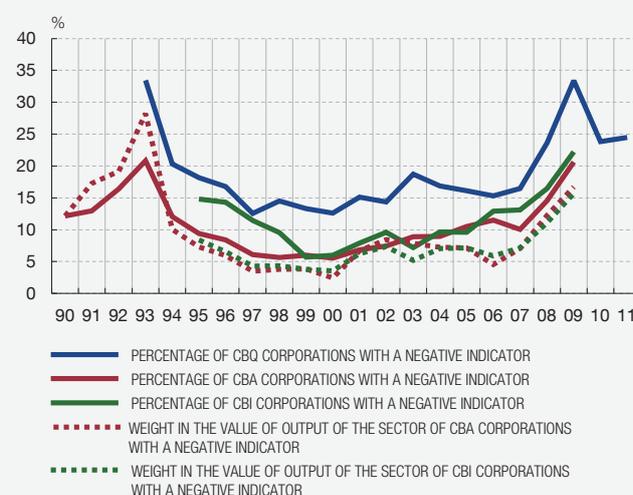
The accompanying panels show developments in this indicator for the four sectors best represented in the CB (energy, industry, the wholesale and retail trade and accommodation and food service activities, and communications). More specifically, the series presented have been generated drawing on three complementary approaches. First, use has been made of the so-called CBI, the result of merging the Central Balance Sheet Data Office Annual Survey (CBA) with information from the filings by companies with the Mercantile Registers (CBB). The CBA includes data from the compa-

CORPORATIONS IN A LESS FAVOURABLE FINANCIAL POSITION (a)

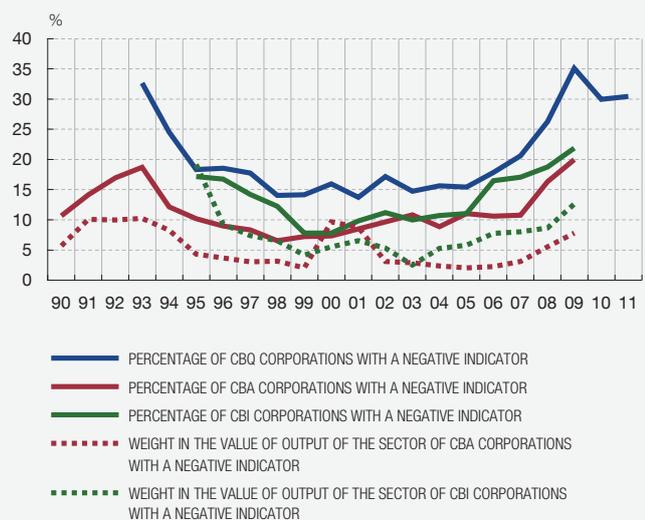
1 ENERGY



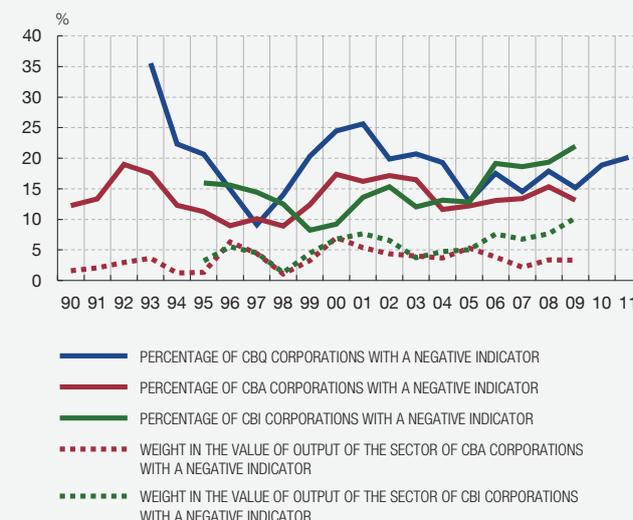
2 INDUSTRY



3 WHOLESALE AND RETAIL TRADE AND ACCOMMODATION AND FOOD SERVICE ACTIVITIES



4 INFORMATION AND COMMUNICATIONS



SOURCE: Banco de España.

a Corporations whose indicator (GOP - Financial revenue - Financial costs) is negative. The CBQ series have been calculated as an average of the quarterly data of each year, except for 2011, in which the average of the last four quarters (to 2011 Q2) was calculated.

nies that report voluntarily to the CB annually and contains around 9,000 records per year, with a certain bias towards large and medium-sized corporations. The CBB has an average volume of more than 600,000 companies, mostly small and medium-sized. Accordingly, the advantage of the CBI is its high level of representativeness, which confers great analytical value upon it. However, it is not possible with the CBI to make comparisons with previous cycles, since information on a significant number of companies has only been available since 1995. Consequently, the indicator has also been constructed drawing, exclusively, on the CBA, which allows analysts to go back to the early 1990s. In both cases, nonetheless, the latest observations refer to 2009. Therefore, in order to assess developments since that date, the indicator finally considered is that obtained from the quarterly CB survey (CBQ) which, although it contains a smaller number of - predominantly large - corporations (around 900 at most), allows data up to 2011 Q2 to be used.

As can be seen in the accompanying panels, in the three samples analysed the indicator constructed as the percentage of companies in which financial costs exceed the profits generated by ordinary activity shows a clear cyclical behaviour, which is particularly marked in the industrial sector and in the wholesale and retail trade and accommodation and food service activities sector. In line with this dynamic, it is detected how, during the recent crisis, the downturn in the financial position of the companies has been most intense in these two branches, which is in response to the fact that their activity has been more affected by the change in cycle, as suggested by the strong slowdown in their gross operating profit (GOP) in 2008 and 2009. The reduction in interest rates during this latter year (with the subsequent relief in financial costs) did not suffice to offset the impact of the contraction in GOP in that year. Thus, in 2009 the variable analysed reached similar levels to the peaks recorded during the 1992-1993 recession.

At the corporations in the energy and information and communications branches, the indicator rose to a lesser extent during 2008 and 2009. That reflects the less unfavourable performance of the GOP during this period, which in 2009 even saw the energy sector undergo some improvement associated with the positive impact that the decline in interest rates had on

these companies, which have comparatively high levels of debt.

The panels likewise depict two broken lines which show the weight, in each of the sectors considered, in terms of the value of output, of the CBA and CBI corporations whose financial costs exceed the profit generated by ordinary activity. It is first detected that, throughout the period analysed, these series are generally below those relating to the number of companies in a situation of greater vulnerability, indicating that the smallest companies tend to show a comparatively more unfavourable position than that of the bigger corporations. Further, it can be seen how, during the crisis in recent years, and unlike the case with the indicator calculated as the percentage of corporations in a less favourable financial position, the variable expressed in terms of the value of output has not managed to reach the peaks recorded during the 1992-1993 recession in the two productive branches most adversely affected by the change in economic circumstances (industry, and wholesale and retail trade and accommodation and food service activities). This suggests that, in the most recent period, the downturn has affected the biggest corporations to a lesser extent compared with what was observed in the early 1990s.

The latest CBQ data show a clear improvement in the financial position of companies in those sectors most affected by the crisis (industry, and wholesale and retail trade and accommodation and food service activities) during 2010, in line with the recovery in the GOP that year. Conversely, the partial preliminary data available for 2011 suggest something of a generalised downturn across the productive branches, which is consistent with the loss of momentum in activity and with the rise in the cost of financing.

In conclusion, the analysis conducted in this box illustrates how, during 2008 and 2009, there was a notable increase in the number of corporations in a less favourable financial position in industry and in the wholesale and retail trade and accommodation and food service activities sector, while in the other best represented activities in the CB the changes in this indicator were less significant during this period. The latest information points to a clear improvement in the two branches most affected by the crisis during 2010, an improvement which, according to the provisional preliminary data for 2011, is not expected to have continued in 2011 to date.

Financial revenue grew strongly (23.4%) in the first half of this year, after having fallen by 15.5% the previous year. This increase was due both to higher interest received for loans extended and to the increase in dividends, mainly from foreign subsidiaries. Thanks to this, ONP posted a year-on-year increase of 3.5%, a figure nevertheless down on the figure of 8% the previous year. The increase in ordinary profits was not enough to avoid a worsening of the levels of ordinary profitability. Thus, ROI (R1) stood at 5% in the first half of 2011, compared with 5.3% a year earlier, and ROE fell by almost 1 pp to 6.3%. A reduction in these indicators was discernible across all the sectors in comparison with the figures post-

		CBQ (a)			
		Return on investment (R.1)		Ordinary return on equity (R.3)	
		2010 Q1-Q2	2011 Q1-Q2	2010 Q1-Q2	2011 Q1-Q2
Number of corporations		830	742	830	742
Percentage of corporations by profitability bracket	R ≤ 0	30.4	29.2	34.1	32.8
	0 < R ≤ 5	25.4	23.2	17.9	16.4
	5 < R ≤ 10	14.9	16.8	11.2	11.7
	10 < R ≤ 15	6.6	8.1	7.4	9.1
	15 < R	22.7	22.6	29.5	30.0
MEMORANDUM ITEM: Average return		5.3	5.0	7.1	6.3

SOURCE: Banco de España.

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

ed in the same period of the previous year (see Table 6), proving more acute in those sectors in which activity most contracted (wholesale and retail trade, and information and communications). A similar pattern is evident on observing how, in 2011 to date, the percentage of corporations in a less favourable financial position increased slightly, following the recovery detected in 2010 in some productive branches such as industry or wholesale and retail trade and accommodation and food service activities (see Box 1). Nonetheless, these developments at the aggregate level of corporations were compatible with some shift in the distribution of individual levels of profitability from levels below 5% towards segments with higher values (see Table 7). The declining course of profitability, along with the rise in the cost of debt, translated into a reduction in the difference between both variables which, though it held positive at 1.5%, was 0.5 pp below the figure recorded a year earlier.

Lastly, an analysis of extraordinary gains (losses) shows that during the first half of this year the significance of these items declined strongly, given the absence of relevant related operations. Specifically, the item reflecting gains (losses) from disposals and impairment fell by 70.9%, given that in the first half of 2010 sizeable capital gains were generated on certain financial assets sale transactions which, on this occasion, did not take place. That led to an 18.1% reduction in the profit for the year to June 2011. If this profit is expressed as a percentage of GVA, the same declining trend is observable, standing at 30.1% for the period under study, compared with 36.5% a year earlier.

15.9.2011.