YEARBOOK 2009

INTERNATIONALIZATION OF SPANISH COMPANIES

Círculo de Empresarios

Wharton
University of Pennsylvania

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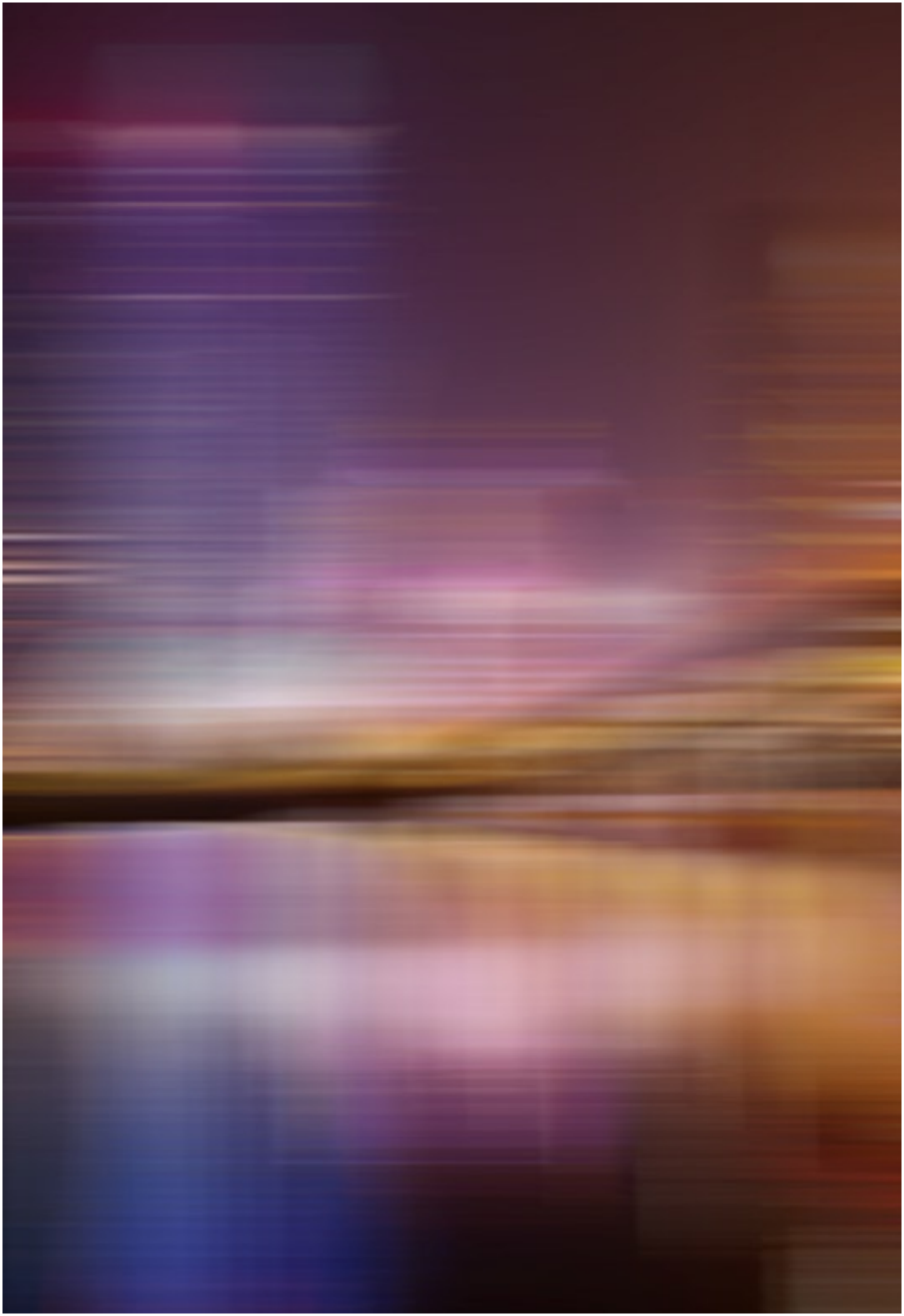


Presentation

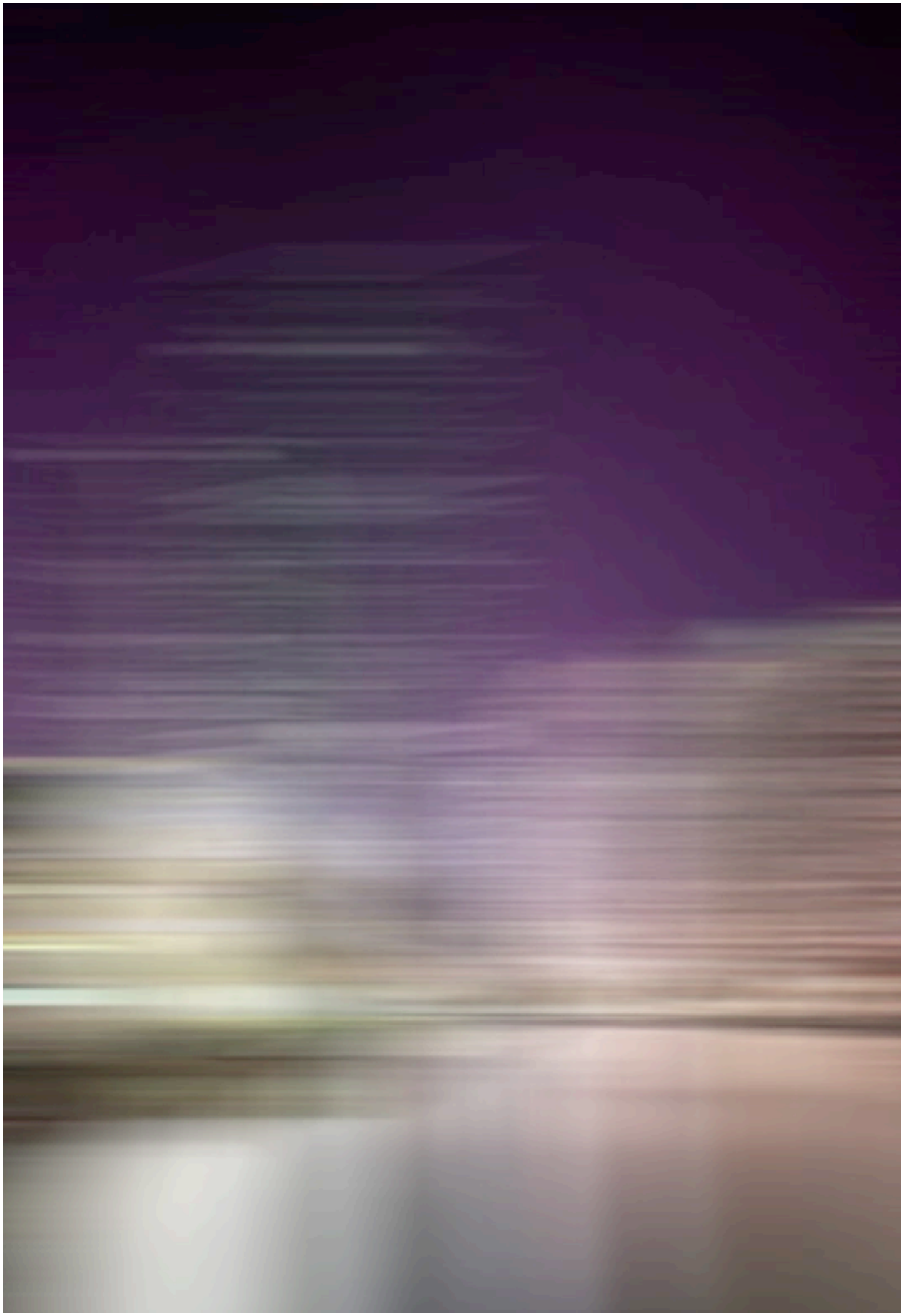
The 2009 Yearbook on the Internationalization of Spanish Companies is the publication's third edition. A splendid initiative of *Círculo de Empresarios,* in partnership with the prestigious Wharton School, of the University of Pennsylvania, the Yearbook has quickly cemented its position as an efficient observatory of the performance of Spanish companies abroad. It is an observatory that serves a dual objective: to gauge the activity of Spanish companies abroad and to help those that might still be procrastinating to take the final decisive step abroad. It is an essential step for the survival and development of many of them.

In the last few months, the international economic situation has changed radically as a result of the financial crisis. This change has had a logical impact on the pace of internationalization of Spanish companies, but it has also served to evidence something that was already crystal-clear before the onset of the crisis: that the future of the various world economies hinges on internationalization, the search for new markets and new scenarios in which companies, whatever their nationality, conduct their business.

The 2009 Yearbook, in its English and Spanish versions, is a good example of this globalizing spirit. Internationalization operations at Spanish companies highlighted by members of the *Círculo* in this edition are clear evidence that, whatever the specific circumstances of the global economy at a given time, the commitment to international growth is a solid future growth strategy and, in a world like today's, it is the only strategy that makes sense. Congratulations to all of them for their decision and for their example. The longed-for recovery will come (there are already signs of a recovery in some countries) and those who have taken the necessary steps towards internationalization will be in a much more solid position looking ahead than those who have battened down the hatches and waited for the storm to pass.

I would like to thank the Wharton School once again this year, for its cooperation in this Yearbook. It is one of the world's most prestigious academic institutions in relation to business, and without its involvement the ongoing success of this publication would simply not be possible. I would also like to thank everyone, from Wharton and *Círculo de Empresarios,* involved in producing the Yearbook. Finally, I would like to extend very special thanks to the Chairman of Telefónica, César Alierta, for contributing to this edition with his interesting reflections on the importance of Information and Communication Technologies in the internationalization of companies.

Claudio Boada
Chairman, Círculo de Empresarios



Prologue

2008 saw the crisis which had begun one year previously spiral. It is now a global crisis affecting both the financial markets and the real economy, and has triggered recessions in many of the world's biggest economies. Governments, with varying degrees of coordination, have tried various policy measures to tackle the economic crisis. However, the efficiency of traditional monetary policy appears to have run out, and the pace of recovery, the first signs of which are emerging in some countries, may now depend on the fiscal stimulus plans and on governments' capacity to establish sound exit strategies from those plans.

As might be expected, the trend in recent years, highlighted in previous editions of this Yearbook, of continual increases in Foreign Direct Investment (FDI) and intense M&A activity among multinational companies, has been well and truly curbed by the current crisis. Accordingly, there has been a sharp decline in mergers and acquisitions globally since the third quarter of 2007. According to the United Nations in its recent *World Investment Report 2009,* these operations were directly hit by the crisis, and their value slumped 35% in 2008 vs. 2007. The decline continued in the first half of 2009, to reach 76% year-on-year.

The crisis has taken a huge toll on the Spanish economy, more so than on neighboring countries, as evidenced by the very worrying unemployment figures. A number of international organizations, including the OECD and the European Commission, expect Spain to lag behind in the economic recovery.

Over the last three decades, the globalization process has boosted internationalization in both the Spanish economy and its companies, many of which are major multinationals ranked among the most internationalized in Europe and the world. Against that backdrop, and despite such an unfavorable economic context, 2008 was a year of considerable merger and acquisition activity for Spanish companies abroad. In direct investment terms, this activity enabled Spain to continue to be a net investor, although the gap between investment made and investment received has narrowed enormously.

All of these phenomena are discussed in this third edition of the ***Yearbook on the Internationalization of Spanish Companies,*** a publication with which *Círculo de Empresarios* seeks to provide the public with a tool to better understand the activity of Spanish companies abroad and the most significant challenges that

face them looking ahead. As in past editions, the Yearbook is structured into **two broad areas:**

- **Part one** analyzes the evolution and the current status of the main variables and magnitudes relating to the internationalization of Spanish companies, information which helps put the significance of this phenomenon into perspective.

  The first chapter offers a brief overview of the global macroeconomic framework, as well as the main characteristics of international trade and direct foreign investment in 2008-2009.

  The second chapter documents and analyzes from an international perspective the performance of Spanish companies in terms of their shareholder returns, their recommendations by equity market analysts and their presence in the international financial press. If 2007 signaled a change in trend in the three indicators analyzed, 2008 saw a sharp decline. Furthermore, there are two significant differences with respect to the previous year which merit concern. The first is that in 2008 the collapse of shareholder returns affected almost all sectors. Secondly, coverage of Spanish companies in the international financial press also diminished, due to the smaller scale of major investment transactions, and also because in 2008 there were no serious corporate insolvencies or bankruptcies, unlike in other countries. The note of optimism came from international investment banks, which, despite the crisis, did not downgrade –and indeed in some cases upgraded– their recommendations on Spanish companies.

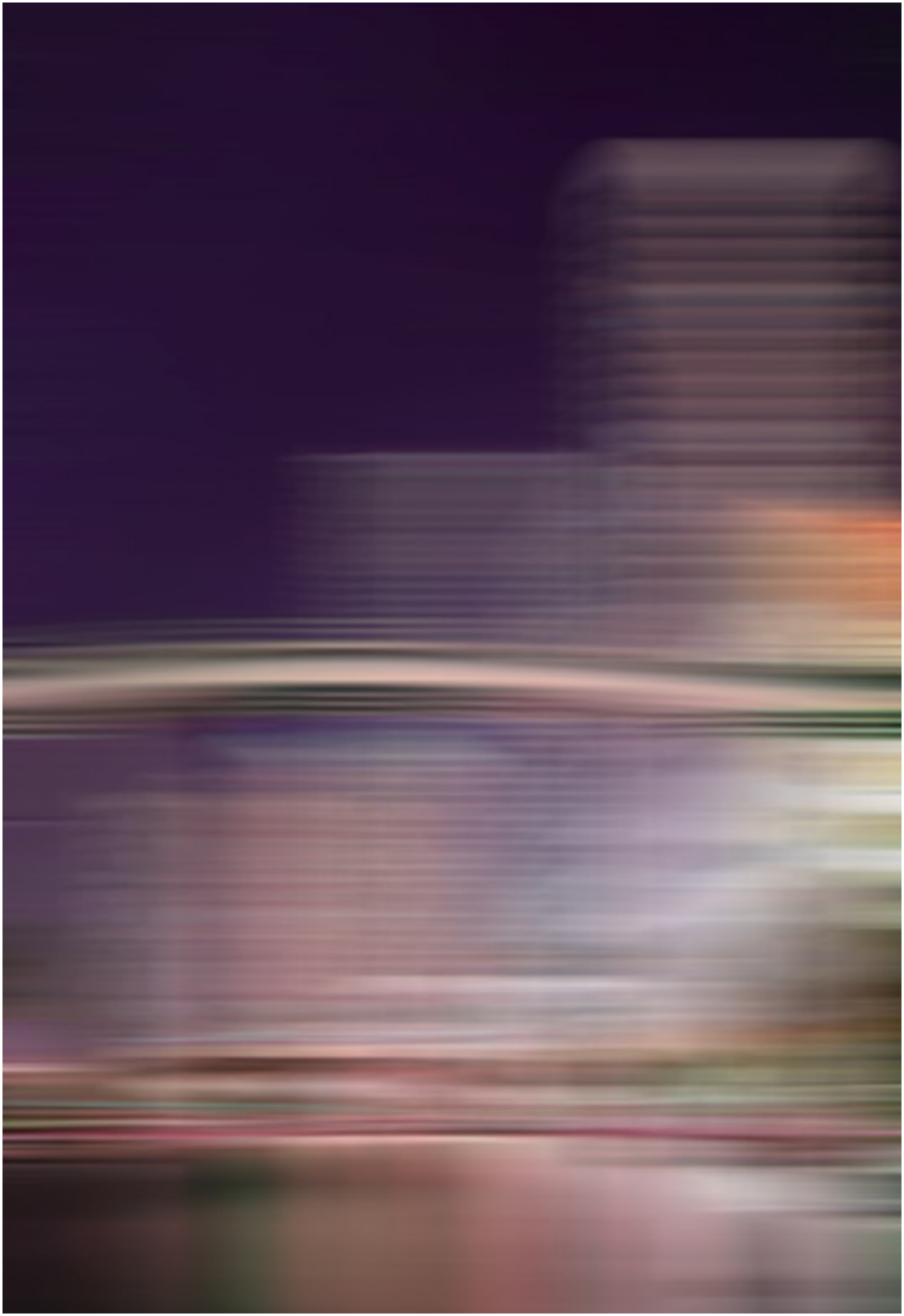
  This part of the Yearbook concludes with a third chapter which reviews all the most significant events of 2008 in terms of foreign sector performance in the Spanish economy. It also discusses in detail some of the corporate transactions by Spanish companies abroad which, according to the members of *Círculo de Empresarios,* are particularly significant.

- The **second area,** comprising solely chapter four, focuses on the analysis of **Information and Communication Technologies as an essential instrument for the internationalization of companies.** This chapter was written by César Alierta, Chairman of Telefónica.

This article, which completes the Yearbook, examines the manner in which the evolution of communications has transformed the scenario of global trade, especially with the development, at the end of the last century, of Information and Communication Technologies. Since then, consumers have changed the way they relate to sellers and physical proximity seems no longer to matter as much. The exchange of goods and services is no longer restricted to increasingly fuzzy territorial borders.

These new channels of communication are, at the same time, a way of disseminating information and knowledge, which today is a very powerful tool for progress and economic development. Accordingly, governments strive to develop state-of-the-art ICTs to enable them to spearhead progress and foster the internationalization of their companies. This is a fundamental challenge not only for the competitiveness of companies, but for the welfare of society as a whole.

Pedro Morenés Eulate
Secretary General of Círculo de Empresarios



1 The Global Economy in 2008-2009

The financial crisis took a sharp turn for the worse in 2008. Having started in the United States in the summer of 2007, the crisis spread quickly from other developed economies to emerging and developing countries, and became a global phenomenon. Furthermore, **its tendrils spread from financial markets to the real economy**, triggering a recession in many of the world's largest economies.

The consequences of this profound economic decline were not just the **sizeable contractions in GDP, investment and trade**, but included many other significant effects. **Fuel and non-fuel commodity prices slumped, not immune to volatility,** with the consequent changes in the real trade rate and current account balances in many nations. As a result of this price performance, there has also been a **widespread decline in inflation rates**, which in some cases unleashed fears of deflation.

Moreover, **the response by economic policy-makers** showed a less positive side as some indicators worsened. This was the case of **fiscal imbalances** and pressure resulting from the huge increase in public spending, even for those countries starting from a surplus, like Spain. Fiscal stimulus programs, along with the other defining features of this crisis, are leading to massive demand for foreign financing by many countries, which could face tough macroeconomic corrections when support from official sources dries up.

All of this **deterioration** in the economic situation **has taken its toll on consumer and business confidence**, and has established a strong negative link between the financial industry and the rest of the economy. The financial crisis **has disrupted the normal operation of the banking system**, depriving companies and individuals of the loans

they need for their everyday activity. The **slumps in equity markets and house prices** also severely undermined wealth in the United States and elsewhere, making households more reluctant to buy durable goods, such as cars, and leading them to focus their efforts on rebuilding their savings. Moreover, the downturn in commodities prices has helped consumers in importing countries, but has deprived producing countries of export revenues. Not even China, despite its dynamic economy, is immune to the global decadence, since most of its main trade partners are in recession.

Governments, with a greater or lesser degree of coordination, have attempted various policy measures to tackle the economic crisis, including rescuing banks that are pivotal to the economic and financial system and, more recently, helping home-owners who are unable to pay off their mortgages in the US. All of these measures came on the heels of monetary and fiscal policies applied since the crisis began. However, it seems that the limits of traditional monetary policy's efficiency have been laid bare, as interest rates in the US and elsewhere are very close to zero. The speed of recovery may well now depend on the efficiency of the proposed fiscal stimulus plans, which are currently equivalent to more than 3% of global output.

1.1 The global economic environment

Global economic growth – measured by total output or real gross domestic product (GDP) – **slowed sharply in 2008 in the context of the worst financial crisis since the nineteen-thirties**. More sluggish demand in developed economies due, among other reasons, to declining asset prices and increasing economic uncertainty, contributed to reducing growth in global production to 3.0%, two points below the 5.2% recorded in 2007. Based on IMF forecasts, growth in 2009 is likely to be around -1.1%. The World Bank is even more pessimistic and projects -2.9% growth.

In 2008, the situation varied considerably **from one group of countries to the next:**

- **Developed economies** scarcely managed to post 0.6% growth, vs. 2.7% in 2007 and the average around 2.2% between 2000 and 2008. The United States and Canada saw growth shrink by approximately two points to 0.4% respectively, and Europe followed suit, with the European Union recording 1.0% growth and the euro area 0.7%. In the group of developed countries, output fell in both Japan (-0.7%) and Italy (-1%).

- In contrast, in 2008, **emerging and developing countries** saw output increase by 6%, slower than the 8.3% recorded in 2007 but nevertheless close to the average in 2000-2008.

- The fastest growing regions in 2008 included **Africa** (5.2%, vs. 6.3% in 2007), Russia (5.6%, vs. 8.1%) and, in particular, developing Asian economies (7.6%, i.e. 3 points less than in 2007), once again spearheaded by China (9%, far from the 13% growth in 2007) and India (7.3%). The **Middle East,** boosted by higher oil prices, grew by 5.4%, not far off the 6.2% recorded the previous year.

There were also considerable differences **from one half of the year to the next:**

- **The general situation in the first half of 2008 was one of uninterrupted growth.** In particular, oil-exporting countries benefited from the unprecedented increase in oil prices. Meanwhile, emerging and developing countries managed relatively robust growth, and it was the most developed economies that, slowly but surely, began to slip into recession.

- Soon afterwards, **especially from September 2008 onwards, growth eased off and a severe decline in global conditions began**, first in the United States with new episodes in the grave financial crisis (such as the demise of Lehman Brothers), and quickly spreading to other developed economies whose banking systems were infected by the turmoil in the US. Accordingly, the recession took hold of the developed world.

The trouble did not take long to spread to other economies, as liquidity evaporated from financial markets and international capital flows dried up, against a backdrop of increasing risk aversion and uncertainty regarding the solvency of various financial institutions, especially banks. In a number of emerging or developing economies, these problems revealed weaknesses and imbalances that had been building up throughout the period of growth. Slumping consumer and business confidence ended up by completing a vicious circle which pushed all activity indicators downwards (industrial, labor, trade, etc.). Finally, as all these factors came into play, the global financial crisis unleashed an equally global recession, which few economies have managed to avert. In fact, the so-called decoupling effect, whereby a large group of emerging and developed economies might sever links with the economic cycle of the developed world, has happened only in a few countries, led by China, which have managed to maintain relatively high growth rates, although clearly below those of just a few months earlier.

The figures speak for themselves: according to the IMF, developed economies may have shrunk in the last quarter of 2008 at an annualized rate of more than 7%, triggering a decline in global GDP of more than 6%, to which emerging economies contributed a 4% decrease in the same period.

A significant turnaround is not yet clear to happen in 2009. Not only did the recession tighten its grip in the first half of the year, but the leading bodies' growth forecasts for 2009 have repeatedly been revised down for all regions during three quarters. It´s true that the last IMF forecasts (WEO, October 2009) announce a slight recovery in the world output for 2010 (3.1%), led mainly by a resurgence in Asia. However there are some fears about a recovery in a W shape, which will provoke a new downturn followed by a new recovery (Table 1.1).

The effects of the crisis on Latin America and the possible impact on Spain — Box 1.1

The current economic crisis, which commenced in 2007 in the US and later worsened, now affects the entire global economy. Emerging economies, which, according to the decoupling theory were less exposed to financial turmoil and therefore were expected to fare better in the crisis, have ended up succumbing to its effects. In many cases, their impressive growth was underpinned by investment and by foreign trade. As activity slumped in developed economies, the inflow of these resources tapered off, thereby undermining growth.

In the specific case of Latin America, the crisis unfurled against a quite robust backdrop, since in the last few years the region had experienced a considerable economic recovery due mainly to government reforms – aimed at improving regulation and supervision – as well as price hikes in the commodities of which many of these countries are major exporters. The slump in activity elsewhere in the world triggered a domino decline in exports in these countries, compounded by lower commodities prices. Furthermore, investments nosedived as the risk premium on these economies was ratcheted up and capital was repatriated to countries of origin. Moreover, the inflow of remittances from emigrants also waned, equity markets tumbled, and in short the economic boom of recent times was stifled.

However, the impact was uneven. Countries like Mexico were more affected due to having closer ties to the United States. Central American countries were hit by shrinking revenues from tourism. And South America felt the brunt of lower commodities prices. Against this backdrop, food exporters (Brazil, Argentina, Paraguay, etc.) were less affected since demand for these exports is inelastic. However, exporters of metals and energy products were more punished. This is the case of countries like Venezuela, Chile, Colombia, Ecuador and Peru. Nevertheless, the adverse effect was partially offset by the strong devaluation of some currencies in the region.

As for the impact of the Latin American recession on Spain, there are three main fronts. Firstly, the effect on migratory pressure. This effect is hard to gauge. The reces-

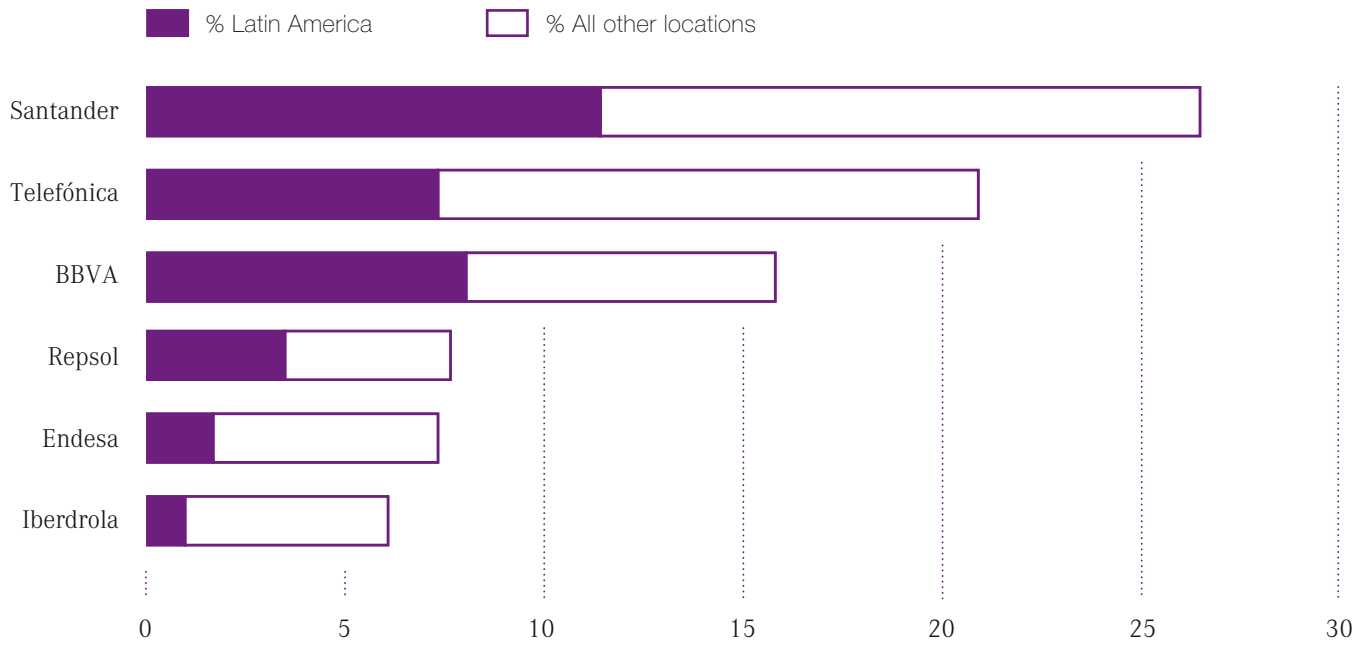
sion in Spain means fewer remittances and the possible return of some immigrants to their countries of origin. At the same time, migrating to Spain may be less appealing. Secondly, the impact on trade. This will not be very big since Spanish exports to Latin America are relatively small: less than 5% of the total and less than 1% of GDP. Lastly, the effect on investments. Financial investments have a relatively small weighting, of some 7 billion US dollars, less than 1% of the total, so the impact will be negligible. However, foreign direct investments will be significantly affected. At the end of 2007, FDI accounted for 100 billion euro, more than 20% of the total. Accordingly, the decline in activity and the devaluation of currencies in the region could trigger capital losses amounting to more than 30 billion euro, and this is starting to take its toll on the share performance of some listed Spanish companies.

Despite these possible effects, so far many see the region as a lifeline in the crisis for Spanish companies operating there. Among the Spanish companies investing in Latin America, some notable players are Telefónica, Repsol, Santander, BBVA, Endesa, Iberdrola, Gas Natural and Unión Fenosa. For many of them, 16%-51% of their operating profits come from Latin America.

Percentage of Spanish companies' profit from Latin America, 2008

Operating profit in billions of US dollars

Source: The Economist



IMF forecasts on GDP growth

Table 1.1

Percent change

Source: IMF (WEO, October 2009)

	2007	2008	2009*	2010*
WORLD OUTPUT	**5.2**	**3.0**	**-1.1**	**3.1**
Advanced economies	**2.7**	**0.6**	**-3.4**	**1.3**
United States	2.1	0.4	-2.7	1.5
European Union	3.1	1.0	-4.2	0.5
Euro area	2.7	0.7	-4.2	0.3
Germany	2.5	1.2	-5.3	0.3
France	2.3	0.3	-2.4	0.9
Italy	1.6	-1.0	-5.1	0.2
Spain	3.6	0.9	-3.8	-0.7
Japan	2.3	-0.7	-5.4	1.7
United Kingdom	2.6	0.7	-4.4	0.9
Canada	2.5	0.4	-2.5	2.1
Other advanced economies	4.7	1.6	-2.1	2.6
Newly industrialized Asian economies	5.7	1.5	-2.4	3.6
Emerging and developing economies	**8.3**	**6.0**	**1.7**	**5.1**
Africa	6.3	5.2	1.7	4.0
Sub-Sahara	7.0	5.5	1.3	4.1
Central and Eastern Europe	5.5	3.0	-5.0	1.8
Commonwealth of Independent States	8.6	5.5	-6.7	2.1
Russia	8.1	5.6	-7.5	1.5
Excluding Russia	9.9	5.4	-4.7	3.6
Developing Asia	10.6	7.6	6.2	7.3
China	13.0	9.0	8.5	9.0
India	9.4	7.3	5.4	6.4
ASEAN	6.3	4.8	0.7	4.0
Middle East	6.2	5.4	2.0	4.2
Western Hemisphere	5.7	4.2	-2.5	2.9
Brazil	5.7	5.1	-0.7	3.5
Mexico	3.3	1.3	-7.3	3.3

* Forecasts

1.2 Instability in commodity prices

One of the phenomena with the most serious implications took place in **commodities markets,** where **prices varied hugely throughout 2008**. In fact, the effects of the financial crisis took a particularly tough toll on these global markets at the end of 2008, when commodities prices slumped from record highs early in the year to levels well below those of 2006 (Chart 1.1). This considerable instability in commodities prices in 2008 was also clearly linked to the change in all economic indicators in the second half of the year, posting a completely different performance to the one recorded in the first half.

Sky-rocketing commodities prices were the logical adjustment by these markets to the robust and sustained global economic growth, which commenced in around 2002 and halted sharply in the second half of 2008:

- The available supply of these products could no longer respond quickly enough to spiraling demand, and the imbalance pushed prices up.

- In addition to growing demand, a number of factors combined to boost commodities prices: the weak dollar, insufficient investment in mining industries prior to the boom, supply woes, the new reality regarding biofuels, the market activities of investment funds and taxes on imports and bans on exports of various food commodities implemented by some governments.

Prices soared in an unprecedented fashion, peaking in **mid-2008**, and then **slumping equally exceptionally, wiping more than half off the market value of commodities.** Many of the factors that had previously fuelled growth U-turned, as economic activity slowed down and the worsening financial crisis gripped much of the worldwide economy. The prospects regarding the severity and duration of the global recession stifled demand and led to uncertainty as to the future performance of demand, dragging prices downwards.

The financial crisis did not hit commodities only through the deteriorating conditions of the real economy. It also did so via purely financial channels. For example, many investors fled these markets, either to unwind highly leveraged positions as new financing became scarce, or to obtain liquidity or sidestep the risk of prices that had begun to show increasing volatility, at levels unprecedented in recent decades (Table 1.2).

This considerable instability had major macroeconomic effects:

- Many exporting countries that obtained sizeable profits from the price increase later suffered the consequences of a slump in revenues from sales abroad, especially those most dependent on commodities.

- Lower export revenues hampered governments' scope to implement fiscal measures to curtail the crisis, since they implied lower tax revenues.

- In contrast, falling prices of oil and other commodities improved the real trade rate for importing countries, which had been seriously eroded by the previous price hikes, thereby redressing the foreign trade imbalances of these economies.

One of the clearest examples of the huge instability was oil, the price of which dipped below 40 dollars per barrel at the end of 2008, having soared above 130 dollars per barrel barely half-a-year earlier (Chart 1.2). This slump came on the back of the first decline in global demand for oil since 1980. Although in the first half of 2008 demand increased by almost 1 million barrels per day, in the third quarter it decreased by a sizeable 2.2 million barrels per day, pushing overall demand in 2008 down by some 400,000 barrels per day.

The decline in global demand for oil was spearheaded by developed countries, where it slumped by 1.7 million barrels per day in 2008 (1.2 million barrels in the US and 0.4 million barrels in Japan), vs. the 400,000 barrels per day decline in 2007. Meanwhile, developing and emerging economies increased their demand for oil, although at a slower pace than in 2007. Since supply was slow to react to this sharp dip in demand, there was an annual average surplus of 700,000 barrels per day, which quickly squashed prices.

Once the sharp slump in prices bottomed out, a recovery began in the first quarter of 2009, and in mid-year prices bounced back to near 70 dollars per barrel. The recovery was also seen in other commodity prices.

The rebound in oil prices may be attributed to the discipline imposed by OPEC countries regarding cutbacks in production. Furthermore, one of the main buyers, China, continued to acquire large volumes of commodities, both to fuel its growth and to tap the low prices with a view to strengthening its strategic reserves.

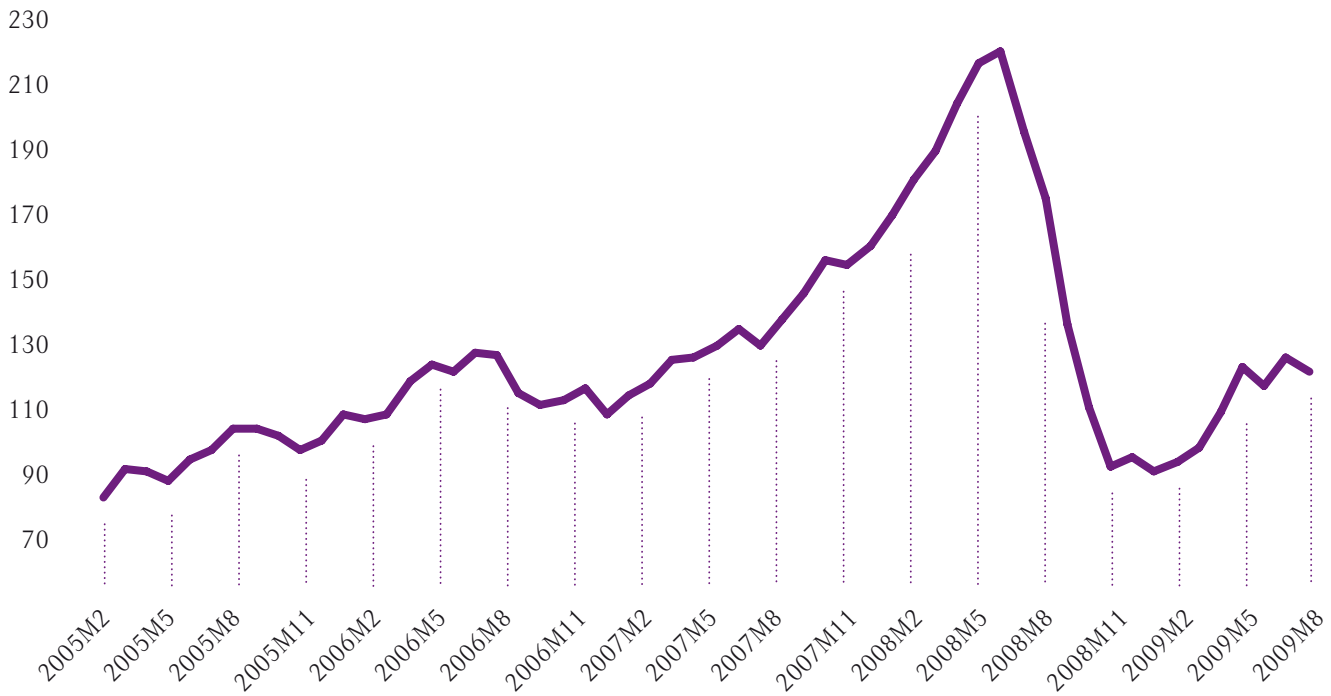
At all events, in the short term analysts do not expect further significant increases in these prices, since these

Index of Fuel and Non-Fuel Commodity prices

Chart 1.1

2005=100

Source: IMF

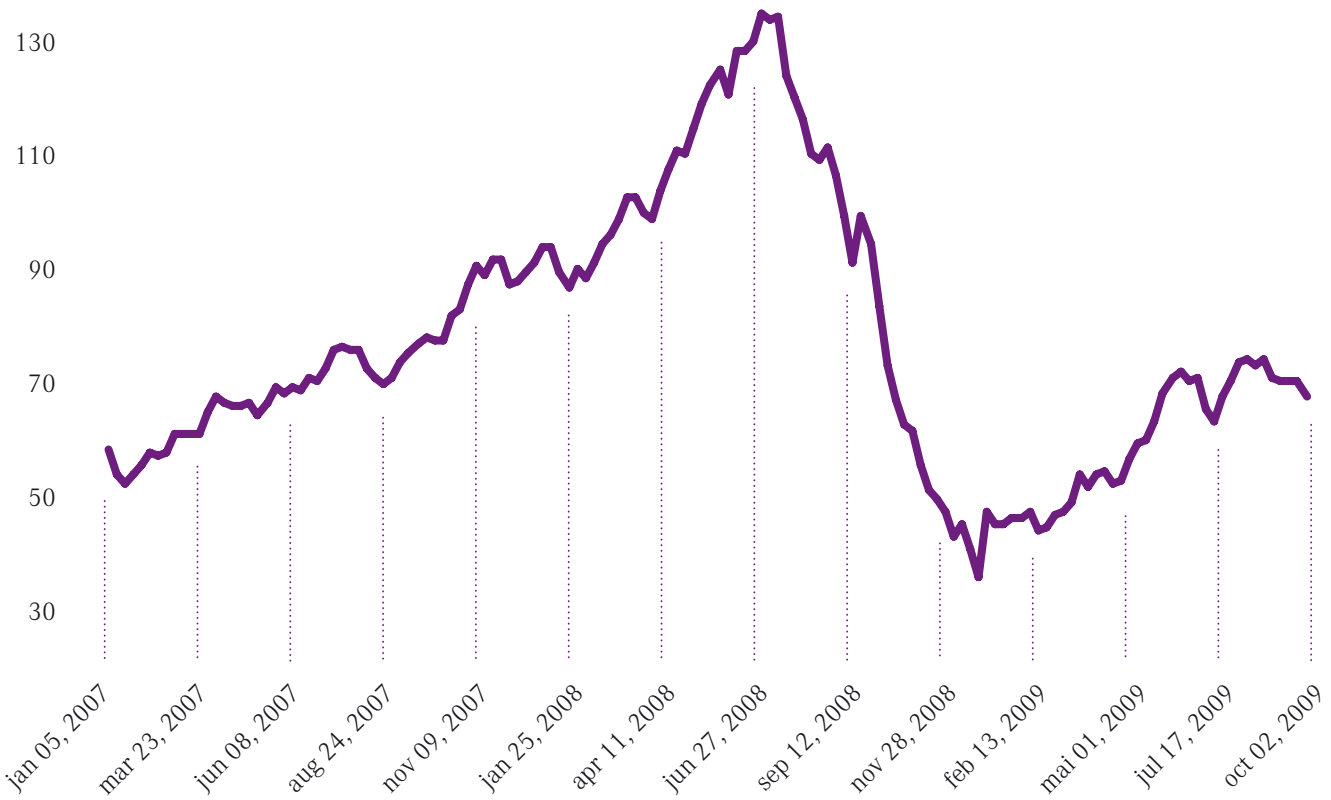


Oil prices

Chart 1.2

US dollars per barrel, global average, weekly figures

Source: EIA



factors will not operate indefinitely in a context of global economic contraction. It would seem more reasonable to expect prices to stabilize somewhat, in line with the lethargy that has gripped the world economy. However, long-term shortages will come back into play at some point in the form of rising prices, especially when economic activity picks up again. When that happens, we will again see all the factors that pushed prices up in the first place return to centre-stage: increasing demand from emerging and developing countries, and recourse to increasingly costly sources.

Meanwhile, more sluggish demand for commodities worldwide is reining in inflationary pressure in most countries, to the point where deflation could represent, at least in some cases, a bigger short-term risk. This is the case of developed countries, for which the IMF projects just 0.1% inflation in 2009 (0.9% in 2010), too close to negative values to rule out deflation which, at all events, could be expected to last only a very short time.

Table 1.2 Comparison of commodity price volatility

Source: IMF

	Six-month change			Standard deviation[1]			
	Largest six-month decline in 2008	Largest six-month decline in 1970-2007		2008	Highest during 1970-2007		Average during 1970-2007
Crude oil (WTI)[2]	−76.8	−60.1	1986	18.4	16.1	1999	8.5
Aluminium	−52.9	−33.4	1991	12.1	8.9	1994	5.6
Copper	−54.8	−52.6	1974	12.2	13.0	1974	6.7
Nickel	−68.0	−49.0	1990	23.6	17.7	2006	9.2
Corn	−52.4	−51.8	1997	13.9	13.6	1988	7.6
Wheat	−45.2	−38.0	1996	16.0	12.9	2007	6.4
Soybeans	−44.1	−51.3	2004	12.8	15.5	2004	6.3
Gold	−25.4	−30.1	1981	8.7	13.3	1979	5.1

[1] Standard deviation of weekly changes over a 12-month period
[2] WTI = West Texas Intermediate

Measures to tackle the crisis 1.3

More than two years have elapsed since, in 2007, the subprime mortgage crisis was unleashed in the US and began to spread throughout the international financial system. At first, the authorities and the vast majority of analysts underestimated the scale and scope of the crisis. As a result of this assessment, the policy actions implemented were merely light, palliative measures while the problems began to show the force that today merits their description as a global economic and financial crisis.

It was when the crisis intensified, in September 2008, that policy measures began to acquire more qualitative and quantitative significance, and even **more international coordination.** These policies addressed the crisis on two major fronts.

- Firstly, policies were applied to prevent the financial crisis from worsening in the wake of the demise of Lehman Brothers (charts 1.4 and 1.5). This paradigmatic episode in the financial system's situation triggered the implementation of a broad spectrum of policies, many of which were truly heterodox. **Quite a number of banks in Europe and the United States received public aid in the form of capital injections and heftier guarantees against writedowns on certain assets.**

However, many of these measures were announced with few details and a lack of international coordination and they therefore proved unable to generate sufficient confidence in the market so as to contain the spread of problems throughout the entire international system.

- Furthermore, **macroeconomic policies attempted to drive aggregate demand** that was stunted by the decline in consumer and business confidence levels. Accordingly, central banks applied radical interest rate cuts (Chart 1.3). For example, several G-8 economies (Canada, Japan, the United States and the United Kingdom) cut their interest rates to between 0% and 0.5%, leaving themselves no additional maneuvering room. The European Central Bank followed suit, cutting its rates to record lows. In general, these measures have not been overly efficient, since the difficulties in accessing bank credit have persisted in a

Official interest rates Chart 1.3

Sources: Own research based on ECB and FED data

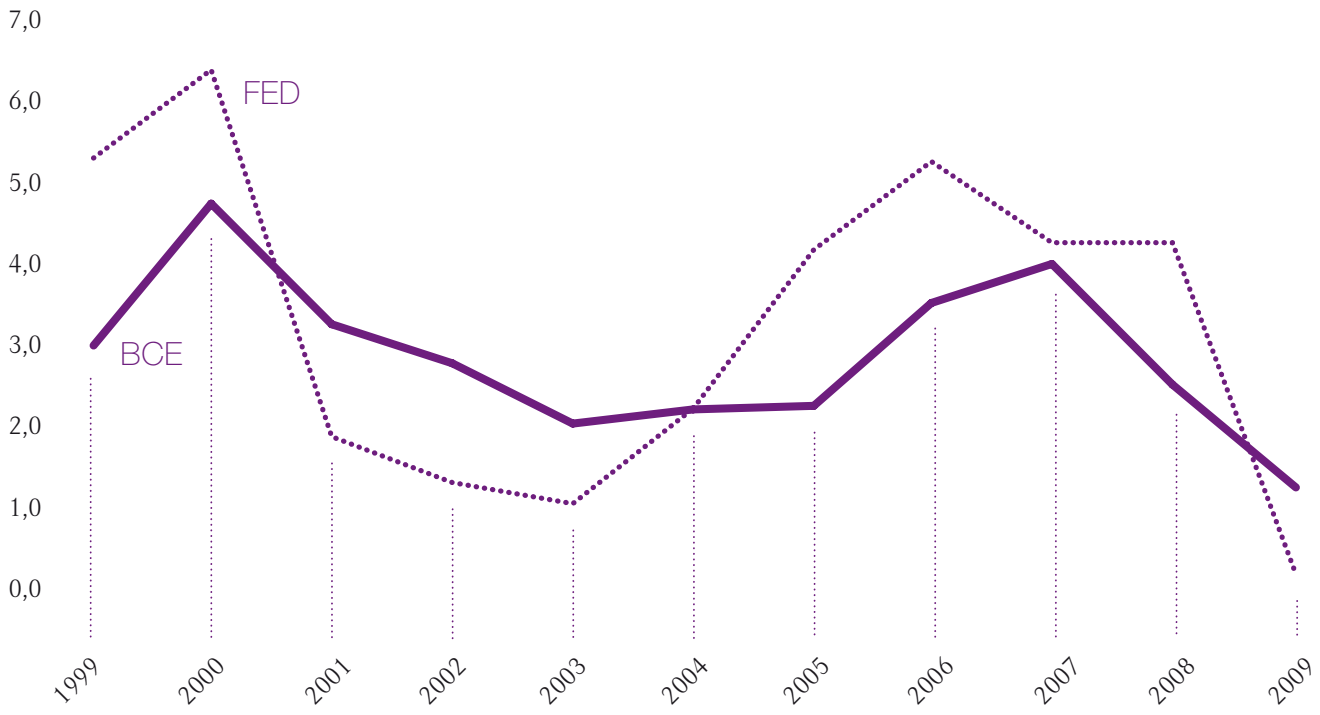


Chart 1.4 Financial institutions: write-downs and capital injections

Billion US dollars, since June 2007

Source: BBVA

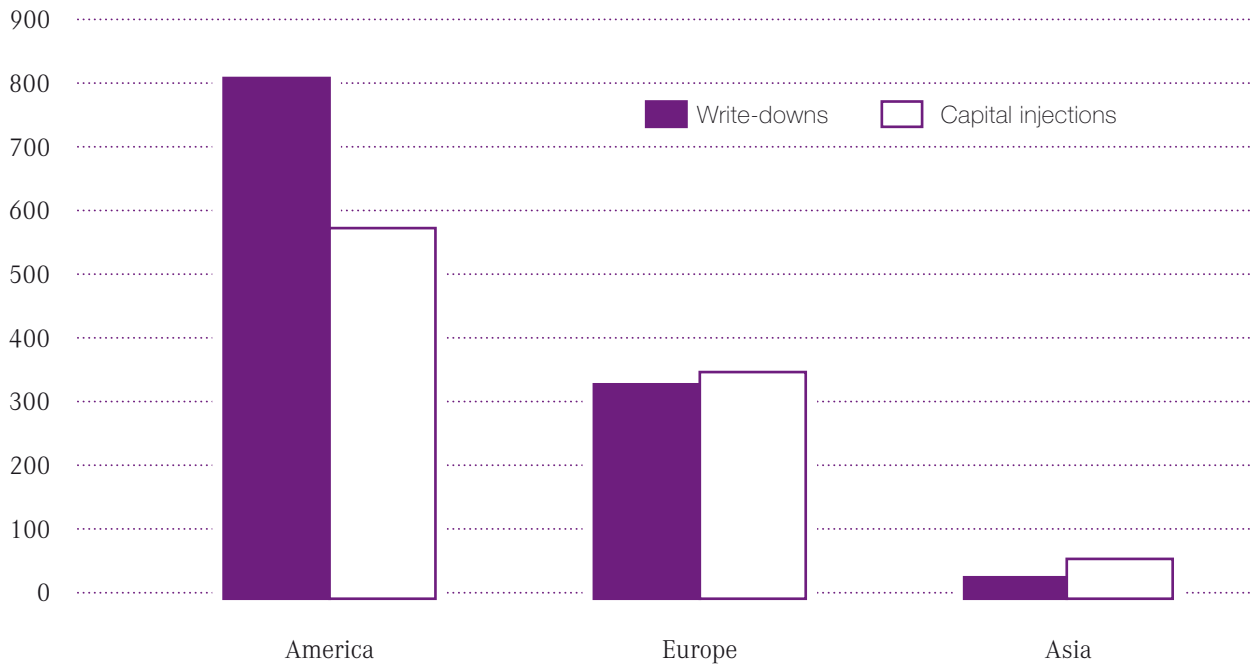
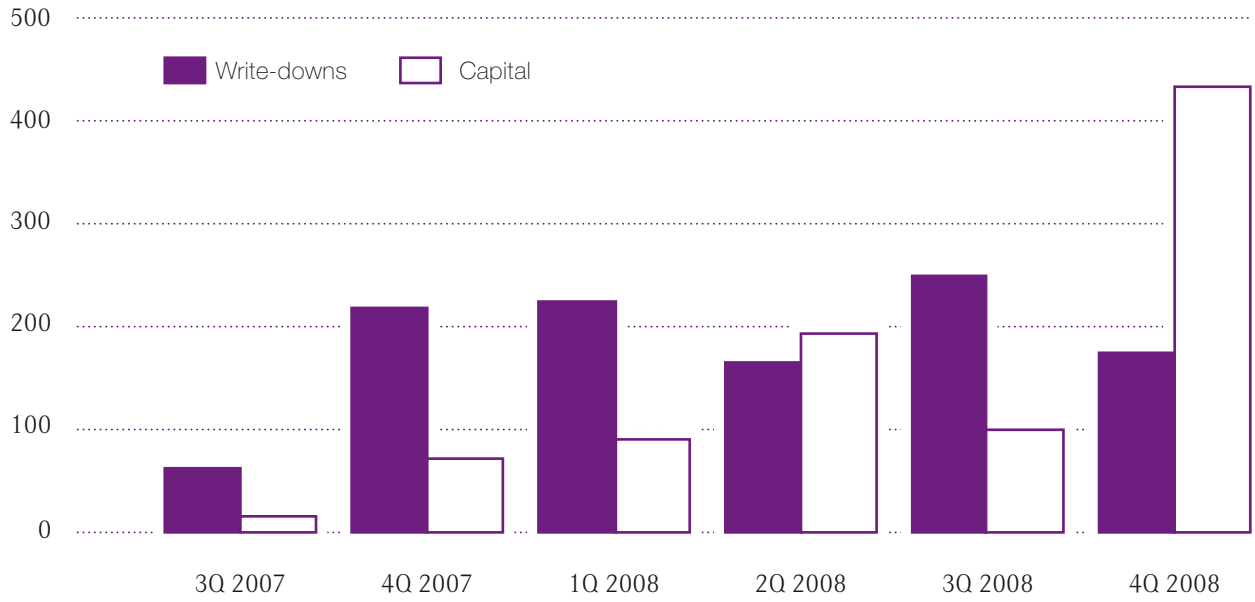


Chart 1.5 Global quarterly write-downs and capital injections

Flow, billion US dollars

Source: BBVA

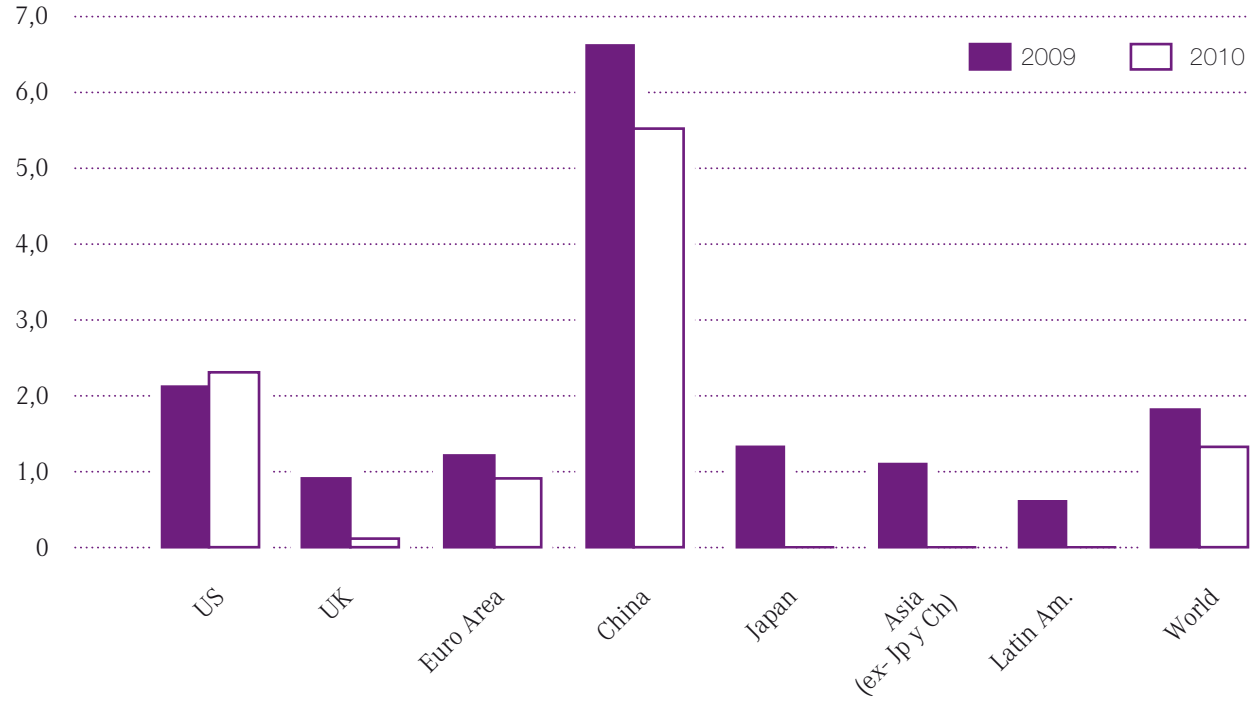


Planned fiscal programs

Chart 1.6

% GDP

Source: BBVA

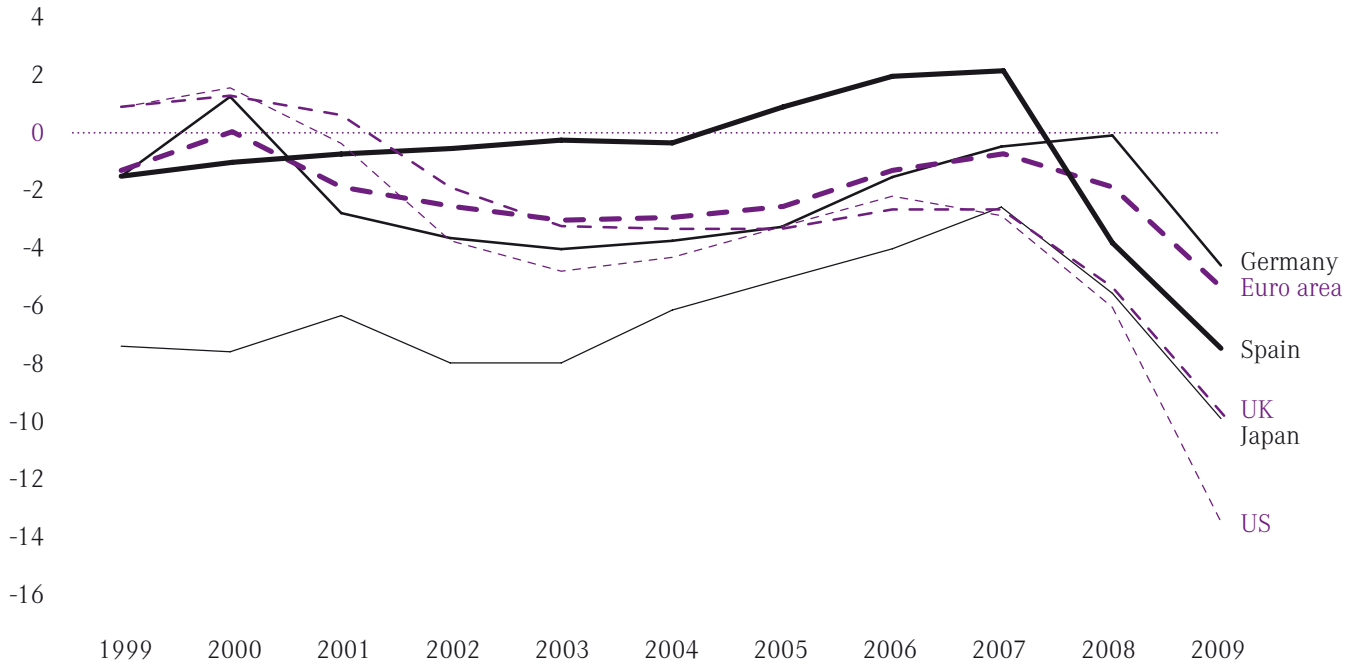


Budget balance

Chart 1.7

% GDP

Source: IMF



context of increasing uncertainty, and higher levels of loan delinquency in countries like Spain. Not even the greater involvement of central banks as intermediaries in the credit market, for example affording financing to certain agents or acquiring assets, prevented lending to the private sector from collapsing.

The depth of the recession, plus the exhaustion of monetary stimulus packages, led governments to rely increasingly on fiscal measures. On the one hand, automatic stabilizers worked to increase spending and reduce fiscal income through macroeconomic performance itself. On the other hand, many governments have applied discretionary fiscal policies, launching ambitious stimulus and fiscal spending packages (Chart 1.6), especially in developed nations, with significant aid to the auto industry.

Spending measures in place to mitigate the crisis' impact on demand (and to support the troubled banking sector) triggered a rapid decline in public accounts, at least in developed economies (Chart 1.7).

Although the biggest impact on these accounts will be noticeable in 2009 and 2010, in 2008 there was already a 2-percentage point decline in public balances in the main developed economies. There will also be a significant deterioration in terms of public sector debt.

In Spain's particular case, the decline has been dizzyingly rapid, from a surplus to a deficit of more than 7%, thereby jeopardizing compliance with the Maastricht conditions, the basic rules for approval of Spain's entry into the Monetary Union.

Developing and emerging countries also run the risk of seeing their fiscal balances slump, especially through the action of automatic stabilizers, as tax revenue decreases, debt becomes more expensive and transfers used to maintain social welfare networks quickly increase, even in the absence of stimulus packages on the scale of those implemented in the wealthiest countries (with the important exception of China, where major spending programs have been undertaken).

In the medium term, it will be crucial for proper authorities to correctly monitor the consequences of the policies now being implemented. Specifically, major efforts will be needed to steer public accounts back onto the path of the fiscal consolidation of the recent past, and to rein in the inflationary pressures that might be unleashed by the current monetary stimulus measures.

1.4 The threat of protectionism

Experience of previous crises, most notably the between-the-wars period of the early 20th century, **raised concerns regarding a possible repetition of policy errors made** at that time, as countries tried to tackle their economic problems **with protectionist, beggar-thy-neighbor measures.** This kind of response merely compounded the situation, triggering a trade war that contributed to the devastating effects of the Great Depression.

At the various **G-20 summits** held since the current crisis began, member countries have announced agreements to refrain from undertaking protectionist measures in their attempts to resolve the problems affecting them all. **Two of the** most significant agreements in this connection were **not to devalue national currencies in order to compete unfairly and to "minimize" the chances of national banks' rescue plans constituting unfair competition vis-à-vis foreign operations.**

These agreements went even further in their bid to learn from past mistakes. At the G-8 summit in Italy's L'Aquila, also involving several of the emerging countries with most weighting in the global economy, a commitment was reached to complete the current round of Doha talks on trade liberalization in 2010. Of course, we will have to wait and see whether these intentions, already announced several times before, actually materialize in the form of tangible progress.

The fact is that, despite the announcements and the noble intentions, the measures with which countries have responded to their domestic economic woes in many cases do include a certain protectionist bias. The vast majority of these measures are not openly protectionist and nor do they signal the start of trade wars, but they rather contain elements which, depending on how they are implemented at a practical level, might end up

implying unfavorable treatment for foreign producers or investors. The World Trade Organization calls this **low-intensity protectionism.**

The WTO itself, along with the rest of multilateral bodies, has been working hard to monitor the protectionist characteristics of policies implemented in various countries. According to the World Bank, 17 countries launched a total of 47 protectionist measures between October 2008 and February 2009 (Chart 1.8). For now, their effects on trade are negligible, although these are also difficult to gauge due to the persistence of non-tariff border measures, subsidies, etc.

Shortly after the World Bank released its data, the IMF published its own figures, in April 2009, just before the G-20 summit in London. According to the IMF, since the Washington G-20 summit in November 2008, and at the start of the London summit, 17 of the 20 countries had implemented 57 new protectionist measures, despite the unqualified condemnation of protectionism as a danger to be avoided in any action plan to combat the crisis.

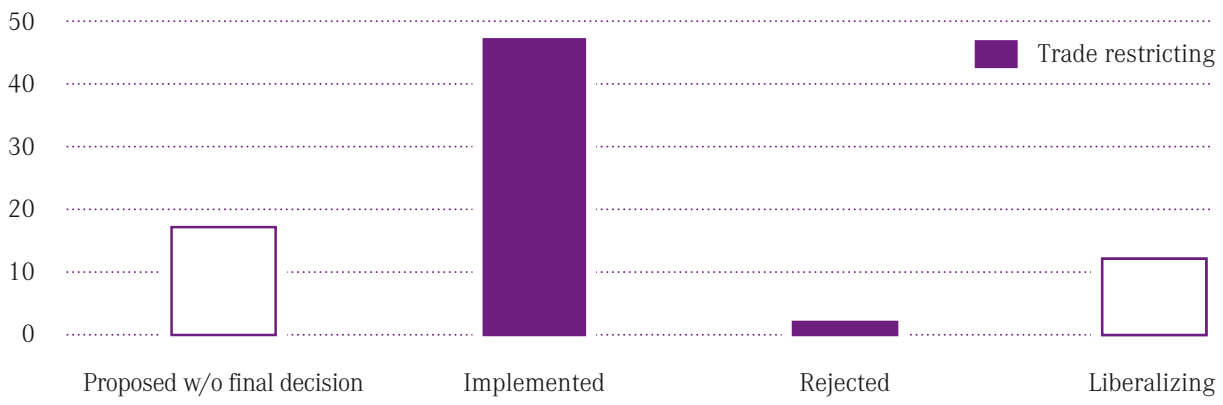
More recently, in mid-July, Pascal Lamy, WTO Director-General, published a report[1] containing new figures on measures restricting or distorting trade put in place in the second quarter. Of the 119 measures launched in that period by the European Union and another 24 countries, 83 could be described as trade-restricting. In other words, the number of measures with at least one protectionist element more than doubled the number of approved regulations that actually boost or facilitate free trade.

As Lamy himself put it, apparently, "resort to high-intensity protectionist measures has been contained overall". Among the measures that have introduced low-intensity protectionism are those referring to antidumping, the application of safeguards, some of them tariffs, new non-automatic licenses or benchmark prices, most of which apply to very specific products or markets. The report highlights that, nevertheless, protectionist pressure has been reined in and, in some countries, notable policies have even been implemented to liberalize trade, although there is no sign that, in general, the previously-erected barriers are being dismantled.

At all events, **one of the main concerns is still the possible impact on international trade of the fiscal stimulus packages and programs to support certain industries in each country**. It is difficult to compile and interpret the data in this connection, especially because it is not clear how these programs are to be applied. For example, there are concerns over the "buy, invest, supply or hire locally" requirements included implicitly or explicitly in some of these programs, such as President Obama's famous "Buy American" drive. Their evident

Measures taken from October 2008-February 2009 — Chart 1.8

Number of measures — Source: World Bank



1 Report to the TPRB from the Director-General on the Financial and Economic Crisis and Trade-Related Developments, WT/TPR/OV/W/2, 15 July 2009.

nationalistic appeal in the current circumstances may lead to reprisals from the countries affected, further dampening international trade and economic activity, which would delay the recovery.

Equally worrying are the possible **distorting effects on competition** of the numerous components of aid and subsidies for these programs, especially if they are maintained over a long period, altering commercial and investment decisions, including foreign direct investment. The WTO recommends that countries design and announce the exit strategies for these measures as economic conditions improve, thereby canceling the risk that uncertainty might trigger further distortion and make subsequent correction more difficult.

It is difficult to gauge the impact all of these measures might be having on international trade, the volume of which has already tumbled due to the slumping aggregate demand in many economies and the difficulties in obtaining funding. However, there are enough elements to assert that the policy decisions are jeopardizing the climate for trade between countries.

An indicator which gives us an idea of the conditions of international trade in a particular economy is the **Enabling Trade Index,** published by the World Economic Forum for 121 countries. This indicator looks at facility of access to markets, border management, transport and communications infrastructure and the trade environment for all the economies studied. The higher the score, the more favorable conditions are for foreign trade. Table 1.4 shows the latest edition of the index, published in mid-2009.

It is curious that, aside from the changes in ranking from previous editions, the average score in the index has also declined. For example, the top-ten in 2008 obtained an average score of 5.66, vs. 5.44 for the top-ten in 2009. While in 2008 there were 22 countries with a score of 5 or more, in 2009 there were only 17. Accordingly, it would seem that the crisis is causing the conditions for free trade to deteriorate, through a number of channels.

In the latest edition of the ranking, Spain ranked 27 (Table 1.3), in other words, five notches below its position in 2008. Likewise, **Spain is among the lowest-scoring countries in Western Europe,** and lags behind economies such as Germany, France, Holland, Ireland and the UK, although it did score better than Portugal and Italy. This considerable downgrade in the ranking is explained by the significant decline in the market access category, where in one year it dropped from 34th to 75th. The score for business environment is also poor, as it fares badly in physical security because, among other things, of the toll of terrorism on business, where Spain ranked 96th.

Table 1.3 — Enabling Trade Index, 2009. Spain

Source: WEF

	Rank	Score
2009 index	**27**	**4.7**
Market access	**75**	**3.9**
Border administration	**28**	**5.1**
Efficiency of customs administration	26	5.1
Efficiency of import-export procedures	41	5.1
Transparency of border administration	27	5.0
Transport and communications infrastructure	**18**	**5.1**
Availability and quality of transport infrastructure	15	5.1
Availability and quality of transport services	15	5.1
Availability and use of ICT	26	5.2
Business environment	**38**	**4.8**
Regulatory environment	40	4.4
Physical safety	45	5.2

Enabling Trade Index 2009

Table 1.4

121 countries

Source: WEF

	Total index		Subindexes (rankings)			
	Ranking	Index	Market access	Border administration	Transport and communications infrastructure	Business envirnmt.
Singapore	1	5.97	2	1	3	3
Hong Kong	2	5.57	20	7	5	4
Switzerland	3	5.44	38	10	9	6
Denmark	4	5.44	86	3	8	2
Sweden	5	5.44	88	2	4	7
Canada	6	5.35	13	12	17	17
Norway	7	5.33	21	18	20	5
Finland	8	5.33	78	9	16	1
Austria	9	5.29	84	6	6	8
Holland	10	5.27	87	4	2	15
New Zealand	11	5.27	39	5	22	11
Germany	12	5.24	90	11	1	10
Luxembourg	13	5.12	58	24	13	9
Australia	14	5.07	97	17	14	14
Ireland	15	5.02	96	8	23	16
United States	16	5.02	49	15	10	36
France	17	5.02	89	19	7	23
Arab Emirates	18	4.97	65	20	24	13
Chile	19	4.96	3	21	43	29
United Kingdom	20	4.93	79	14	11	39
Belgium	21	4.92	80	29	12	20
Estonia	22	4.84	71	16	27	24
Japan	23	4.78	115	13	15	31
Bahrain	24	4.76	26	25	41	27
Taiwan	25	4.75	99	27	19	30
South Korea	26	4.73	106	22	21	26
Spain	27	4.72	75	28	18	38
Malaysia	28	4.70	32	33	29	33
Israel	29	4.66	35	23	32	56
Portugal	30	4.63	63	35	26	25
Slovenia	31	4.61	82	26	31	35
Cyprus	32	4.56	74	47	28	18
Mauritius	33	4.54	10	37	55	32
Oman	34	4.52	23	49	45	19
Qatar	35	4.50	102	34	42	12
Czech Republic	36	4.39	94	30	35	50
Jordan	37	4.39	61	36	52	22
Hungary	38	4.39	81	31	34	45
Croatia	39	4.36	28	52	37	55
Lithuania	40	4.36	60	42	36	41
Tunisia	41	4.36	70	32	59	21
Saudi Arabia	42	4.36	40	38	47	42
Costa Rica	43	4.36	5	46	70	58
Latvia	44	4.33	73	39	39	43
Italy	45	4.30	66	48	25	66
Slovakia	46	4.30	93	40	33	51
Greece	47	4.30	59	57	30	47
Turkey	48	4.19	14	56	49	75
China	49	4.19	103	43	38	49
Thailand	50	4.18	98	41	40	59

1.5 International trade

According to data from the World Trade Organization (July 2009), in 2008 growth in goods trade in real figures (having adjusted for price variations) slowed sharply to 2%, vs. 6% in 2007. However, trade continued to outpace global production, as tends to happen during expansive phases of the economic cycle. Furthermore, as has occurred during previous recessions, since the end of 2008, as production has been slowing or shrinking more sharply, trade has been even more sluggish or contracting even further (Chart 1.9).

This downward trend in international trade activity which commenced in the second half of 2008 has continued in 2009. WTO data show that in the first half of 2009 the current value of global exports had shrunk to levels last recorded in 2003 (Chart 1.10). This implies a 22% decline vs. 4Q08 and no less than a 31% drop vs. 1Q08.

If the trend seen until mid-2009 continues, the real volume of exports worldwide could fall by 10% according to World Trade Organization estimates (12% according to the IMF), which would be the second-largest decline since World War II. The contraction would be especially sharp in developed countries, where the figure would shrink by 14%. However, for developing countries, whose growth is much more reliant on trade, the WTO forecasts a more gradual decline, of around 7%.

A number of factors have contributed crucially to the contraction of global trade. On the one hand, the slump in demand in major economies spread to imports, logically triggering fewer exports from their trade partners. On the other hand, fiscal stimulus plans have tended to favor spending on domestic products. Furthermore, the drying up of funds to finance trade as a result of the crisis has pushed trade flows much lower, especially in developing countries.

Nominally (accounting for price adjustments and exchange rate fluctuations), global goods exports grew by 15% in 2008 to 15.8 trillion dollars, while trade services exports increased by 11%, to 3.7 trillion dollars.

The involvement of developing economies in global goods trade reached unprecedented levels in 2008. Their exports accounted for 38% of the total and their imports for 34%. Nevertheless, the world's main exporter is still a developed country: goods exports from Germany in 2008 (1.47 trillion dollars) exceeded those of China (1.43 trillion dollars), and the European giant maintained its position as the world's leading exporter of goods.

In **South and Central America** performance between exports and imports was very uneven. Exports crept up by just 1.5%, and real growth was less than GDP growth in the region. In contrast, imports leapt up by 15.5% in 2008, outstripping GDP growth and outperforming any other region in the world.

One of the regions with the most dynamic trade in 2008 was the **Commonwealth of Independent States**, where exports grew faster than anywhere else, up 6% vs. 2007. Moreover, this region was also runner-up in terms of growth in imports, which increased by 15% year-on-year.

In **Africa**, imports and exports also recorded slower growth in 2008. While exports increased by 4.5 % in 2007, in 2008 the figure was 3%, and growth in imports fell by one point (from 14% to 13%).

In **Asia**, deceleration in real imports and exports was much sharper. Exports grew by 4.5% in 2008, vs. 11.5% in 2007 and 13.5% in 2006. Meanwhile, growth in imports almost halved, from around 8% in 2007 to 4% in 2008.

The impact of the crisis on trade flows has been especially severe on developed economies. **Europe and North America** were the regions where international trade slowed most sharply. European exports grew by just 0.5% in 2008 (4% in 2007), while imports performed even worse, sliding by 1%. North American exports inched up by 1.5% in 2008, much slower than one year previously, while exports, which increased by 2% in 2007, fell by 2.5% a year later (Table 1.5).

The available data, still both provisional and incomplete, suggest that trade in services is proving to be more resilient to the crisis than trade in goods. Accordingly, although commercial services exports fell in the final quarter of 2008 year-on-year, the decline (7%-8%) came at a slower rate than the decline in goods exports (12%).

In the services sector performance has been varied, as one would expect given the heterogeneous nature of the sectors involved in such a broad category. The travel and transport services trade saw significant declines, in line with those seen in goods trade. In fact, it is safe to say that a clear indicator of the severity of the global decline in trade has been the collapse of international transport. According to the International Air Transport Association (IATA), in December 2008 air freight traffic was 23% lower than one year previously, due mainly to the 26% slide in the Asia and Pacific region.

In addition to this poor performance came the problems the sector is facing because of the decline in tourism worldwide. According to the United Nations World Tourism Organization,[2] tourist arrivals fell by 8% in the first 4 months of 2009 vs. the same period in 2008, in an even sharper decline than in the second half of last year, when international tourist arrivals fell by 1% and took total yearly growth to just 2%, vs. 7% in 2007 and 5% in the first half of 2008. Prospects for 2009 are gloomy, due to both the effects of the crisis and the negative impact which swine flu might have on tourist travel.

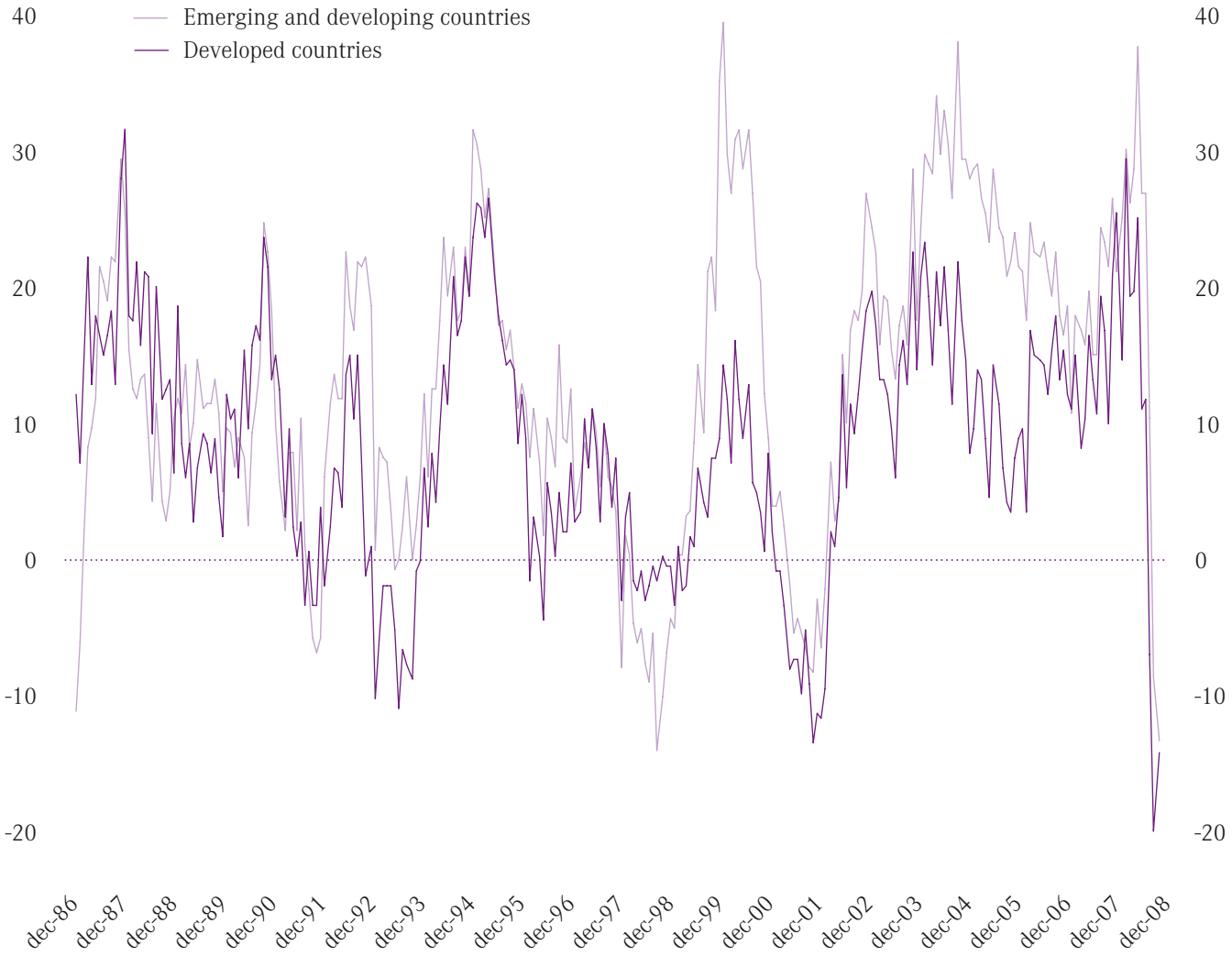
In contrast, international trade in other commercial services has remained quite dynamic. Unlike sectors which,

Global exports by region

Chart 1.9

Year-on-year rate

Source: IMF through Wharton Research Data Services Global Insight



2 UNWTO World Tourism Barometer, Vol. No.2, June 2009. In a recent update of data, this source counts in 7% the fall in foreign tourist inflows between January and July 2008.

like transport, react very swiftly to the cycle, professional services tend to be more linked to long-term projects, as is the case with telecommunications and infrastructure investments. According to recent research by Borchert and Mattoo (2009), the available evidence suggests the following reasons for the outperformance of services trade vs. goods trade:

- Demand for a broad range of services is less cyclical, as they are productive supplies that generate competitive advantages which must be maintained.
- Production in services is less dependent on foreign financing and trade in services is less dependent on financing, due, among other things, to the fact that many services are delivered electronically.
- The services trade involves fewer international movements of component parts since its production is less fragmented than the production of goods.

Table 1.5 GDP and goods trade by region, 2006-2008

Year-on-year change (%) at constant prices

Source: WTO secretariat

	GDP			Exports			Imports		
	2006	2007	2008	2006	2007	2008	2006	2007	2008
Worldwide	3.7	3.5	1.7	8.5	6.0	2.0	8.0	6.0	2.0
North America	2.9	2.1	1.1	8.5	5.0	1.5	6.0	2.0	-2.5
US	2.8	2.0	1.1	10.5	7.0	5.5	5.5	1.0	-4.0
Central and South America[a]	6.1	6.6	5.3	4.0	3.0	1.5	15.5	17.5	15.5
Europe	3.1	2.8	1.0	7.5	4.0	0.5	7.5	4.0	-1.0
European Union (27)	3.0	2.8	1.0	7.5	3.5	0.0	7.0	3.5	-1.0
CIS	7.5	8.4	5.5	6.0	7.5	6.0	20.5	20.0	15.0
Africa	5.7	5.8	5.0	1.5	4.5	3.0	10.0	14.0	13.0
Middle East	5.2	5.5	5.7	3.0	4.0	3.0	5.5	14.0	10.0
Asia	4.6	4.9	2.0	13.5	11.5	4.5	8.5	8.0	4.0
China	11.6	11.9	9.0	22.0	19.5	8.5	16.5	13.5	4.0
Japan	2.0	2.4	-0.7	10.0	9.5	2.5	2.0	1.5	-1.0
India	9.8	9.3	7.9	11.0	13.0	7.0	8.0	16.0	12.5
Recently-industrialized economies[b]	5.6	5.6	1.7	13.0	9.0	3.5	8.0	6.0	3.5

a Including Caribbean

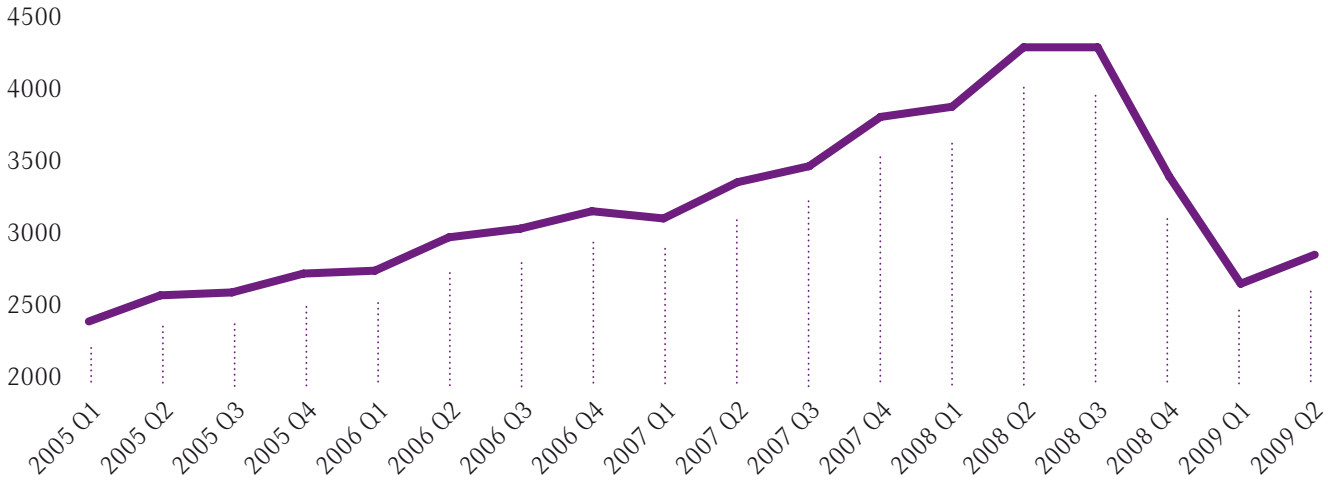
b Hong Kong, South Korea, Singapore and Chinese Taipei

Quarterly world exports

Chart 1.10

Billions of current dollars

Source: WTO

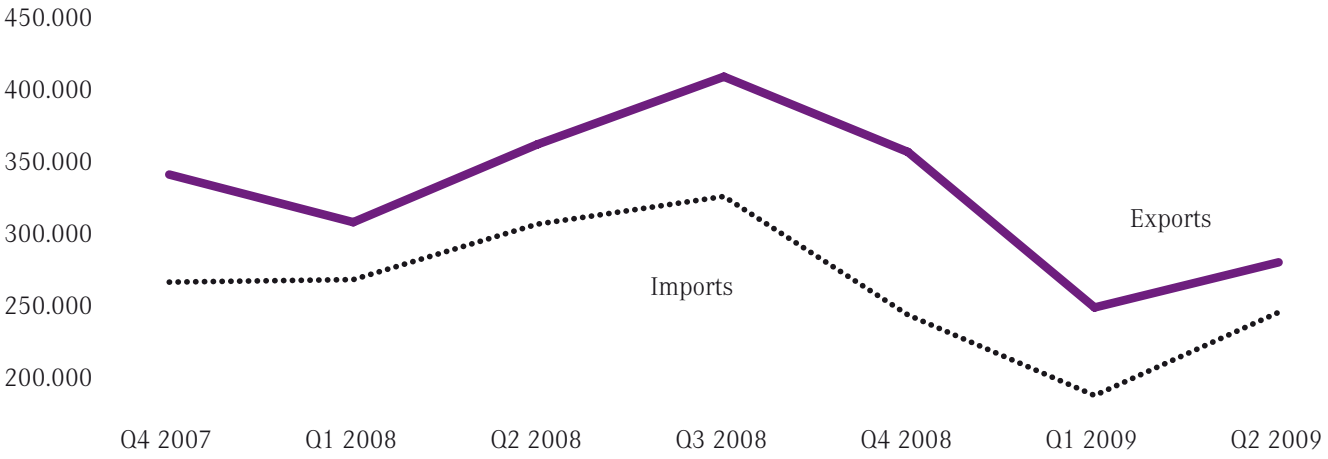


Exports and imports. China

Chart 1.11

Quarterly figures, millions of US dollars

Source: IMF

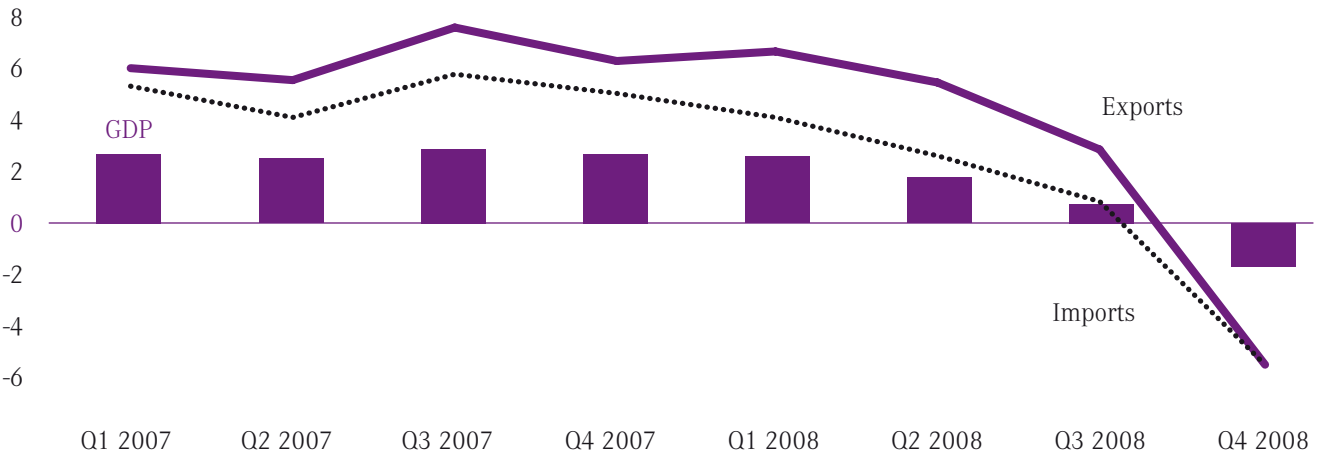


Real GDP and trade growth in OECD countries, 2007-2008

Chart 1.12

Annual percentage change

Source: OECD and WTO



1.6 Foreign direct investment

2008 saw an end to a phase of intense growth in direct investment, which commenced in 2004 driven by factors such as buoyant economic growth, increasing global liberalization of capital movements and the generalization of internationalization strategies by all kinds of companies, in particular transnationals. After setting records in 2007, with inflows of approximately 2 trillion dollars, in late 2008 the global volume of Foreign Direct Investment (FDI) fell sharply because of the global economic and financial crisis. According to UNCTAD projections, this decline will continue in 2009, as the crisis takes its toll on investment activity at major transnationals. A slow recovery is also expected in 2010, gaining pace in 2011.

The figures speak for themselves: FDI is deteriorating rapidly. According to UNCTAD estimates, these financial flows shrank by around 14% in 2008 vs. 2007, a percentage equivalent to close to 300 billion dollars. The same evidence indicates that this reduction is attributable in particular to a drastic decline in the last few months of 2008, which continued in early 2009. Specifically, in 1Q09 FDI flows shrank even more in year-on-year terms (44%), and the number of merger and acquisitions nosedived by no less than 76% (Chart 1.13).

If these trends continue, UNCTAD projects a 50% decline in global FDI flows at the end of 2009. Developed countries, whose FDI flows fell by 60% in the first quarter, will spearhead this sharp downturn, although both developing countries and transition markets will also post significant decreases of 25% and 40%, respectively. This means that the situation is worse than in 2008, since last year FDI did grow outside the developed economies, albeit at a slower pace than in 2007.

The prospects for mergers and acquisitions in 2009 are similar, and the declines could be even bigger, for both the global economy and country groups. According to the initial findings of UNCTAD's World Investment Prospects Survey 2009-2011, almost two-thirds of transnational companies surveyed expect to reduce their spending in FDI in 2009.

There is little doubt that the deterioration in FDI began with the financial instability triggered by the US subprime crisis in the summer of 2007. In fact, the first effects of this crisis affected FDI in 2008. However, despite the early signs of the difficulties to come, the fact is that in the first half the relative calm in the financial markets permitted significant activity in global foreign direct investment. The worsening financial crisis, with the turmoil at financial institutions in the US (such as Lehman Brothers and AIG), and later in Europe (Fortis, Dexia and the Icelandic banks), evidenced that the roots of the financial markets' woes ran deep indeed. As the crisis quickly spread from the financial system to the real economy, FDI began steadily to fall worldwide.

UNCTAD also estimates that FDI in developed countries slumped by 29% year-on-year in 2008, due mainly to the serious difficulties experienced by these countries' financial institutions, as well as the consequent liquidity crisis in financial markets and the reduction in available credit, all conditions which make cross-border M&A activity especially vulnerable, the global value of which shrank by almost 35% year-on-year, after a five-year period of growth which ended in 2007. In developed countries this decline was 39% (Chart 1.14).

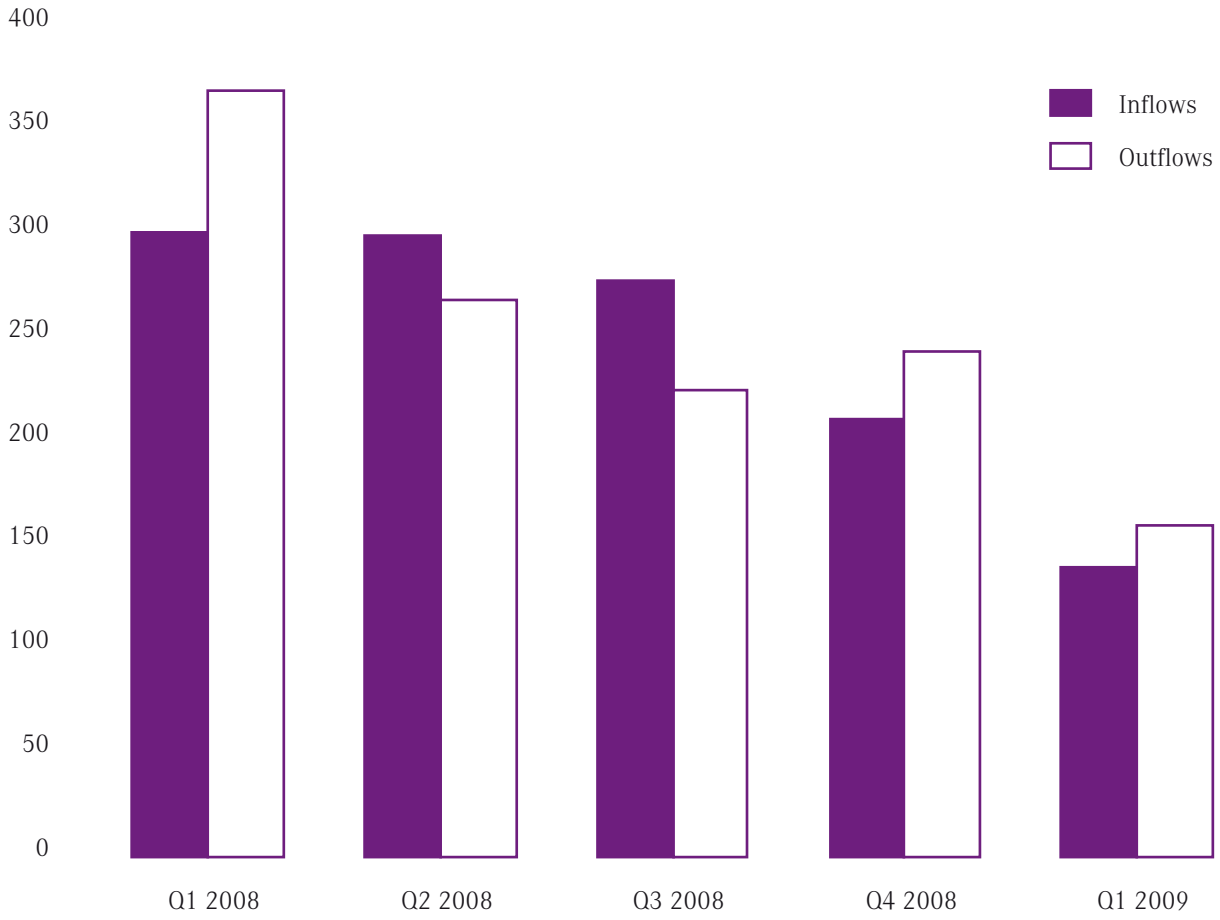
FDI inflows to developing countries and transition economies showed, at least according to estimates, more resilience in 2008. Indeed, these flows increased compared to 2007, albeit at clearly slower rates than in that year, increasing their percentage of world FDI flows to 43%. However, this growth, close to 7% for 2008 as a whole, does not respond to the current situation of some developing countries, where the crisis has been taking a major toll since the final quarter of 2008. So much so that, for 2009, as we have mentioned, a reduction in FDI inflows in this group of economies is expected (Table 1.6).

Two factors explain the current weakness of FDI in the world. Firstly, the poor economic prospects discourage investment and indeed even incite certain divestments. After all, many multinationals have already announced cutbacks in production, jobs and investment. Secondly, companies' capacity to undertake new investments have been undermined by the difficulties in accessing the necessary financial resources. On the one hand, lower corporate earnings, in a context of stagnation and recession, restrict available equity, and on top of this are the writedowns in asset valuations as a result of retreating stock market performance. On the other hand, access to external financing is restricted by its higher

Foreign Direct Investment flows — Chart 1.13

Billions of US dollars

Source: UNCTAD. Data correspond to a sample of countries representing 60% of global FDI flows



cost and by the shortage of credit and liquidity. This explains, for example, the sharp decline in the value of transnational leveraged buyouts.

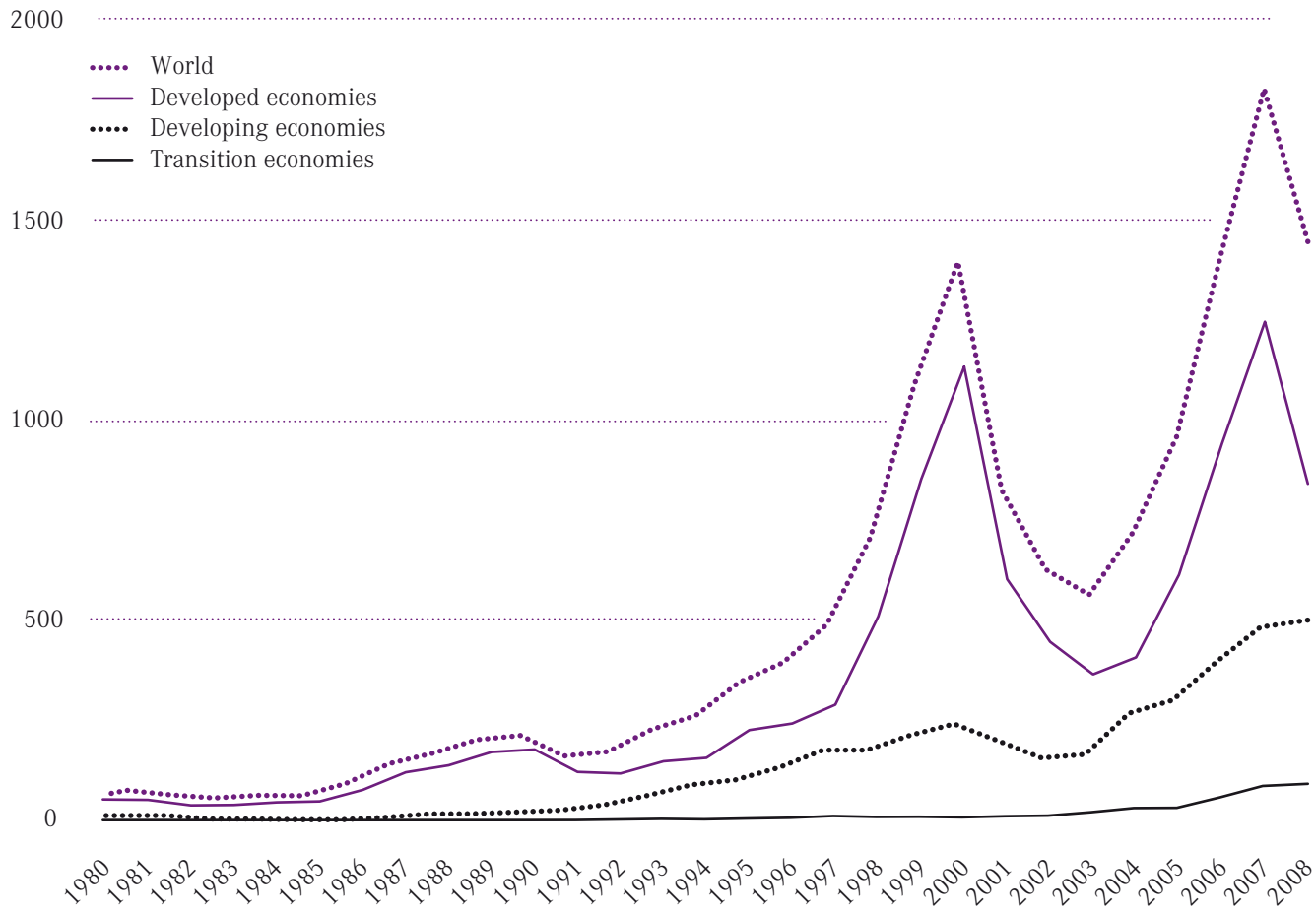
The prospects are not encouraging, since it is not yet clear when the recovery will kick in. However, there are some positive factors which might justify some shy optimism in regard to global FDI. For example, the major emerging economies, headed by China, are maintaining positive growth rates that make them attractive destinations for direct investment flows. As in any other crisis, this one also offers interesting investment opportunities for companies that have sufficient liquidity and financial clout. There are industries that are better equipped to weather the current turmoil. This could be a good time for acquisitions that tap low asset prices and large-scale restructuring in the industry, especially considering that multinationals claim to be interested in continuing to pursue their internationalization strategies for the next few years.

Neither should it be overlooked that the map of global FDI flows is changing, and many emerging or developing countries are starting to take on the role of investors, for example through major sovereign wealth funds[3] fed by commodities exports – curiously enough, the only sectors in which the

3 Sovereign wealth funds posted record FDI in 2008, although they also encountered problems stemming from lower export revenues in their countries of origin. Moreover, economic decline in developed countries and the downturn in stock prices worldwide triggered major losses in these funds' investments, slowing the pace of growth in their cross-border M&A activity (WIR 2009, UNCTAD).

Chart 1.14 FDI inflows, 1980-2008

Source: UNCTAD



volume of cross-border mergers and acquisitions did not ease off in 2008 were the oil, mining and agro-food industries. Economic stimulus plans implemented in many countries may also have a positive impact on FDI flows. In this regard, the commitment of G20 leaders to facilitate trade and investment must be seen as pivotal, as it may help boost business confidence. In contrast, a potential wave of government-fuelled protectionism, whether commercial or financial, must be seen as one of the biggest threats because it would strangle the growth of foreign companies in these countries. Specifically, a climate of distrust towards the possible protectionist whims of governments could have a devastating effect for countries struggling to develop by attracting foreign direct investment.

Fortunately, it appears that we are managing to overcome these temptations. According to the Investment Policy Developments in G-20 Countries, published in July 2009 by UNCTAD, the vast majority of G-20 countries have refrained, in response to the crisis, from implementing restrictions on FDI inflows or outflows. In fact, according to that report, a substantial number of the recent policy changes in this connection are actually favorable to this kind of investment. However, the UNCTAD report recalls that we should monitor events carefully, since fiscal stimulus packages could trigger concealed protectionism. This fear has also been expressed by, among others, the WTO Director-General in his reports to the Trade Policy Review Body.

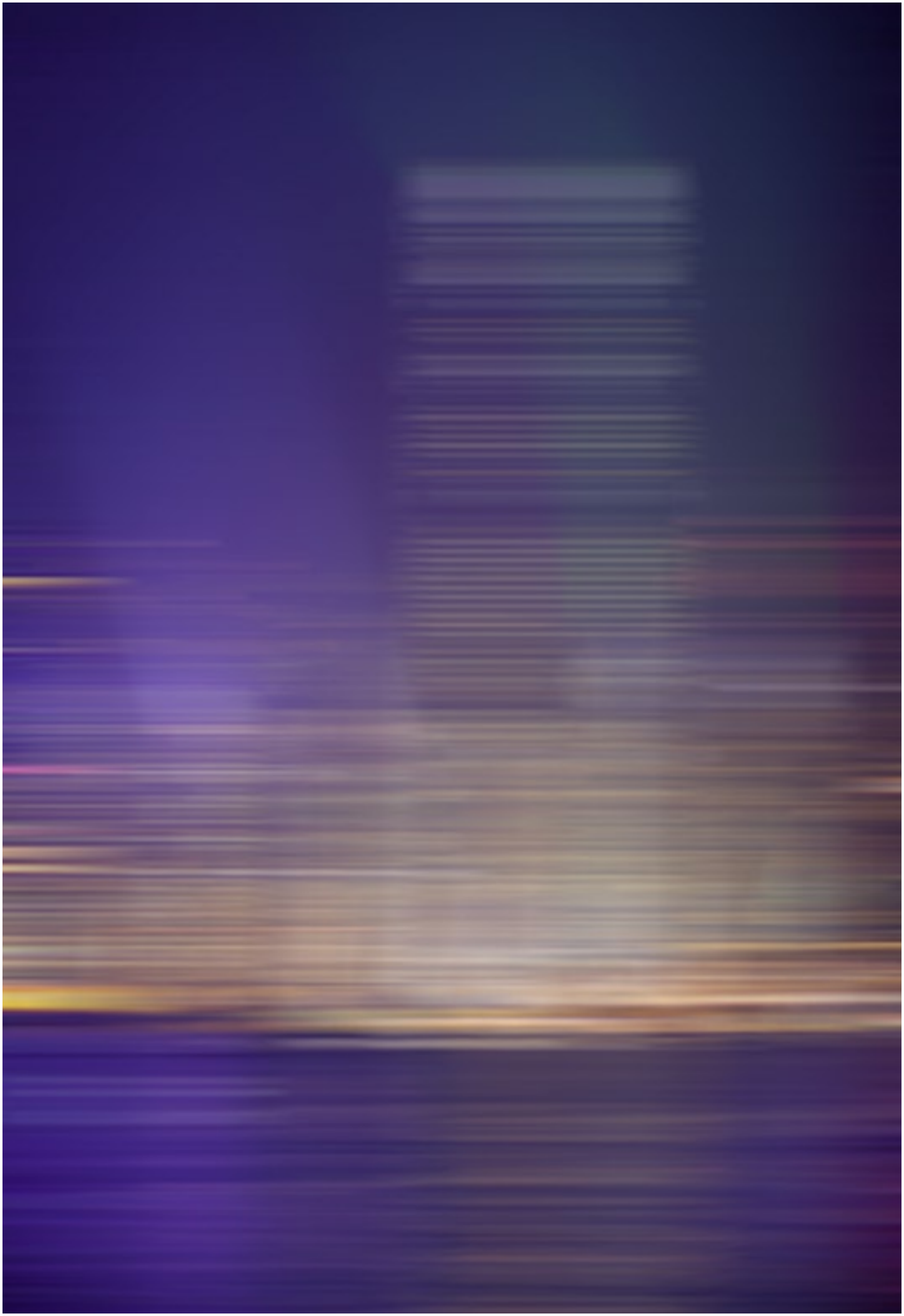
FDI inflows and cross-border mergers and acquisitions, by regions and leading economies, 2007-2008

Table 1.6

Trillions of dollars

Source: UNCTAD (WIR 2009)

	FDI inflows			M&A		
	2007	2008	change	2007	2008	change
WORLD	**1978.8**	**1697.4**	**-14.2**	**1031.1**	**673.2**	**-34.7**
DEVELOPED ECONOMIES	**1358.6**	**962.3**	**-29.2**	**903.4**	**551.8**	**-38.9**
Europe	899.6	518.3	-42.4	557.5	245.7	-55.9
European Union	842.3	503.5	-40.2	526.5	224.6	-57.3
Austria	29.6	13.6	-54.2	9.7	1.3	-86.3
Belgium	110.8	59.7	-46.1	0.9	2.5	168.3
Czech Republic	10.4	10.7	2.8	0.1	5.2	4730.8
Denmark	9.4	10.9	16.1	5.8	6.1	5.8
Finland	12.4	-4.2	-134.0	8.3	1.4	-83.5
France	158.0	117.5	-25.6	28.2	4.5	-83.9
Germany	56.4	24.9	-55.8	44.0	30.0	-32.0
Hungary	6.1	6.5	7.0	0.7	1.6	116.2
Ireland	24.7	-20.0	-181.1	0.8	2.9	256.6
Italy	40.2	17.0	-57.6	23.6	-0.8	-103.2
Netherlands	118.4	-3.5	-102.9	162.3	-8.2	-105.0
Poland	22.6	16.5	-26.9	0.7	1.0	32.7
Romania	9.9	13.3	34.1	1.9	1.1	-44.3
Spain	28.2	65.5	132.6	51.7	32.3	-37.5
Sweden	22.1	43.7	97.8	4.6	16.8	268.7
United Kingdom	183.4	96.9	-47.1	171.0	125.6	-26.6
United States	271.2	316.1	16.6	179.2	225.8	26.0
Japan	22.5	24.4	8.3	16.1	9.3	-42.6
DEVELOPING ECONOMIES	**529.3**	**620.7**	**17.3**	**97.0**	**100.9**	**4.0**
Africa	69.2	87.6	26.7	7.9	20.9	164.4
South Africa	5.7	9.0	58.4	4.1	6.4	54.6
Latin America and Caribbean	127.5	144.4	13.2	20.6	15.2	-25.9
Brasil	34.6	45.1	30.3	6.5	8.2	26.0
Asia and Oceania	332.7	388.7	16.8	68.5	64.7	-5.6
East Asia	77.6	90.3	16.3	23.0	14.7	-36.1
Turkey	22.0	18.2	-17.5	16.4	11.6	-29.2
South, East and South-East Asia	253.8	297.6	17.2	45.3	50.8	12.1
China	83.5	108.3	29.7	9.3	5.1	-44.5
Hong Kong, China	54.4	63.0	15.9	7.0	8.3	19.1
India	25.1	41.6	65.4	4.4	9.5	116.0
Singapore	31.6	22.7	-28.0	7.4	14.2	91.7
TRANSITION ECONOMIES	**90.9**	**114.4**	**25.9**	**30.7**	**20.5**	**-33.1**
Russia	55.1	70.3	27.7	22.8	13.8	-39.4



2 Spanish Companies from an International Perspective

The economic and financial crisis has taken a huge toll on Spanish companies of practically all sectors and sizes. 2008 will go down in history as one of the worst on record from the standpoint of equity markets. For the Ibex-35 as a whole, for example, total shareholder returns fell by 36.5%. This decline was in line with the setbacks in the selective indices in other major markets, which ranged from -28% for the UK's FTSE to 40% for Germany's DAX.

This chapter documents and analyses from an international perspective the performance of Spanish companies in terms of their shareholder returns, their recommendations by equity market analysts and their presence in the international financial press. As in previous editions, we present the data for 2008, contextualizing performance over time, and compared with the averages in other countries in the euro area and the global total. The comparative outlook is highly significant in times of both boom and crisis. In particular, markets, analysts and the international financial press gauge the performance of companies, and directly examine their capacity to obtain resources, grow and compete in the global market. There are a number of considerations that should be taken into account. Firstly, **international investors** are normally more inclined to finance growth of Spanish companies the heftier their financial yield, the better their equity market analysts' recommendations and the greater their presence in the international financial press relative to other European or worldwide companies. Secondly, a positive perception or image of Spanish companies in Europe and the world multiplies their **business opportunities**. Lastly, **present or potential buyers** of the products and services offered by Spanish companies may be influenced by an improvement in their image or the way they are perceived.

If 2007 signaled a change in trend in the indicators of shareholder returns, recommendations and visibility, 2008 saw a sharp decline. Furthermore, there are two significant differences which merit concern. The first is that although in 2007 some technology- or knowledge-intensive sectors (such as material for railways, construction and infrastructure management, as well as machinery hire, biotechnology and financial services) did not suffer as much, during 2008 the slump in **shareholder returns** has been more widespread, regardless of corporate sector or company size. Coverage of Spanish companies in the **international financial press** has also diminished, although this is not due solely to the smaller scale of major investment transactions, but also because in 2008 there

were no serious corporate insolvencies or bankruptcies, unlike in other countries. The note of optimism came from international **investment banks,** which, despite the crisis, did not downgrade –and indeed in some cases upgraded– their recommendations on Spanish companies. We begin by analyzing shareholder returns in a European and global context, before examining the recommendations of investment banks and the presence of Spanish companies in the international financial press.

2.1 Shareholders Returns in a European and Global Context

As in previous editions, our analysis of shareholder returns takes into account not only outright rates of return, but also their relative scale compared to similar companies in other countries competing to obtain share capital. Consequently, we will analyze shareholder returns at Spanish companies in a European and global context, so as to determine whether Spanish companies have gained or lost ground. Since, in general, 2008 saw a sharpening of the downward trend which began in 2007, a comparative analysis shows whether Spanish companies have been more or less affected than those of other countries, and enables us to formulate possible future scenarios.

2008 was a disastrous year for shareholder returns, with only a handful of exceptions. Before presenting the figures in detail, it is worth noting that the comparative analysis of shareholder returns at Spanish companies was based on a very thorough indicator known as **the total shareholder return rate**, which factors in not only listed companies' share prices but also other cash flows which might arise during the year between the company and its shareholders (see Box 2.1).

Table 2.1 shows the **top 25 listed Spanish companies by shareholder return**, which in a context of crisis basically includes those whose returns have declined the least. In drafting the list, we took into account the returns at the 118 Spanish companies included in Datastream International. Only 3 companies posted positive returns for their shareholders (Unión Fenosa, Funespaña and Testa Inmuebles en Renta) and another five saw their returns fall by less than 5% (Viscofán, Tecnocom, Prosegur, Bodegas Riojanas and Cepsa). In some cases, the "good" returns, relatively speaking, were due to the companies' products or services not being significantly affected by the economic cycle (Funespaña, Viscofán and Prosegur), while in other cases they were due to movements by various investors to tap industry restructuring (Unión Fenosa and Cepsa).

Among the 25 companies listed in Table 2.1, **the most numerous category is that of manufacturing firms**, with 12 companies focused on activities ranging from transforming agricultural products to biotechnology, from clothing to machinery. 10 of these companies are listed on the IBEX-35, while in 2007 the figure was 12 and in 2006 just 7. This confirms a trend towards higher weighting for companies with sizeable market cap. By no means does this mean that the stocks listed in the selective index had a good year in 2008. Quite the contrary: the only one to record positive earnings was Unión Fenosa (see Tables 2.2 and A1). Overall, shareholders in IBEX-35 companies saw returns tumble by 36.5% in 2008, a slightly better performance than in Germany and France, but worse then the UK and US selective indices. Eleven stocks saw more than 50% wiped of their return rate. The most severely punished sectors were infrastructure, construction, property and finance.

The most notable exception to the poor returns in infrastructure was ACS, which, thanks to its higher degree of diversification and its robust balance sheet, managed to weather the crisis in 2007 and 2008 with considerable success, and remains the IBEX-35 stock with the highest cumulative rate of return in 1995-2008 (see Tables 2.3 and A2). Other top-ranking names include companies in the infrastructure sector: Unión Fenosa, Red Eléctrica, Indra Sistemas, Enagas, Acciona, Abengoa, Telefónica, Iberdrola and Abertis. Several of these companies were also top performers in 2006-2008, along with Grifols and Inditex (Tables 2.4 and A3). Despite the crisis, the IBEX-35 offered a higher return than the world's leading selective indices and than global indices overall since both 1995 and 2006. Having said that, the crisis put an end to the situation in recent years in which almost all

Total Shareholder Return Rate

Box 2.1

The **total shareholder return** (TSR) rate is an indicator used often to evaluate the return obtained by a company's owners over a year in exchange for the capital they provide. In measuring shareholder remuneration, we have calculated an annual rate expressed as a percentage, using the following formula:

$$TRTA = \frac{\Delta V + D + R + \Delta AutoC - AC - CBC}{V_{t-1}} \times 100$$

where:

ΔV	is the increase in the total market value of company stock between the beginning and end of each year,
D	are dividend payments.
R	are payments as a result of reductions in the face value of shares,
$\Delta AutoC$	are increases in treasury stock,
AC	are revenues from rights issues,
CBC	are revenues from the exercise of convertible bonds, and
V_{t-1}	is the total market value of company stock at the end of the previous year.

A **standardized rate** can be calculated to compare TSR from different business sectors by subtracting the sector average and dividing by the sector's standard deviation.

The data source is Datastream International. International fund managers and stock market analysts refer to this information and examine it in detail. Although certain companies are not sorted in the most appropriate sector (for example, Abertis, Cintra and Itínere features under "transport services" and not infrastructure), this classification has consequences in decision-making processes. Accordingly, the data shown in Table 5 have been calculated using the information directly available from Datastream International without any corrections by us, since this would entail distorting the information actually used by fund managers and stock market analysts.

Table 2.1 Top 25 Spanish companies by total shareholder return in 2008[a]

Source: Datastream International through Wharton Research Data Services

Company	SECTOR	RETURN RATE (%)
*Unión Fenosa**	*Electricity*	19.1
Funespaña	*Specialist services*	11.2
Testa Inmuebles en Renta	*Property*	4.7
Viscofán	*Food*	-0.1
Tecnocom	*Telecom equipment*	-1.0
Prosegur	*Corporate services*	-1.7
Bodegas Riojanas	*Alcoholic beverages*	-2.9
Cepsa	*Oil and gas*	-3.5
CVNE	*Alcoholic beverages*	-5.9
Construcción y Auxiliar de Ferrocarril	*Transportation material*	-7.4
*Indra Sistemas**	*IT services*	-10.7
*Red Eléctrica de España**	*Electricity*	-14.9
Campofrío Alimentación	*Food*	-15.3
*ACS**	*Construction*	-16.0
*Mapfre**	*Insurance*	-16.8
*Endesa**	*Electricity*	-18.0
SOS Cuétara	*Food*	-18.6
Miquel y Costas	*Paper*	-19.2
*Grífols**	*Biotechnology*	-19.6
Ebro Puleva	*Food*	-19.8
*Enagas**	*Gas*	-20.0
Banco de Valencia	*Banking*	-22.2
*Inditex**	*Clothing and fashionwear*	-23.3
Zardoya Otis	*Machinery*	-25.4
*Telefónica**	*Telecoms*	-25.4

Notes: * Listed the IBEX-35 at 31 december 2008
a Calculated based on the total of 118 companies listed throughout 2008

the securities listed in the IBEX-35 offered higher returns than the FTSE 100, S&P 500 and Dow Jones.

Because investors strive to diversify their portfolios and frequently do so via various **business sectors**, it is advisable to analyze shareholder returns within each sector as compared to other countries. Table 2.5 shows the top 10 listed companies throughout 2008 by total shareholder return rate compared with companies from the same sector within the Euro area (the comprehensive list is shown in Table A4). The figures are also compared with companies operating in the same sector elsewhere in the world. In both cases, a standardized rate of return is used (see Box 2.1).

In 2008, only 46 of the 118 listed Spanish companies monitored by Datastream obtained a shareholder return rate higher than the average of Euro area companies

Top 10 IBEX-35 companies by total shareholder return rate, based on 2008 rate — Table 2.2

Companies and rates ranked by 2008 figures

Source: Datastream International through Wharton Research Data Services

Company	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average [b] 1995 2008	Average [b] 2006 2008
Unión Fenosa	41.8	100.6	8.0	72.4	19.7	14.7	-5.3	-29.4	22.5	33.8	66.2	21.9	25.9	**19.1**	25.6	22.3
Indra Sistemas	-54.7	14.4	445.6	121.5	40.8	8.0	-4.8	-31.4	58.4	25.3	35.3	15.2	3.3	**-10.7**	22.8	2.0
Red Eléctrica	---	---	---	---	---	70.0	7.5	-4.5	40.1	31.4	62.7	27.1	36.1	**-14.9**	25.4	13.7
ACS	5.7	12.9	312.6	53.0	-28.0	7.7	10.6	13.5	28.4	32.5	64.5	59.6	-2.6	**-16.0**	26.5	9.3
Mapfre	27.4	18.8	3.9	-3.3	-27.9	27.9	-1.7	21.1	47.9	2.6	31.1	24.7	-9.7	**-16.8**	8.4	-2.1
Endesa	30.9	37.0	19.3	41.6	-11.2	-5.6	-0.4	-34.2	43.0	17.8	33.0	74.7	5.1	**-18.0**	13.1	14.6
Grifols	---	---	---	---	---	---	---	---	---	---	---	---	53.0	**-19.6**	10.9	10.9
Enagas	---	---	---	---	---	---	---	---	52.6	46.0	32.3	13.9	16.0	**-20.0**	20.8	1.8
Inditex	---	---	---	---	---	---	---	5.7	-28.1	36.9	29.3	50.7	4.6	**-23.3**	7.2	6.5
Telefónica	11.4	84.4	46.8	54.0	104.3	-29.0	-11.1	-41.0	46.6	22.7	-1.2	31.2	41.7	**-25.4**	16.7	11.5
FTSE 100 [a]	26.0	16.9	28.7	17.5	20.6	-8.2	-14.1	-22.2	17.9	11.2	20.8	14.4	7.4	**-28.3**	6.1	-4.2
DJIA [a]	36.4	22.4	32.3	12.2	14.0	5.1	-11.1	-15.9	29.4	15.6	9.5	15.7	8.9	**-31.9**	8.5	-5.0
IBEX 35 [a]	22.4	47.1	44.5	38.6	20.1	-20.5	-6.1	-26.5	32.2	21.1	22.0	36.0	10.7	**-36.5**	11.2	-1.5
S&P500 [a]	37.6	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9	15.8	5.5	**-37.0**	6.8	-8.4
CAC40 [a]	2.8	27.6	33.0	34.1	54.1	1.0	-20.3	-31.9	19.9	11.4	26.6	20.9	4.2	**-40.3**	6.8	-9.1
DAX 30 [a]	7.0	28.2	47.1	17.7	39.1	-7.5	-19.8	-43.9	37.1	7.3	27.1	22.0	22.3	**-40.4**	6.1	-3.8
World market	16.8	13.1	13.4	21.7	32.5	-15.3	-16.2	-16.8	37.8	17.9	13.6	23.8	15.1	**-43.3**	5.5	-6.8

Notes: a Market indices were calculated based on companies listed in them each year
b Calculated as a geometrical average

in their respective sectors, i.e. 39% of the total, approximately the same proportion as in 2007 (38%). In the years prior to the crisis, however, the proportion of Spanish companies above the average was higher. For example, in 2006 the figure was 54%. This trend means that, because of the crisis, there has been a **decline in returns as compared with companies from the same sector in the Euro area** (see Table A4).

In 2008, 16 Spanish companies obtained a higher return in standard deviation terms compared with the average of their Euro area peers within the same sector. Two of them, Unión Fenosa and Tecnocom, were more than two standard deviations above the average (Tables 2.5 and A4). Also noteworthy were the returns at Viscofán, Prosegur, ACS and Acerinox, which were at least 1.5 standard deviations above the average among their European peers. Once again, half of the companies

Table 2.3

Top 10 IBEX-35 companies by total shareholder return rate, based on 1995-2008 average

Companies and rates ranked by 1995-2008 average

Source: Datastream International through Wharton Research Data Services

Company	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average [b] 1995 2008	Average [b] 2006 2008
ACS	5.7	12.9	312.6	53.0	-28.0	7.7	10.6	13.5	28.4	32.5	64.5	59.6	-2.6	-16.0	**26.5**	9.3
Unión Fenosa	41.8	100.6	8.0	72.4	19.7	14.7	-5.3	-29.4	22.5	33.8	66.2	21.9	25.9	19.1	**25.6**	22.3
Red Eléctrica	---	---	---	---	---	70.0	7.5	-4.5	40.1	31.4	62.7	27.1	36.1	-14.9	**25.4**	13.7
Indra Sistemas	-54.7	14.4	445.6	121.5	40.8	8.0	-4.8	-31.4	58.4	25.3	35.3	15.2	3.3	-10.7	**22.8**	2.0
Enagas	---	---	---	---	---	---	---	---	52.6	46.0	32.3	13.9	16.0	-20.0	**20.8**	1.8
Acciona	-26.2	52.1	152.1	182.1	-19.2	-29.7	6.4	-3.0	26.0	38.1	48.0	52.0	55.8	-58.2	**19.4**	-0.3
Abengoa	---	---	63.8	68.4	0.0	61.4	-17.7	-17.6	5.4	28.1	72.7	125.6	-12.7	-50.8	**17.3**	-1.1
Telefónica	11.4	84.4	46.8	54.0	104.3	-29.0	-11.1	-41.0	46.6	22.7	-1.2	31.2	41.7	-25.4	**16.7**	11.5
Iberdrola	44.2	72.6	12.2	35.7	-11.8	0.0	13.0	-5.6	21.7	23.5	27.5	47.8	28.5	-35.5	**16.4**	7.0
Abertis	52.1	41.3	23.1	24.1	-26.4	5.2	30.6	4.9	20.4	45.6	40.8	13.4	4.8	-38.0	**14.1**	-9.7
IBEX 35[a]	22.4	47.1	44.5	38.6	20.1	-20.5	-6.1	-26.5	32.2	21.1	22.0	36.0	10.7	-36.5	**11.2**	-1.5
DJIA[a]	36.4	22.4	32.3	12.2	14.0	5.1	-11.1	-15.9	29.4	15.6	9.5	15.7	8.9	-31.9	**8.5**	-5.0
S&P500[a]	37.6	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9	15.8	5.5	-37.0	**6.8**	-8.4
CAC40[a]	2.8	27.6	33.0	34.1	54.1	1.0	-20.3	-31.9	19.9	11.4	26.6	20.9	4.2	-40.3	**6.8**	-9.1
FTSE 100[a]	26.0	16.9	28.7	17.5	20.6	-8.2	-14.1	-22.2	17.9	11.2	20.8	14.4	7.4	-28.3	**6.1**	-4.2
DAX 30[a]	7.0	28.2	47.1	17.7	39.1	-7.5	-19.8	-43.9	37.1	7.3	27.1	22.0	22.3	-40.4	**6.1**	-3.8
World Market[a]	16.8	13.1	13.4	21.7	32.5	-15.3	-16.2	-16.8	37.8	17.9	13.6	23.8	15.1	-43.3	**5.5**	-6.8

Notes: a Market indices were calculated based on companies listed in them each year
b Calculated as a geometrical average

outperforming their European peers focus on industrial transformation and the other half operate in the energy, infrastructure, transport and other services sectors. In 2007 no property company, construction firm or bank was among the top performers; in 2008, the list included ACS, Testa Inmuebles en Renta and Banco de Valencia.

The standardized rate taking into account companies from the same sector not only in the Euro area but worldwide yielded quite similar results. The linear correlation between the two lists is 84%. However, there are some interesting differences. For example, Viscofán ranks third in the Euro area, but seventeenth worldwide in terms of return relative to companies from the same sector, Acerinox ranks sixth in Europe and thirty-seventh in the world, and Testa Inmuebles en Renta is only sixteenth in the Euro area but leader if its returns are adjusted to compare with companies from its sector worldwide (Table A4).

Top 10 IBEX-35 companies by shareholder return rate, based on 2006-2008 average

Table 2.4

Companies and rates ranked by 2006-2008 average

Source: Datastream International a través de Wharton Research Data Services

Company	2006	2007	2008	Average [b] 1995-2008	Average [b] 2006-2008
Unión Fenosa	21.9	25.9	19.1	25.6	**22.3**
Endesa	74.7	5.1	-18.0	13.1	**14.6**
Red Eléctrica	27.1	36.1	-14.9	25.4	**13.7**
Telefónica	31.2	41.7	-25.4	16.7	**11.5**
Grifols	---	53.0	-19.6	10.9	**10.9**
ACS	59.6	-2.6	-16.0	26.5	**9.3**
Iberdrola	47.8	28.5	-35.5	16.4	**7.0**
Inditex	50.7	4.6	-23.3	7.2	**6.5**
Indra Sistemas	15.2	3.3	-10.7	22.8	**2.0**
Enagas	13.9	16.0	-20.0	20.8	**1.8**
IBEX 35[a]	36.0	10.7	-36.5	11.2	**-1.5**
DAX 30[a]	22.0	22.3	-40.4	6.1	**-3.8**
FTSE 100[a]	14.4	7.4	-28.3	6.1	**-4.2**
DJIA[a]	15.7	8.9	-31.9	8.5	**-5.0**
World Market[a]	23.8	15.1	-43.3	5.5	**-6.8**
S&P500[a]	15.8	5.5	-37.0	6.8	**-8.4**
CAC40[a]	20.9	4.2	-40.3	6.8	**-9.1**

Notes: a Market indices were calculated based on companies listed in them each year
b Calculated as a geometrical average

As in 2007, there are major differences from one sector to the next. **The companies with highest returns relative to their European peers were those focusing on food (Viscofán, Campofrío, SOS, Ebro Puleva), wine (Bodegas Riojanas, CVNE, Barón de Ley) and banking (especially Banco de Valencia, Banco de Sabadell and Banesto).** In fact, among the ten listed banks included in Datastream International, all but Banco Pastor offered higher returns than the average among their European peers, but only Banco de Valencia and Banco de Sabadell were above average when the comparison is worldwide. The sectors with the worst returns vs. the Euro area were pharmaceuticals, special chemicals, construction, construction materials, property, media and non-banking financial services. In the other sectors, performance in 2008 has been mixed, with some companies recording higher returns than those of other countries, and others lower returns (Table A5).

Table 2.5

Top 10 Spanish companies by total shareholder return in 2008, relative to companies in the same sector in Euro area

Source: Datastream International through Wharton Research Data Services

	Absolute rate		Standardized rate		Standardized rate	
Company	Position	%	Position	Euro area	Position	World
Unión Fenosa	1	19.1	**1**	**2.24**	4	1.5
Tecnocom	5	-1.0	**2**	**2.11**	2	1.71
Viscofán	4	-0.1	**3**	**1.7**	17	0.55
Prosegur	6	-1.7	**4**	**1.66**	8	0.99
ACS	14	-16.0	**5**	**1.62**	11	0.79
Acerinox	29	-30.7	**6**	**1.48**	37	-0.1
Bodegas Riojanas	7	-2.9	**7**	**1.47**	7	1.04
Cepsa	8	-3.5	**8**	**1.36**	3	1.53
CVNE	9	-5.9	**9**	**1.33**	9	0.9
Miquel y Costas	18	-19.2	**10**	**1.32**	15	0.6

In short, in 2008 the change in trend observed in 2007 was confirmed, with a sharp dip in shareholder returns at listed Spanish companies. **In outright terms, the declines were across the board. However, relative to companies in the Euro area or the world, certain sectors (food, wine and banking) managed to post favorable results, while others felt the brunt of the crisis (pharmaceuticals, special chemicals, construction, construction materials, property, media and non-banking financial services).** Looking ahead, it is crucial that decisions take into account these sector-by-sector patterns.

2.2 Investment bank analysts and Spanish companies

A second way of looking at the relative position of Spanish companies within the framework of the European and global economies is to examine the degree of coverage and the recommendations issued by **investment banks**. Surprisingly, 2008 contains positive aspects as well as negative ones in this connection. This section looks at recommendations to buy or sell shares in listed companies issued by equity market analysts. These recommendations can and do have a substantial impact on the company's future prospects, since they create a climate of opinion about whether or not it is advisable to include—or keep including—a particular listed company in mutual fund portfolios (see Box 2.2).

As in 2007, in 2008 investment bank analysts' recommendations followed a different pattern to shareholder returns. In general, there was an increase in coverage vs. 2007, although without exceeding the record set in 2004, and there were upgrades in some recommendations and downgrades in others. This pattern is due to the fact that the various companies and sectors were affected in different ways by the crisis and analysts see different future prospects for them.

Table 2.6 shows the recommendations issued between 1995 and 2008 on companies which during all those years were listed in the IBEX-35. The table shows that,

Stock market analysts' recommendations Box 2.2

The data source used to gauge **recommendations from stock market analysts** is I/B/E/S (Institutional Brokers Estimates System), which includes recommendations by analysts mainly from foreign investment banks, as well as one or two from Spain. The data provided reflects all these recommendations. For each year, the opening and final recommendation made by each investment bank was used. While every investment bank uses its own classification system, the standard recommendations employed in the I/B/E/S database are "strong buy", "buy", "hold", "underperform", and "sell". Average recommendations were also used using a scale of 1 ("strong buy") to 5 ("sell"), and these are also included in I/B/E/S.

It should be noted that from April 2003 a new regulatory framework in the United States aimed at preventing conflicts of interest and financial scandals obliged stock market analysts to provide more information regarding their recommendations and other aspects of their activities. The outcomes of this was a reduction in the number of positive recommendations relative to negative ones. For this reason, data from after the enactment of this new regulatory framework are not strictly comparable with previous data.

while there were slight fluctuations in the period, **the number of investment banks tracking and issuing recommendations on Spanish stocks increased**, further evidencing the greater significance and international projection of Spanish companies. While in 1995 just 340 recommendations were issued on IBEX-35 companies, in 2008 the figure increased to 634 (from 586 one year previously), and the record was set in 2004 (647 recommendations). Table A6 shows the number of recommendations referring to every listed Spanish company in 2008. Telefónica, with 45, tops the list, followed by BBVA and Repsol, with 38 each, and Santander and Iberdrola, with 36. This is hardly surprising since these are the largest companies in market cap terms and they tend to attract most attention from analysts.

Most notably in 2008, investment banks' recommendations on listed Spanish companies actually improved significantly in the case of buy recommendations, with upgrades from the "buy" category to "strong buy", although on the flip side there were downgrades from "underperform" to "hold". This dual movement did not occur in 2007, when there were only improvements in recommendations. As shown in Table 2.6, "strong buy" recommendations increased from 17.5% to 22.1% of the total in 2008, while "buy" recommendations declined from 28.5% to 22.7%. At the same time, "hold" recommendations fell from 26.8% to 25.6% while "underperform" recommendations increased from 20.0% to 22.6%.

The annual fluctuations in analyst recommendations are due to a series of factors. It is worth recalling that investment banks react to the macroeconomic, financial or competitive environment by substantially changing their recommendations (see Table 2.6). The 1996-1998 period saw a steady decline in recommendations on Spanish companies, which nevertheless improved from 1999 to 2001, due to the overall sound performance by the Spanish economy once it had qualified for entry into the Monetary Union. 2002 saw a deterioration in recommendations due to the crisis in Argentina and its repercussions elsewhere in Latin America, a region in which more than half of IBEX-35 companies have major investments. From 2003 onwards, recommendations improved slightly, but did not reach the levels of the late-1990s, perhaps due to regulatory changes in the activities of stock market analysts in the wake of financial scandals in the US (see Box 2). **The fact that in 2008 there was an improvement in recommendations from "buy" to "strong buy" is encouraging, heralding the considerable gains in the IBEX-35 from March 2009. It is important to highlight that at the end of 2008 the proportion of "strong**

Table 2.6

Vertical percentages

Recommendation	1995		1996		1997		1998		1999		2000	
	F	L	F	L	F	L	F	L	F	L	F	L
"Strong buy"	30.6	32.6	26.3	26.8	24.7	21.8	22.4	18.2	23.7	27.0	22.6	23.4
"Buy"	16.5	16.2	17.9	17.9	24.1	26.5	27.6	29.5	32.1	33.0	39.7	38.3
"Hold"	37.6	37.1	38.9	35.5	36.0	37.5	34.1	36.9	31.4	28.8	28.6	29.2
"Underperform"	7.4	7.6	7.4	9.5	9.0	8.1	10.8	9.7	9.5	8.8	7.7	7.4
"Sell"	7.9	6.5	9.5	10.3	6.1	6.1	5.1	5.7	3.3	2.4	1.4	1.7
Total IBEX-35	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Number	**340**	**340**	**380**	**380**	**344**	**344**	**352**	**352**	**452**	**452**	**416**	**418**

F First
L Last

buy" recommendations (22.1% of the total) was the highest since 2000, which is certainly good news.

Like shareholder returns, it is worth putting investment bank recommendations in the context of the **sector of activity** in which the company operates. Table 2.7 shows the top-ten listed Spanish companies in terms of stock market analyst recommendations in 2008, standardized by sector in the Euro area (the full list is given in Table A6). The interpretation of these data is the same as in table 2.5, in other words, a potential investor will want to compare the recommendations obtained by Spanish companies with those obtained by companies in the same sector in the same monetary region. Table 2.7 also shows the standardized recommendations using figures from companies in each sector worldwide. Since the I/B/E/S database gives a score of 1 to the best recommendation ("strong buy") and of 5 to the worst ("sell"), the companies with the best recommendations are those with the lowest standardized score and, of course, negative, since it will always be lower than the average.

Companies with the best standardized recommendation by sector in the Euro area in 2008 were Avanzit, Duro Felguera, Pescanova, Amper, Técnicas Reunidas, Telvent, Cintra, Tubacex, Viscofán and Acciona. Pescanova is the only one that also featured in the top ten in 2007. These companies also obtained outstanding recommendations compared with companies in the same sector worldwide. As in 2007, it is interesting that investment banks do not consider that Spanish companies should receive worse recommendations than their counterparts in emerging economies, although (as we said in the previous section) shareholder return rates are not as high (see Table 2.7).

In the previous section we said that in 2008 return at Spanish companies vs. companies in the same sector in Europe and the rest of the world deteriorated. In the case of analysts' recommendations, there has been a considerable improvement. **In 2008, 45% of the 113 listed companies received above-average recommendations compared with companies in their sector in the Euro area, while in 2007 the figure was just 39%. With respect to companies worldwide, also within the same sector, the figure in 2008 was 42%, vs. 37% in 2007** (see Table A6). Accordingly, in 2008, stock market analysts issued more favorable recommendations on Spanish companies than in 2007, as compared with companies in the Euro area and worldwide, in the same sector.

Stock market analysts' recommendations on IBEX-35 companies, 1996-2008

Source: I/B/E/S (Institutional Brokers Estimates System) through Wharton Research Data Services

2001		2002		2003		2004		2005		2006		2007		2008		Total
F	L	F	L	F	L	F	L	F	L	F	L	F	L	F	L	1995 2008
18.9	20.4	16.3	17.1	14.9	17.8	15.3	16.7	14.1	16.3	17.7	17.3	16.6	18.6	17.5	22.1	21.2
34.5	32.6	34.4	29.9	30.8	23.5	27.4	24.1	26.2	21.5	26.4	18.7	23.9	26.3	28.5	22.7	26.3
33.0	34.2	34.4	36.1	34.5	39.3	32.8	34.6	32.3	32.0	33.2	35.0	33.6	32.8	26.8	25.6	33.5
12.2	11.3	11.9	13.9	13.7	14.1	17.8	19.0	18.2	23.3	15.2	20.3	19.3	17.1	20.0	22.6	13.2
1.5	1.5	3.0	3.0	6.0	5.3	6.7	5.6	9.2	6.9	7.5	8.7	6.7	5.3	7.1	7.1	5.9
100	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
476	**476**	**596**	**596**	**562**	**562**	**646**	**647**	**595**	**596**	**572**	**572**	**586**	**586**	**634**	**634**	**14828**

Note: Data prior to April 2003 are not comparable to data subsequent to that date because of the regulatory change in the United States aimed at preventing conflicts of interest between investment banks and financial intermediaries. The figures were calculated based on companies listed in the IBEX-35 in each year

Top 10 Spanish companies by average recommendation from stock market analysts in 2008, compared to companies in the same sector within the Euro area

Table 2.7

Average recommendation 1=best; 5=worst

Source: I/B/E/S (Institutional Brokers Estimates System) through Wharton Research Data Services

	Number of recommendations			Average recommendation		
Company	Absolute	Standardized Euro area	Standardized world	Absolute	Standardized Euro area	Standardized world
Avanzit	2	-0.75	-0.59	1.00	-1.76	-1.60
Duro Felguera	4	-0.45	-0.25	1.25	-1.73	-1.42
Pescanova	4	-0.38	-0.26	1.25	-1.45	-1.31
Amper	7	-0.35	-0.07	1.29	-1.39	-1.29
Técnicas Reunidas	15	0.95	1.61	1.33	-1.38	-1.21
Telvent	2	-0.42	-0.56	1.00	-1.30	-1.58
Cintra	25	2.19	3.16	1.76	-1.29	-0.90
Tubacex	14	0.82	1.44	1.43	-1.27	-1.09
Viscofán	14	0.90	1.46	1.50	-1.18	-1.02
Acciona	19	1.30	2.08	1.53	-1.10	-1.12

Note: the average recommendation was calculated giving the following values: "strong buy"=1, "buy"=2, "hold"=3, "underperform"=4, and "sell"=5

2.3 Visibility of Spanish companies in the international financial press

As in 2007, 2008 saw a slight reduction in coverage of Spanish companies in the international financial press. The amount and quality of press coverage are hugely important variables since investors, analysts and the public worldwide use publications like the *Financial Times, Wall Street Journal, Wall Street Journal Europe* and *The Economist* to obtain information and forecasts regarding the economy and business. The financial, economic and political elites read these sources and make decisions based on information published therein. In other words, the international financial press contributes to creating an image and currents of opinion. Box 2.3 describes the methodology used to gauge the presence of Spanish companies in the four leading printed media.

Chart 2.1 shows the number of times Spanish companies were mentioned since 1995. It shows that coverage of Spanish companies has increased from less than 1,000 references per years prior to 1995 to an average of around 3,000 since 2006. **There were three outright peaks in the last decade, in 1997, 2000 and 2006,** each linked to certain major transactions at some of the largest Spanish multinationals, a matter we shall look at in more detail below. **In 2008, both absolute coverage and the relative number of articles published fell.** At all events, Spanish companies still focus more attention than might be expected in view of the economy's size in a global context. To put these figures into perspective, Spain's GDP accounts for just under 2% of the global economy, but Spanish companies are mentioned in 2.7% of international financial press articles, which means that in 2008 Spanish companies received coverage 35% higher than the Spanish economy's weighting in the world.

Box 2.3 Methodology for compiling references to Spanish companies in the international financial press

References to Spanish companies in the international financial press have been calculated using a three-pronged methodology. The first step was to create a list of the almost 200 companies which in principle stood a chance of appearing at least once in the *Financial Times, Wall Street Journal, Wall Street Journal Europe* and *The Economist* between 1995 and 2008. The second involved carrying out systematic searches in these four printed media for articles referring to any of these companies, using the Factiva (Dow Jones) database. Lastly, the findings were systematically combed through to verify their accuracy.

If the same firm was referred to more than once in a single article, this was counted as a single reference.

Table 2.8 shows the top 25 Spanish companies in terms of press coverage in 1995-2008. Predictably, **Telefónica, Santander, BBVA, Endesa and Repsol topped the list in terms of international media coverage in 2008.** They are also the top 5 in terms of coverage since 1995.

Coverage in the international financial press follows clear patterns. In general, attention focuses on larger companies in strategic sectors, reflecting either international transactions or hostile and defensive M&A movements. Chart 2.2 shows the performance of international press visibility for Telefónica, Santander, BBVA, Endesa and Repsol over time. At the beginning of the recent international growth period, in 1997, Endesa, Santander and Telefónica received special coverage due to their operations in Latin America. In 2000, Telefónica and BBVA stood out, the first in the context of the global boom in telecommunications and

Number of references to Spanish companies in articles published in the international financial press, 1995-2008

Chart 2.1

Source: Factiva

Note: The media included in the analysis are *the Financial Times, Wall Street Journal, Wall Street Journal Europe* and *The Economist.*
The correlation between the two series of data is 0.90

Table 2.8

Top 25 Spanish companies by references in the international financial press, 1995-2008

Source: Factiva

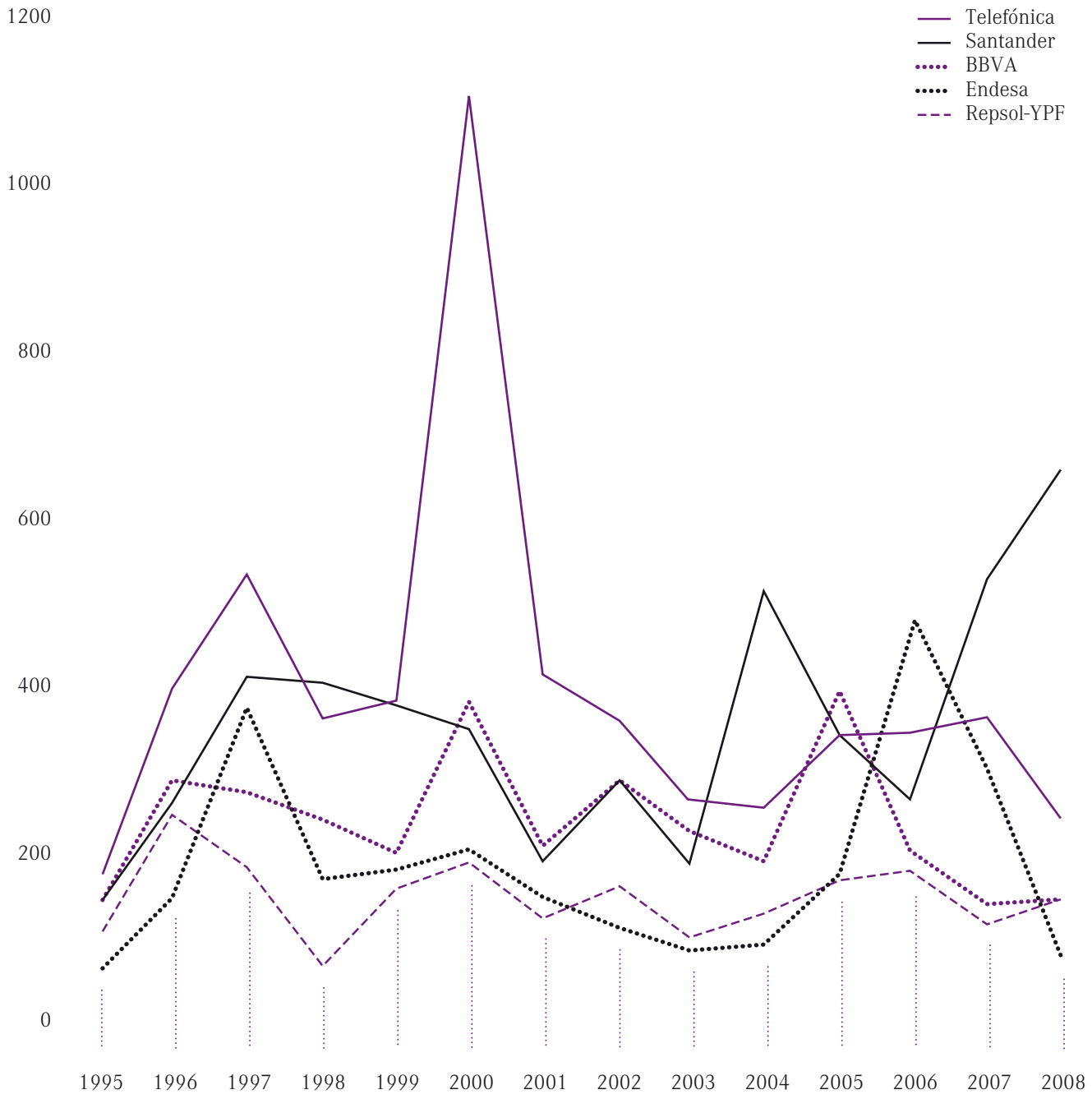
Company	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Absolute 1995 2008	Relative 1995 2008[a]
Telefónica	177	400	538	362	382	1114	413	360	262	256	343	346	361	245	5559	6074
Santander[b]	136	264	414	405	378	347	191	295	186	520	349	261	532	664	4942	1356
BBVA[c]	142	288	273	242	201	389	207	291	227	195	399	202	139	147	3342	917
Endesa	64	148	381	175	182	207	147	112	84	92	174	482	298	78	2624	7006
Repsol	106	251	185	65	160	193	124	162	99	130	172	181	117	147	2092	1278
Iberia	94	117	131	83	90	67	125	77	65	118	81	58	92	120	1318	3607
Iberdrola	23	43	45	56	33	145	110	48	83	32	58	158	148	233	1215	3244
Ferrovial	2	4	1	6	15	11	8	7	31	40	24	380	155	222	906	1175
Gas Natural	14	45	31	19	14	54	14	37	69	34	120	237	113	59	860	526
Inditex	3	0	14	7	14	17	54	39	60	73	110	92	116	102	701	2373
La Caixa	29	55	70	48	47	70	9	25	32	36	39	40	45	55	600	165
Unión Fenosa	7	21	35	34	23	94	46	63	36	16	56	55	28	59	573	1530
Banco Español de Crédito	78	48	62	34	21	8	1	53	27	55	24	30	29	36	506	139
Real Madrid	50	41	56	41	20	15	21	35	55	32	28	21	9	57	481	1474
Altadis[d]	0	0	0	0	12	39	10	24	50	30	47	40	186	39	477	2267
Telefónica Móviles	0	0	6	1	3	101	81	57	45	45	34	21	3	1	398	435
Banco Popular Español	9	30	43	30	27	41	12	45	30	31	22	10	19	44	393	108
Acciona	0	0	0	8	7	9	7	2	12	10	18	72	183	52	380	493
Caja de Ahorros de Madrid	2	3	14	19	25	19	12	12	21	29	26	21	59	42	304	83
Abertis Infraestructuras	0	0	0	0	0	0	0	0	1	17	28	144	58	44	292	8464
Sacyr Vallehermoso	0	0	0	0	0	0	3	4	12	6	21	52	98	93	289	375
PRISA	2	16	36	9	16	24	8	22	5	6	22	8	12	28	214	234
ACS	0	0	1	1	0	1	8	12	13	7	18	56	31	63	211	274
FCC	3	9	8	22	8	8	16	12	12	12	9	23	34	23	199	258
Metrovacesa	3	1	1	1	1	0	0	7	21	4	32	40	38	42	191	520
Absolute total	**1109**	**2054**	**2666**	**1889**	**1865**	**3304**	**1841**	**2044**	**1801**	**2091**	**2552**	**3304**	**3239**	**3117**	**32876**	**---**
Relative total[e]	**1132**	**1388**	**1516**	**1720**	**1710**	**2856**	**1712**	**1890**	**1536**	**1837**	**2406**	**3167**	**3258**	**2700**	**2019**	**---**

Notes: The media included in the analysis are the Financial Times, Wall Street Journal, Wall Street Journal Europe and The Economist
a Per 100,000 articles published on the sector in which the company operates
b Prior to the merger between Santander and Central Hispano in 1999 the references to the two companies have been included
c Including references to Argentaria, BBV and BBVA
d Including only references to Altadis, not including references to Tabacalera
e Per 100,000 articles published in the four media analyzed

Top 5 Spanish companies by references in the international financial press, 1995-2008

Chart 2.2

Source: Factiva



Note: The media included in the analysis are *Financial Times, Wall Street Journal, Wall Street Journal Europe* and *The Economist*

Table 2.9

Top 25 Spanish companies by references in the international financial press in 2008, by publication

Source: Factiva

Company	Total	FT	WSJ	WSJE	The Economist
Santander	664	435	144	59	26
Telefónica	245	179	33	27	6
Iberdrola	233	167	37	23	6
Ferrovial	222	165	26	21	10
BBVA	147	85	36	17	9
Repsol	147	100	27	14	6
Iberia	120	88	18	12	2
Inditex	102	64	27	10	1
Sacyr Vallehermoso	93	62	14	15	2
Endesa	78	48	15	12	3
ACS	63	48	9	5	1
Gas Natural	59	36	13	6	4
Unión Fenosa	59	37	14	7	1
Real Madrid	57	51	4	2	0
La Caixa	55	35	10	8	2
Acciona	52	35	11	4	2
Abertis Infraestructuras	44	26	11	3	4
Banco Popular Español	44	32	6	5	1
Spanair	44	16	11	16	1
Caja de Ahorros de Madrid	42	27	8	6	1
Metrovacesa	42	28	7	7	0
Altadis	39	28	6	5	0
Banco Español de Crédito	36	22	6	8	0
Inmobiliaria Colonial	33	16	10	7	0
PRISA	28	22	3	3	0
Total Spanish companies	**3117**	**2073**	**597**	**343**	**104**
Relative total [a]	**2700**	**3012**	**1579**	**7758**	**2361**

Note: a Per 100,000 articles published in the media analyzed

the second because of its investments in Latin America. Lastly, in 2004 Banco Santander was the Spanish company to receive most coverage as a result of its ground-breaking acquisition of Abbey National Bank in the UK, the first major cross-border consolidation move in European banking. This deal paved the way for other companies like Telefónica, Ferrovial and Iberdrola, which subsequently acquired O2, BAA and Scottish Power, respectively.

The information in Table 2.8, as in Chart 2.2, explains the peak in coverage in 1997 (again see Chart 2.1), which was due mainly to media attention on international operations by Telefónica, Santander and Endesa, most notably in Latin America. The peak in 2000 came in the midst of the technology bubble, and in that year Telefónica was mentioned 1,114 times. BBVA also focused attention that year, due partly to the BBV-Argentaria merger announced at the end of the previous year and partly to its expansion in Latin America.

In 2008, there have been a number of major changes in coverage of the various companies. Santander has become the most widely-mentioned, mainly because of the banking sector's significance in the crisis. Coverage of the bank has largely been highly favorable, based on its robustness vs. its international competitors and its shopping spree in the UK, while its rivals were fighting for survival. BBVA also saw an improvement, but did not exceed its peak of coverage in 2005, when it performed major transactions. Meanwhile, references to Telefónica and, above all, Endesa, declined sharply. In fact, in the case of the utility it returned to the levels prior to the corporate moves that culminated in its acquisition by Enel. Repsol, Iberia and Iberdrola also saw media coverage increase in 2008, for varying reasons. Oil companies, airlines and electric utilities were centre-stage for a number of reasons (Table 2.8). **As in previous years, 2008 confirmed that the international financial press's attention on Spanish companies was due mainly to their international growth and to M&A moves.**

In a year of crisis, media attention focused disproportionately on the most affected sectors, like energy and banking. But this should not obscure the fact that some Spanish companies appear inordinately often in the international press in relation to the coverage received by their sector as a whole. The last column of Table 2.8 shows the number of references vs. the number of articles published in the four printed media regarding the specific sector of each company between 1995 and 2008. This indicator shows that Abertis was the Spanish company mentioned most often relative to its sector, followed by Endesa and Telefónica. Abertis operates in a sector (transport infrastructure) which receives less printed media attention than banking or oil, which is why Santander, BBVA and Repsol have a much lower number of mentions relative to their sector.

The four publications analyzed paid uneven attention to Spanish companies in 2008 (Table 2.9). Santander attracted most attention in all four publications, which do not generally single out Spanish companies for coverage. The publication paying most attention in general to Spanish companies is the *Wall Street Journal Europe*, in which 7.7% of articles published in 2008 cited at least one, followed at a distance by the *Financial Times* with 3.0%. *The Wall Street Journal*, published in New York, referred to Spanish companies in just 1.6% of its articles, a proportion that is below the specific weighting of the Spanish economy in the world. Lastly, the weekly *The Economist* mentioned Spanish companies in 2.3% of its articles (see Table 2.9). In the last decade, coverage of Spanish companies in the international financial press has risen sharply in the case of the *Financial Times* and the *Wall Street Journal* (Chart 2.3).

2008 saw a reduction in international media coverage of Spanish firms. A general overview of some of the articles published suggests that this was due not so much to a loss of interest but to fewer major international transactions involving Spanish companies and fewer concentration movements. It is also important to signal that, with a few exceptions, the leading Spanish companies have not been quite as sorely punished by the crisis as those of other countries, and media attention has shifted towards other areas of the world partly for that reason. Lastly, the Spanish banking sector was not as severely affected by the crisis as those of other countries, and this has also led to fewer mentions in the press.

Chart 2.3

Number of references to Spanish companies in articles published in the international financial press, by publication, 1995-2008

Source: Factiva

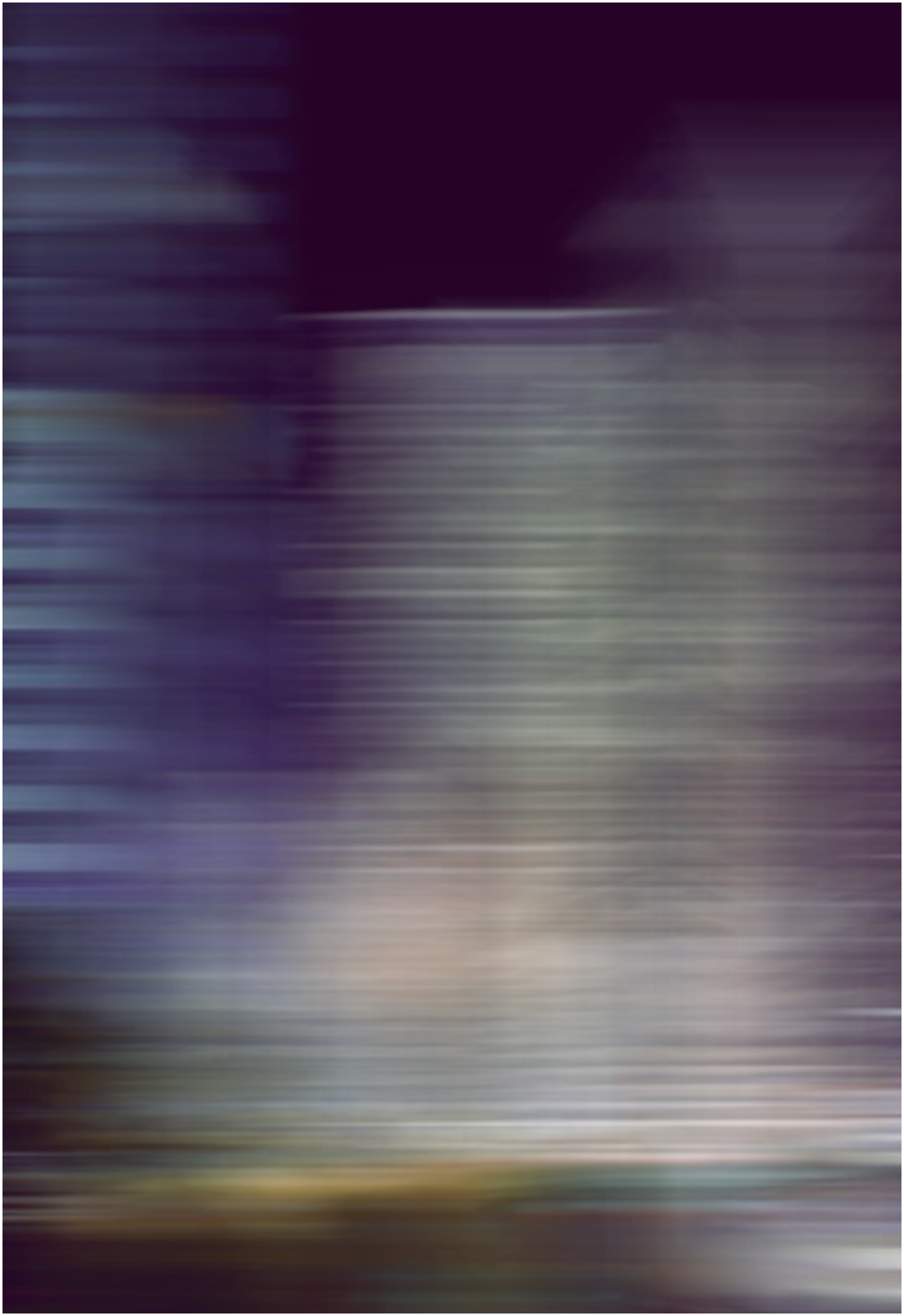
Conclusion 2.4

While 2007 went down in history for the change in the economic and financial cycle, 2008 confirmed just how severe the crisis was. This situation has translated into a widespread decline in shareholder return rates in Spanish companies. The only ones to avoid the worst of the crisis were companies involved in sector consolidation movements, offering products or services that are not sensitive to the economic cycle or those which diversified in time and withdrew from more cyclical activities like construction. It is worth highlighting the fact that shareholder returns for Spanish companies declined more rapidly that at their European or worldwide peers in the same sector, which should be cause for concern.

Sector-by-sector patterns were different to those of other years. Compared with Euro area companies within the same sector, listed Spanish companies in sectors such as food, wine and banking in general offer greater shareholder return rates. The sectors with the worst returns were pharmaceuticals, special chemicals, construction, construction materials, property, media and non-banking financial services. The rest of sectors were a mixed bag. Some companies, like Acerinox, Inditex, Tecnocom, CAF and Miquel y Costas rewarded their shareholders with higher returns than their Euro area competitors, but not all their Spanish peers in the same sector managed to do so.

In a context of significant concern for the economic and financial situation, there has been a positive change in stock market analysts' recommendations on listed Spanish companies overall. Furthermore, analysts upgraded their recommendations on Spanish companies as compared with their competitors in the Euro area and the world. In other words, while returns in 2008 did not improve in relative terms, international stock market analysts appear to be betting on a sound performance by Spanish companies in the immediate future.

The crisis also curbed the upward trend in international financial press coverage of Spanish companies. However, this should not trigger undue alarm. In the last two decades, coverage has been determined by companies' international transactions and sector consolidation. In 2008, there was a decline on both these fronts. The focus of the international financial press shifted towards companies that were struggling. Major Spanish companies, except constructors and property firms, have not been involved in significant difficulties, at least for now. Accordingly, the slight downturn in coverage can actually be interpreted as good news in the short term.



3 The Year in Figures: Principal Transactions of 2008

The Spanish economy entered recession in 2008. It was beaten not only by the spiralling global economic and financial crisis, but also by the collapse of its productive model, unable to generate the necessary competitiveness to ensure sustained long-term growth. In 2009, Spain's GDP continued to decline, and the projections by various international bodies were far from optimistic, ranking Spain among the countries likely to lag furthest behind in the recovery. In fact, the last IMF forecasts (WEO, October 2009) show how our economy will experience negative growth rates in 2010, while the global economy and most of the big economies will develop several signs of recovery.

This deceleration in economic activity and aggregate demand did, however, help mitigate the Balance of Payment deficit. The need for financing fell for the first time in six years, due mainly to the reduction in the current account deficit which was a source of such considerable concern before the crisis.

According to WTO annual statistics, Spain ranks 17th in the world in terms of goods exports and 12th in terms of imports (with a share of 1.7% and 2.5% respectively). As regards commercial services, Spain ranks 6th in terms of exports (3.8%) and 8th in terms of imports (3.1%).

Spain is still a net investor abroad, in line with the trend in recent years, although the gap between investment made and received has narrowed considerably. According to figures in the *World Investment Report* 2009 published by UNCTAD, Spain ranks 6th in the world in terms of FDI inflows (behind the US, France, China, UK and Russia), and 8th in terms of outflows (behind the US, France, Germany, Japan, UK, Switzerland and Canada). As regards cumulative FDI, Spain ranks 7th worldwide in investment received (behind US, France, UK, Hong Kong, Germany and Netherlands), and 9th in terms of stock abroad (behind US, UK, Germany, France, Netherlands, Hong Kong, Switzerland and Japan).

Lastly, despite the unfavourable environment, 2008 was a year of numerous corporate moves by Spanish companies abroad, some clear examples of which are mentioned later in this chapter. Consequently, it is safe to say that Spanish companies continue to strengthen their presence abroad.

Figures such as those included in the *World Investment Report* 2009 bear witness to this. This prestigious publication includes the classifications of the main financial and non-financial cross-border companies in 2008. Of the 50 leading financial institutions, ranked by their international growth, there are two Spanish banks, Banco Santander and BBVA, ranked 20 and 34, respectively. Among the top one hundred non-financials, ranked by assets abroad, there are three Spanish companies: Telefónica, Endesa and Repsol, ranked 12, 35 and 53, respectively.

3.1 Spain's foreign sector: financing requirements subside

In 2008, Spain's Balance of Payments imbalances were mitigated due mainly to the more sluggish economic activity and aggregate demand, as a result of the global crisis and the problems specifically affecting Spain's economy. According to Balance of Payments figures compiled by the Bank of Spain, **financing needs** in the Spanish economy vs. the exterior, measured as the overall balance of the current and capital accounts, declined for the first time in six years, down 2.2% vs. 2007 (from 101.378 billion euro in 2007 to 99.107 billion euro in 2008), in stark contrast to the 24.4% growth in 2007. As a percentage of GDP, financing requirements fell from 9.6% in 2007 to 9% in 2008, so that, although to a lesser extent, Spanish investment continued to be financed using foreign funds (Table 3.1).

This reduction can be explained above all by the considerable downturn in the **current account** deficit, which fell by half a point from 10% of GDP in 2007 to 9.5% in 2008 (see Table 3.1). The capital account surplus also helped with a slight increase, amounting to 0.1% of GDP. At the same time, the improvement in the current balance must be attributed mainly to the sizeable correction in the trade imbalance from mid-year onwards, and, to a lesser extent, to growth in the services surplus, since deficits in current transfers and revenues increased by the odd GDP point.

The improvement in the **trade balance** (goods) was due to the 25% cut in the non-energy deficit in 2008. This figure is in stark contrast to the increase in the energy deficit, which soared by 34% due to the impact of high average oil prices in 2008. However, when oil prices eased off at the end of the year the energy balance helped reduce the trade balance. In fact, in the final quarter of 2008, the energy deficit was almost one-third lower than in the same period of 2007.

It was the sharp decline in final demand and industrial activity in Spain which, logically, reduced demand for imports of technology-intensive consumables and capital and durable consumer goods. This pattern was further accentuated in the final quarter, as the symptoms of the crisis worsened. At the end of the year, goods imports had fallen by 2.7% in real terms with respect to 2007, a year when they grew by close to 5%.

Goods exports were also undermined by the downturn in economic activity worldwide. In 2008, they grew by slightly less than 1% in real terms, vs. 4.3% growth in 2007. This final figure was the result of highly dynamic exports in the first quarter, which later fell sharply in the last few months of the year as global trade contracted against a backdrop of recession. The main destinations for Spanish exports steadily weakened, while competitiveness/price indices showed losses which moderated at the end of the year due to the euro's depreciation and the positive performance by relative prices. Nevertheless, global figures for Spanish exports (in real terms) remained stable in 2008, as they had done in the previous two years. It would therefore seem that Spanish companies were able to maintain their international presence despite the widespread decline in their markets and the competition from an increasing number of emerging economies.

As for sector and geographical specialization (Tables 3.2 and 3.3) there were few major changes, except for the increase in the percentage of imports of energy products over total imports, which grew from 14.8% in 2007 to 20% in 2008.

The breakdown by geographical area of the changes in the trade deficit shows an interesting panorama. The correction in Spain's trade deficit focused especially on its European partners, especially France, since the trade balance vs. France turned positive in 2008 as a result in the dip in Spanish purchases from French suppliers. In contrast, the deficit vs. non-EU countries increased, particularly vs. countries which provide Spain with oil, because of the higher average price of this commodity in 2008. As for China, an increasing source of Spanish consumer goods imports, Spain's trade deficit increased, although at a slower pace than in previous years (Table 3.4).

Balance of payments: amounts

Table 3.1

% of GDP

Source: Bank of Spain

	2000	2001	2002	2003	2004	2005	2006	2007	2008
CAPACITY (+) / NEED FOR (-) FINANCING	-3.1	-3.1	-2.2	-2.5	-4.2	-6.5	-8.4	-9.6	**-9.0**
Current account	-4.0	-3.9	-3.3	-3.5	-5.3	-7.4	-9.0	-10.0	**-9.5**
Goods	-6.4	-5.7	-5.0	-5.1	-6.4	-7.5	-8.5	-8.7	**-8.0**
Services	3.3	3.4	3.1	3.0	2.6	2.4	2.3	2.2	**2.4**
Tourism and travel	4.1	4.0	3.5	3.5	3.2	2.9	2.8	2.6	**2.6**
Other services	-0.8	-0.6	-0.4	-0.5	-0.6	-0.5	-0.5	-0.4	**-0.1**
Income	-1.2	-1.8	-1.7	-1.3	-1.4	-1.9	-2.1	-2.9	**-3.1**
of which: earnings reinvested	0.3	-0.2	-0.2	0.0	0.0	0.2	0.5	0.5	**0.4**
Current transfers	0.3	0.2	0.3	-0.1	0.0	-0.4	-0.7	-0.7	**-0.8**
Capital account	0.8	0.8	1.1	1.0	1.0	0.9	0.6	0.4	**0.5**
FINANCIAL ACCOUNT (a)	3.1	3.2	2.1	2.3	4.1	6.7	8.7	9.6	**8.7**
Excluding Bank of Spain	4.1	0.6	1.6	2.1	5.8	6.9	11.3	8.3	**5.9**
Foreign Direct Investment	-3.2	-0.8	0.9	-0.3	-3.4	-1.5	-6.0	-4.8	**-0.7**
Portfolio investment	-0.2	-2.8	0.6	-3.4	10.2	6.5	20.3	10.0	**0.4**
Other investments	7.2	4.2	0.7	6.2	-1.0	1.9	-3.2	3.5	**7.0**
Financial derivatives	0.3	-0.1	-0.7	-0.4	0.0	0.0	0.2	-0.4	**-0.7**
Bank of Spain [(b)]	-1.0	2.6	0.5	0.2	-1.7	-0.2	-2.6	1.4	**2.8**
ERRORS AND OMISSIONS	0.0	0.0	0.1	0.2	0.1	-0.2	-0.4	0.0	**0.4**

Notes: a Variation in liabilities less variation in assets
b A negative (positive) sign implies an increase (decrease) in the Bank of Spain's net assets vis-à-vis abroad

As regards **services**, Spain's foreign surplus increased by two tenths in 2008 vs. 2007, to total 2.4% of GDP. This improvement breaks down into three-tenths-of-a-GDP-point reduction in non-tourist services to 0.1%, and the one-tenth-of-a-point decline in the surplus in tourism and travel, to 2.6% of GDP, confirming the weak trend in this item in the last few years.

Like all international trade, the services sector also underwent sharp deceleration in revenues and in particu-

Table 3.2 Foreign trade in goods, specialization by product

% of total

Source: Own research based on data from Spain's Industry, Trade and Tourism Ministry

Product	2008 EXPORTS	2008 IMPORTS
Foods	14.2%	9.2%
Energy products	6.5%	19.4%
Commodities	1.9%	3.5%
Non-chemical semi-manufacturing	13.1%	8.3%
Non-iron metals	2.0%	1.5%
Iron and steel	5.1%	3.7%
Paper	1.6%	1.3%
Other semi-manufacturing	4.4%	1.9%
Chemical products	13.4%	12.7%
Organic chemical products	1.6%	2.5%
Inorganic chemical products	0.5%	0.6%
Plastics	3.6%	2.9%
Medicines	4.1%	3.7%
Fertilizers	0.3%	0.3%
Tanning and dyeing products	0.9%	0.5%
Perfumes and essential oils	1.4%	0.9%
Rest of chemical products	1.0%	1.3%
Capital goods	20.5%	22.8%
Machinery for industry	5.8%	5.8%
Office and telecommunications equipment	1.3%	7.2%
Transport material	5.2%	2.5%
Other capital goods	8.3%	7.4%
Autos industry	17.0%	11.4%
Cars and motorcycles	11.2%	5.8%
Auto parts	5.8%	5.6%
Durable consumer goods	2.7%	2.8%
Consumer manufacturing	8.3%	9.4%
Textiles and clothing	4.4%	5.1%
Footwear	1.0%	0.7%
Toys	0.4%	0.8%
Other consumer manufacturing	2.5%	2.9%
Other goods	2.3%	0.4%

Foreign trade in goods, specialization by geographical area

Table 3.3

% of total

Source: Own research based on data from Spain's Industry, Trade and Tourism Ministry

Regions/Countries	2008	
	EXPORTS	IMPORTS
EUROPEAN UNION	69.1%	55.4%
EURO AREA	55.5%	46.2%
France	18.2%	11.1%
Germany	10.5%	13.9%
Italy	8.0%	7.7%
Portugal	8.8%	3.3%
REST OF EU	13.6%	9.2%
UK	7.1%	4.6%
REST OF EUROPE	6.6%	6.3%
Russia	1.5%	2.6%
NORTH AMERICA	4.4%	4.5%
US	4.0%	4.0%
LATIN AMERICA	4.8%	5.0%
Mexico	1.5%	1.1%
Brazil	0.9%	1.1%
Argentina	0.4%	0.8%
REST OF AMERICA	0.1%	0.5%
ASIA	6.4%	18.6%
India	0.4%	0.8%
China	1.1%	7.2%
Japan	0.8%	1.8%
AFRICA	5.4%	9.4%
Morocco	1.9%	1.0%
Algeria	1.1%	2.3%
OCEANIA	0.6%	0.4%
Australia	0.5%	0.3%
TOTAL NON-EU	30.9%	44.6%
TOTAL NON-EURO AREA	44.5%	53.8%
OECD	78.7%	66.4%
NAFTA	5.9%	5.6%
MERCOSUR	1.3%	2.1%
OPEC	3.9%	10.4%

Table 3.4 Breakdown of trade balance by geographical area [(a)]

Y/Y change as a % of GDP

Source: National Statistics Bureau and Customs

	2001	2002	2003	2004	2005	2006	2007	2008	2008 [(b)]
WORLDWIDE TOTAL	**0.0**	**0.1**	**-0.5**	**-1.7**	**-1.9**	**-1.2**	**-0.9**	**0.4**	**-8.6**
EU	-0.3	0.1	-0.2	-0.8	-0.5	-0.2	-0.6	1.2	-2.3
EMU	-0.2	-0.1	-0.1	-0.7	0.5	-0.2	-0.6	1.1	-2.3
Germany	-0.3	-0.2	-0.1	-0.3	0.0	-0.2	-0.4	0.3	-1.8
France	0.1	0.1	0.0	0.0	0.0	0.2	0.1	0.4	0.4
Italy	0.0	0.1	0.0	-0.3	-0.2	0.0	-0.2	0.2	-0.6
Portugal	0.2	-0.1	0.0	.0	0.0	-0.1	0.0	0.1	0.7
Rest of EU	-0.1	0.2	-0.2	-0.1	0.0	0.0	0.0	0.1	-0.1
UK	0.1	0.3	-0.1	-0.1	-0.1	0.1	0.0	0.0	0.0
Rest of world	0.3	0.0	-0.3	-0.9	-1.4	-1.0	-0.3	-0.8	-6.3
US	0.1	0.1	0.0	-0.1	0.0	0.1	-0.1	-0.1	-0.3
China	0.0	-0.1	-0.1	-0.2	-0.3	-0.3	-0.4	-0.1	-1.6
Latin America	0.0	-0.1	-0.1	-0.1	-0.2	0.0	-0.1	-0.2	-0.5
Russia and related countries	0.0	-0.1	0.1	-0.1	-0.2	-0.2	0.0	-0.1	-0.7
OPEC	0.2	0.2	-0.1	-0.1	-0.5	-0.5	0.2	-0.5	-2.0
Rest	0.1	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.2	-0.6

Notes: a Nominal data
b As a percentage of GDP

lar in payments in 2008, with growth rates of 4.6% and 1.3%, respectively, vs. 10% and 12% in 2007. This trend looks to have continued in 2009, although the surplus in services may be decreasing due to the decline in the **tourist balance**: according to the Survey of Tourist Movement on Borders, in the first half of 2009 Spain received visits from 23.55 million foreign tourists, i.e. 11.4% fewer than in the same period in 2008. In that year as a whole, revenues from tourism in real terms fell by almost 5%, the first decline since 2002. This poor performance by tourism revenues was due both to fewer numbers of tourists (in 2008 foreign tourist numbers fell by 2.4%) and lower average spending (real revenue per visitor has been falling since 2001).

As regards **non-tourist services**, revenues growth outpaced that of payments (8.7% and 2.5%, respectively), which made it possible to reduce the deficit under this heading to an equivalent of 0.1% of GDP. The relative weighting of non-tourism services (payments –and also revenues– account for around 5% of GDP) is somewhat less in Spain than in the rest of the Euro area, and should therefore increase in the medium term, thereby diversifying the composition of Spain's services sector.

Lastly, overall, **the balance of goods and services**, in a way the most representative of the performance of the foreign sector, posted a smaller deficit than in 2007:

Immigrant remittances from Spain

Table 3.5

Figures in millions of euros

Source: Bank of Spain

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
2007	1,908	2,011	2,210	2,316	8,445
2008	1,998	1,928	2,075	1,839	7,840
Change (%)	5%	-4%	-6%	-21%	-7%

61.217 billion euro. The year-on-year decrease was 9.5%, vs. an 11% increase in 2007.

The balance of income continued to accumulate a deficit, although at a slower pace than in previous years. The deficit in 2008 was 34.437 billion euro, i.e. 9.3% higher than in 2007, when it had rocketed by no less than 53.1%. In GDP terms, the deficit increased by 0.2 points to 3.1%. Revenues, i.e. the return on Spanish investments abroad, grew by 8.9%, just under half the previous year's growth. As for payments, interest and dividends on foreign investment in Spain, this item rose by 9%, 21 points less than in the previous year.

In Spain, performance of this balance responds to the performance of net returns on investment, since wage income is scarcely significant. In this connection, it is worth pointing out that the higher deficit was triggered by the increase in net payments by the private sector and the reduction in the surplus of income at the Bank of Spain, while the lower negative balance of public administrations helped offset this slightly.

By investment category, the growing deficit of the balance of income is a consequence of the higher deficit of portfolio investment income and returns on other investments (loans, deposits, etc.). The poor performance by these components offset and exceeded the increase in the surplus in returns on direct investment.

The current transfers deficit soared in 2008 by 31%, to 9.249 billion euro, or 0.8% of GDP, one-tenth more than in 2007. This larger deficit was due to both falling revenues (6.8%) and higher expenses (3.6%). The negative performance by current transfers can be blamed on the increasing public sector deficit, in which growth outpaced that of the private surplus. In this connection, the projections in the EU's Multiannual Financial Framework 2007-2013 point to a bigger decline in the balance of current transfers in the next few years, as a result of the increase in contributions to the European Union and the decline in revenues from EU institutions.

As regards **immigrants' remittances,** according to figures published by the Bank of Spain, payments shrank by 7% year-on-year in 2008 (Table 3.5), evidencing the impact of unemployment among the immigrant population. In the final quarter of 2008, immigrant unemployment was 21.3% (780,000 people) of the active foreign population, while for the total Spanish population, including immigrants, unemployment was 12.5% (2,428,400 people). As well as the increase in unemployment there are other factors which generated a decline in remittances sent by immigrants to their countries of origin. For example, the wages earned by immigrants with work permits are decreasing, as are the revenues of those without permits working in the submerged economy and claiming to be unemployed. The result has been an increase in the surplus in this category of the private sector due to the decline in the negative balance deriving from immigrant workers' remittances, whose deficit was 0.2% of GDP, one-tenth less than in 2007, thereby bucking the downward trend recorded since 2001.

The surplus **of the capital balance**, highly conditioned in Spain by capital transfers in the European Union, increased by 21% in 2008, to total 5.556 billion euro or 0.5% of GDP (one-tenth of a point more than in 2007), bucking the negative trend of the previous three years. This performance was the result of the advance in revenues (9%) and the setback in payments (22%). The increase in the capital account surplus affected both the private

sector and, in particular, the public sector. Specifically, growth in public administrations' surplus was fuelled by the transfers from the EU, which grew by 7%, on the back of the positive performance by agricultural funds (the European Agricultural Guidance and Guarantee Fund, EAGGF, and the European Agricultural Rural Development Fund, EARDF), which offset the decline in revenues from the Cohesion Funds and ERDF. These sound figures in 2008 will probably not continue since according to the Multiannual Framework 2007-2013 there will be a reduction in capital transfers received by Spain.

3.2 Spain's foreign sector: changes in capital flows

Financial transactions between the Spanish economy and the rest of the world in 2008 were strongly affected by both the instability in financial markets and the beginning of a global and domestic economic recession. Both phenomena altered the amount and nature of the financial flows between Spain and the rest of the world.

According to Bank of Spain Balance of Payments data, not only did the **financial balance** fall because of the lower financing requirements (9% of GDP, or 98.899 billion euro) triggered by the non-financial operations in the Spanish economy. Other significant flows also decreased. Financial transactions between Spain and the rest of the world in 2008, excluding Bank of Spain operations, generated net inflows totaling 64.773 billion euro (6% of GDP, vs. 8.3% in 2007).

To cover total financing required by the Spanish economy, the Bank of Spain's net assets vs. the rest of the world decreased by somewhat more than 30 billion euro, with a sizeable decline of almost 32 billion euro in assets vs. the Euro system and less significant increases in reserves and the rest of net assets.

This smaller volume of net entries was due to the considerable reduction in inflows and outflows. Investments by non-residents in Spain slumped by 51% to 118.405 billion euro, while investments undertaken by residents in the rest of the world fell by an even larger percentage (65%), to 53.632 billion euro. As a result, net financing obtained by the Spanish economy materialized in non-residents' investments in Spanish assets and divestments by Spaniards in securities issued by non-residents.

Of the captions under the financial balance heading, **Foreign Direct Investment** (FDI) is most significant to the focus and purpose of this Yearbook. In 2008 and in terms of FDI, the Spanish economy was still a net investor in the amount of 8.040 billion euro, vs. almost 51 billion euro in 2007 (0.7% vs. 4.8%). In line with events in the global economy, especially in developed countries, there were declines both Spain's direct investment in the rest of the world (down 48%) and foreign direct investment in Spain (down 11%)[4].

Spain's direct investment abroad fell to around 4.8% of GDP in 2008, far from the levels reached, not only in 2007, but throughout this decade. The breakdown[5] of this investment by instruments shows that almost half were net acquisitions through share purchases, while retained earnings and other capital holdings together accounted for 40% (22% and 18%, respectively). The rest of categories (financing to related parties and buildings) accounted for around 12%.

The Breakdown of FDI by sector (Table 3.6) shows that financial intermediation, manufacturing industry and production and distribution of electric power, gas and water, as in previous years, topped the ranking, accounting for 72% of all FDI performed by Spain. The weighting of other sectors was not significant, although it is worth noting that construction companies, which are leaders in the international construction and infrastructure management industry, accounted for 2.9% of Spanish FDI.

The geographical breakdown of Spanish FDI abroad (Table 3.7 and Chart 3.1) does not reveal radical chang-

4 The figures on FDI published by the Bank of Spain include operations by Companies Holding Foreign Securities (CHFS). Excluding these operations, net outflows totalled 9.799 billion euro, i.e. 82% less than in 2007.

5 Unless otherwise indicated, the discussion of the various breakdowns of FDI is based on figures which exclude operations by CHFS.

Foreign Direct Investment transactions in 2007 and 2008

Table 3.6

Breakdown by sector of economic activity

Source: Bank of Spain

millions of euros	Spain´s Direct Investment abroad			Foreign Direct Investment in Spain		
	2007	2008	% / tot. FDI 2008	2007	2008	% / tot. FDI 2008
TOTAL	**101,191**	**52,783**		**50,289**	**44,742**	
Agriculture, farming, hunting, forestry and fishing	44	51	0.1	-22	15	0.0
Mining industries	1,408	2,445	4.6	97	-1,660	-3.7
Manufacturing industries	12,556	12,065	22.9	731	25,320	56.6
Production and distribution of electric power, gas and water	23,933	9,157	17.3	20,158	12,055	26.9
Construction	752	1,545	2.9	1,853	71	0.2
Trade and repairs	3,668	2,774	5.3	3,343	-4,465	-10.0
Hotel and catering	963	1,293	2.4	281	1,220	2.7
Transport, storage and communications	1,503	-425	-0.8	3,421	-1,318	-2.9
Financial intermediation	35,979	17,443	33.0	4,502	-1,594	-3.6
Property activities; corporate services	12,687	2,505	4.7	11,013	4,317	9.6
Of which CHFS	4,229	-771	-1.5	6,981	988	2.2
Other services	561	914	1.7	-330	607	1.4
Unclassified	7,137	3,015	5.7	5,241	10,175	22.7
Buildings	3,383	1,741	3.3	5,347	5,440	12.2
Other	3,754	1,275	2.4	-106	4,735	10.6

es either, although there are some worth mentioning. For example, the EU was the destination of 45.2% of Spanish investment, 21 points less than in 2007. A decisive role in this was played by the decline in the relative weighting of investment in countries belonging to the Monetary Union (20% of the total, vs. 41% in 2007), especially Holland and Germany. In contrast, the relative importance of direct investment in Latin America increased (25%), in the UK it held steady (16%) and the US remained the preferred destination of all, accounting for 18% of Spain's investment abroad.

Meanwhile, **direct foreign investment in Spain** totaled 44.742 billion euro (4.1% of GDP), exceeding the average so far this decade. These figures were shaped by two specific transactions: Imperial Tobacco's takeover of Altadis and E.ON's acquisition of Viesgo (Enel's subsidiary in Spain) and of various Endesa assets.

The breakdown by instruments shows a similar pattern to that of Spanish investment abroad because of the predominance of equity transactions (34% of the total). However, financing between related parties and other capital holdings acquired greater significance in capital inflows (close to 40% of the total). Retained profits represented 16%, while foreigners' investments in buildings remained flat vs. 2007 at around 12% of FDI received.

In the breakdown by sector (Table 3.6), the aforementioned two transactions had considerable weighting.

Table 3.7

Breakdown by geographical area

millions of euros	Spain´s Direct Investment abroad				
	2007		2008		
	TOTAL	CHFS	TOTAL	% of total FDI 2008	CHFS
TOTAL	**101,191**	**4,229**	**52,783**	---	**-771**
EUROPEAN UNION	69,551	3,288	23,871	45.2	-1,507
Monetary Union	43,233	2,966	10,411	19.7	-1,889
Germany	14,887	349	2,335	4.4	79
France	5,465	1,012	920	1.7	163
Holland	13,626	1,983	853	1.6	-785
Italy	5,744	---	1,666	3.2	---
Luxembourg	618	-609	-1,375	-2.6	-1,256
Portugal	1,224	88	2,388	4.5	68
United Kingdom	15,281	222	8,432	16.0	230
Recent EU members	9,442	74	4,603	8.7	84
SWITZERLAND	-936	-869	1,384	2.6	-223
UNITED STATES	15,560	2,134	9,643	18.3	218
LATIN AMERICA	13,997	961	13,367	25.3	590
Argentina	1,646	215	1,710	3.2	274
Brazil	6,088	139	2,452	4.6	92
Chile	302	102	1,483	2.8	51
Mexico	4,276	191	4,323	8.2	96
MOROCCO	207	---	737	1.4	---
JAPAN	-1,356	-1,378	134	0.3	---
AUSTRALIA	481	---	106	0.2	---
OECD	88,592	3,338	40,277	76.3	-1,399

Foreign Direct Investment transactions in 2007 and 2008

Source: Bank of Spain

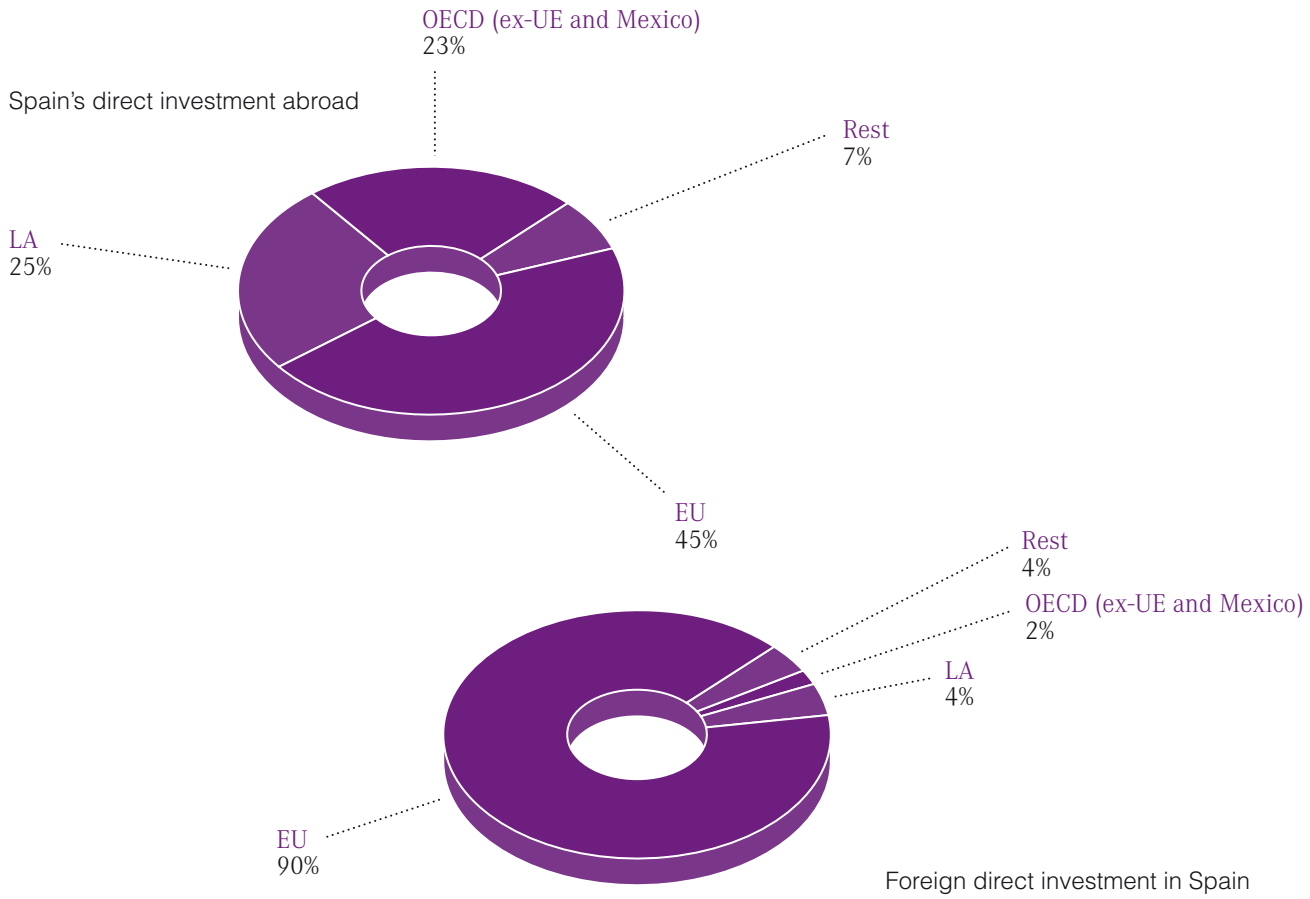
Foreign Direct Investment in Spain

2007		2008		
TOTAL	CHFS	TOTAL	% of total FDI 2008	CHFS
50,289	**6,981**	**44,742**	---	**988**
47,170	8,696	40,377	90.2	340
39,043	9,197	23,494	52.5	531
-2,269	634	13,616	30.4	-129
2,734	234	2,017	4.5	296
5,441	3,271	14,340	32.1	60
20,283	---	1,156	2.6	---
8,589	2,973	-9,986	-22.3	-245
2,223	2,064	1,253	2.8	---
7,656	-534	16,159	36.1	-234
282	---	172	0.4	---
982	389	282	0.6	-307
1,297	94	---	---	-715
858	-1,119	1,829	4.1	956
-62	-70	---	---	---
821	95	129	0.3	85
---	---	---	---	---
---	---	192	0.4	---
---	---	---	---	---
-278	---	83	0.2	---
---	---	78	0.2	---
48,574	8,066	41,328	92.4	---

Chart 3.1 Foreign Direct Investment, 2008

Breakdown by geographical area

Source: Own research based on Bank of Spain data



Accordingly, investments in manufacturing industry accounted for 57% of the total, and production and distribution of electric power, gas and water accounted for 27%.

The two transactions also shaped the geographical breakdown of investment received in Spain (Table 3.7 and Chart 3.1). The European Union was the source of the vast majority of funds received (90%), in particular the UK, the leading investor in Spain with 36% of the total, as well as Germany and Holland.

The need to strengthen country image for Spanish companies Box 3.1

The Spanish economy has a serious shortfall in competitiveness, visible not only in its sizeable foreign deficit and low productivity, but also in its positioning in the various indices published by public and private institutions, both Spanish and foreign.

Competitiveness can be understood as the sum of two variables: operating efficiency and good image. As is the case for companies, operating efficiency is not enough for countries; they must also build an attractive image. A country's image abroad acts as an intangible asset which gives companies a competitive edge when it comes to exporting their products and services and competing on the international stage. This works both ways: A *country brand* relies largely on the brands of its companies, as well as its cultural, social and political characteristics.

Specifically regarding the perception of products and services *made in Spain*, the image of Spain abroad does not generate competitiveness and there is a clear distortion between Spain's economic reality and its image in the world. Although in many sectors of activity Spain presents one of the best price-quality ratios available in the market (clothing, banking, telecommunications, machine tools, household goods and construction), Spanish products are not associated with the idea of quality and technological innovation. One of the main causes of the huge difference between the quality of Spain's exports and their poor image is the delay in the internationalization of Spanish companies and the fact that consumers do not recognize many of our best-known brands as being Spanish.

A number of studies reveal the low perception of quality in the Spain brand, with differences by geographical area. In Europe, the perception of Spain is more favourable. Spain is identified with sun, sea, sand and fun. For the US market, Spain means Hispanic. Spain's image in Latin America is a product of historical circumstances: conquest and colonization, mixing of races to varying extents, a lack of will to settle in the new territories, the Spanish Civil War, the dictatorship, etc. Outside these three markets, people's brand image is unreal: their knowledge is more shallow, based on long-standing stereotypes, and they have no first-hand experience.

To facilitate the international presence of Spanish products, companies and institutions, it is necessary to build, or rebuild, a clear and solid image of what is Spanish, and to implement concerted policies by all Public Administrations, both at state and regional level, as well as to devise plans based on realistic proposals. There are two ways to export the Spain brand: on the one hand, through advertising and companies, and on the other, through the personalities acting as ambassadors on behalf of the Spain brand.

3.3 Spain's foreign sector: increasing indebtedness

Because of these financial flows and the so-called *valuation effect* (changes in the prices of financial assets/liabilities and in the value of the euro), Spain's international investment position (IIP) changed in 2008. Specifically, its net debt position vs. the rest of the world increased, although less than in previous years, due to lower financing requirements in the year and a positive *valuation effect,* which reduced the value of net debt. Nominally, net debt totaled 876 billion euro at 2008 year-end, or, what amounts to the same, 80% of GDP

Table 3.8 International investment position

Breakdown by sector, % of GDP

Source: Bank of Spain

	Monetary authority			Financial institutions			Public administrations			Other resident sectors		
	Net	Assets	Liabilities	Net	Assets	Liabilities	Net	Assets	Liabilities	Net	Assets	Liabilities
2003-2005 average	7.7	7.7	0.0	-29.4	32.5	61.9	-21.7	1.6	23.3	-7.6	62.9	70.5
2006	9.7	9.8	0.0	-39.7	38.6	78.3	-19.1	2.9	22.0	-18.5	73.3	91.9
2007	7.5	7.9	0.3	-40.2	44.7	84.9	-15.6	3.3	18.9	-30.5	72.7	103.2
2008	4.6	7.9	3.2	-37.3	49.0	86.3	-17.1	3.7	20.8	-30.3	65.0	95.3

Table 3.9 International investment position

Breakdown by instruments,[a] % of total

Source: Bank of Spain

	FDI		Portfolio investment		Other investment		Financial derivatives	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
2003-2005 average	25.9	22.6	45.9	43.2	28.2	34.2	---	---
2006	27.9	18.5	40.4	51.1	28.8	28.1	2.9	2.3
2007	31.6	18.9	35.0	50.2	29.9	28.0	3.5	2.9
2008	33.6	20.6	28.3	43.3	29.8	31.0	8.4	5.1

Note: a Excluding the Bank of Spain

(1.2 points more than in 2007). This change was the result of a decline in assets as a percentage of GDP (down 3 points to 125%) and a reduction of almost 2 GDP points in liabilities, to 206%.

Financial institutions reduced their debt position vis-à-vis the rest of the world, as did the other resident sectors, albeit by a smaller amount. The increase in net debt is due to the deteriorating position of public administrations, whose net debt increased, and the monetary authority, whose credit position declined (Table 3.8).

By investment type, the increase in Spain's debt position vs. other countries is attributable to the "Other investment" category, which went from a credit to a debt position. This effect exceeded the overall effect of the credit position in financial derivatives and in FDI and of the slight reduction in the debt position of portfolio investment (Table 3.9).

Major corporate moves in 2008 3.4

Despite the unfavorable economic climate, 2008 was a year of intense M&A activity involving Spanish companies abroad. It would be a lengthy and complex task to discuss each and every one of these operations in depth, and a task exceeding the remit of this Yearbook. Consequently, in the next few pages we have chosen to overview **the five operations which, among all those completed in 2008, members of Círculo de Empresarios have selected as the most important** in accordance with the following criteria:

- Opening up of new business opportunities.
- Opening up of new geographical markets for the company.
- Substantially increasing the company's global market share.
- Technological innovation efforts.
- Impact on the host country.
- Investment volume relative to the size of the company and its sector.
- Investment volume in outright terms.

The method used to select these five operations was the same as the one used in previous editions of this Yearbook. At the end of the second quarter of 2009, members of the Círculo were asked to submit a list of those operations performed by Spanish companies abroad which they considered most significant. Their proposals, plus a list prepared by the team of Círculo and Wharton School, resulted in the final list in which each member was asked to pick out the three they considered most significant.

The chosen operations were the five overviewed below. They are classified in strict alphabetic order by Spanish company name, and the order does not imply any value judgment regarding their relative importance.

3.4.1 Banco Santander acquires British bank Alliance & Leicester

In 2008, Banco Santander S.A. acquired UK bank Alliance & Leicester plc. (A&L) for 1.263 billion pounds sterling (1.575 billion euro) in the midst of the biggest financial crisis for fifty years, again evidencing its financial robustness, strategic instinct and capacity of reaction. A&L is the result of a merger in 1985. In 1997, it decided to privatize and was listed on the stock market. The acquisition was performed by issuing one new Banco Santander share for every three ordinary shares in A&L. A total of 140,950,944 new shares were issued. The rights issue totaled almost 1.583 billion euro, including the nominal amount and the issue premium. Abbey, Alliance & Leicester and Bradford & Bingley will all be rebranded in 2010.

The A&L acquisition is a significant step forward in the development of its UK business and consolidates Santander as one of the leading banking franchises in that country. Santander ranked fifth in *Fortune's* list of the world's biggest banks at close of 2008. It is also the

biggest bank in the Euro area. Despite the crisis and the problems in its private banking business, Santander has consolidated its position as a top financial institution, with a strong presence in Latin America and Europe, and with greater projection in the United States following the acquisition of the shares in Sovereign Bancorp which it did not yet own.

3.4.2 The merger between Campofrío and Smithfield Foods resulted in the Campofrío Food Group, leading meat product company in Europe

Meat product manufacturer Campofrío completed the merger with US company Smithfield Foods. The result of the merger is Campofrío Food Group, the leading meat product company in Europe and one of the world's top five, with a turnover of around 2.1 billion euro and with a staff of almost 11,000 in the eight countries where it operates.

This operation signaled the integration of two highly complementary companies in terms of geographical presence, know-how and products; enabling it to generate major synergies from the outset, which are expected to exceed 40 million euro in 2012, from which year they will become recurrent. The merger is even more significant because of the economic context and the sector in which it took place, the latter highly fragmented. In fact, the size of Campofrío Food Group and the sum of its capacities (market leader in Spain, France, Portugal and Holland, second in Belgium and with a strong presence in Romania and Italy) will enable it to grow faster than the European average. Lastly, the operation strengthens the group's leadership in the processed food sector in Europe and increases the number of consumers who daily put their trust in its products, currently more than 250 million people in 50 different countries.

3.4.3 Editis acquisition makes Planeta group new European leader in publishing

In May 2008, the Planeta group became the new European leader in publishing in the wake of the acquisition of Editis, France's second-largest publishing group, for more than 1 billion euro (1.5 billion dollars). Planeta is Spain's leading communications group with solely family-owned share capital, and it produces and distributes editorial, news, educational and entertainment content. In the last few years, Planeta has undergone a profound transformation, becoming one of the major Spanish communication groups and, in addition, a group with a significant multinational approach.

The merger between Planeta and Editis will create a European publishing giant which will manage more than 1.7 billion euro in turnover and which will boost the Spanish company's presence in French-speaking countries and in Latin America. Editis operates in the spheres of literature, textbooks and dictionaries, and also owns one of the biggest distribution and marketing companies in France. The merger will make Planeta the largest publishing business in Europe behind Germany's Bertelsmann, which owns the US's Random House.

3.4.4 Iberdrola acquires Energy East Corporation and consolidates its position as the world's fourth-biggest electric utility

In 2008, Iberdrola acquired 100% of US utility Energy East Corporation, which operates in the retail gas and electricity markets through its subsidiaries Berkshire Gas, Central Maine Power, Connecticut Natural Gas, Maine Natural Gas, New York State Electric & Gas, Rochester Gas and Electric and Southern Connecticut Gas. It has

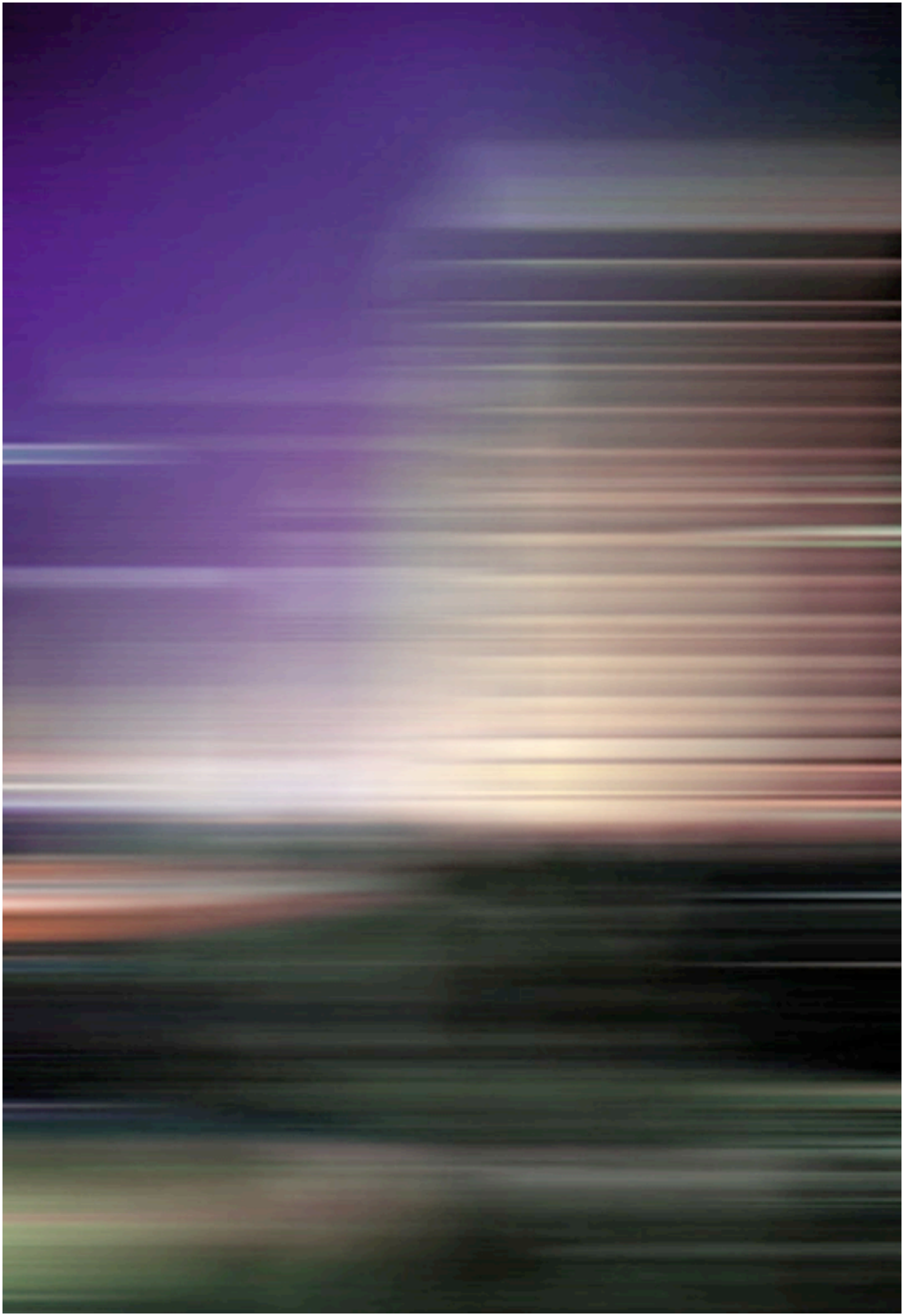
two million electricity customers and one million natural gas customers. It also generates electricity, transports and processes natural gas, distributes propane and provides services related with energy infrastructure. It covers the states of Connecticut, Maine and New York.

The deal totaled 3.222 billion euro (4.56 billion dollars). To complete the transaction, Iberdrola took on 2.869 billion euro in debt. This is the largest investment by any Spanish company in the United States outside the financial sector. It consolidates Iberdrola's position as the fourth-largest electric utility in the world in terms of market cap and the ninth in terms of turnover. Iberdrola already had a major presence in the US via its renewables subsidiary, and it is the second-largest wind power provider and the third-largest independent natural gas storage agent.

3.4.5 Inditex

Inditex, Industria de Diseño Textil, gained a foothold in five new markets in 2008: Ukraine, South Korea, Montenegro, Honduras and Egypt. At year-end it had 4,264 stores in 73 countries, 573 more than in 2007. The firm has an increasingly global profile. In 2008, 85% of its new stores were opened outside Spain, growing in more competitive European markets like France and Italy (with 48 and 47 new stores, respectively), and in Eastern Europe and Asia (194 new establishments). Its international sales accounted for 66% of the total, vs. 62.5% in 2007, and its sales increased in all geographical areas.

Inditex's flagship brand, Zara, is the best-known Spanish brand internationally. According to *Business Week*, it is the second most valuable fashion brand in the world, after Sweden's H&M. Inditex's strategy consists of expanding its flexibility and adaptability model to as many countries as possible. Apart from its commercial capacities, the company has the most efficient logistics system in the industry. Unlike its rivals, Inditex manufactures half of its fashionwear collections at its own facilities.



4 Information and Communication Technologies are an Essential Instrument for the Internationalization of Companies

César Alierta
Chairman of Telefónica

For many centuries, maritime communications were the basis for international trade. Their significance for the economy gave rise to countless conflicts as powers strove to gain access to the sea and control commercial enclaves in Africa, Asia and the Americas. At the end of the 19th Century, the development of land communications provided an alternative to the transportation of goods by sea and, in the 20th Century, air communications contributed further to the growth of trade between nations and to the global development of companies.

However, there is no doubt that these two transformations modified the scenario of world trade much less than the development, at the end of the last century, of information and communications technologies.

Since then, consumers have changed the way they relate to sellers and physical proximity seems no longer to matter as much. Consumers do not have to physically move, and can access points of sale and information via the Internet in any part of the world. They are more participative and at the same time more demanding when it comes to purchasing products. The popularization of social networks, blogs and opinion forums in the Internet enables them to divulge their opinions quickly and among very extensive groups.

Meanwhile, sellers choose where to locate their business based not on the availability of demand, but on where it is more efficient and profitable to operate. The exchange of goods and services is no longer restricted to increasingly fuzzy territorial borders. It is difficult and inefficient to establish trade policies for a country or region without taking into account its interactions on the global stage. Process cycles become shorter and geographical distance no longer plays a pivotal role and, meanwhile, opinions and decisions flow at the speed of light across the Internet.

These new communication channels are not only used for trade but are, at the same time, a way to disseminate information and knowledge, which today is the most powerful tool for the progress and development of peoples and nations, and with them their businesses.

Governments of all countries strive to develop state-of-the-art ICTs to enables them to spearhead progress and foster the internationalization of their companies. Now is the time for innovation, for creativity in redefining business models, capturing new markets and becoming more efficient.

4.1 A new way of relating to each other: a connected world

Crises accelerate the pace of change, offer opportunities and force decision-making.

In the current context, we need to reflect on the strategy, the direction we want to take, and who we want to be in the future. It is very hard to imagine how a major company could survive if it were to return to territorial business models. A cornerstone for growth and boosting efficiency must be its model of internationalization.

It is quite natural that there is currently a mounting concern for reining in costs and investment, but although markets have shrunk, they are still alive and kicking. It is fundamental to maintain present customers and win new ones and to make sure that they all buy increasing numbers of products.

Striking a balance between these two priorities is by no means simple, but, fortunately, in the last few decades between us we have built a very important asset that has completely transformed global society and that, in all likelihood, will be the launch pad for future transformation: a connected world.

The connected world has changed the channels, pace and manner in which we relate to each other and has provided new tools for organizations to become more efficient and productive.

Until 1865, when the very first telegraphic cable was laid across the Atlantic, it took at least six weeks to send a message across the Ocean. The first telephone line did not arrive until 1956 and only allowed 36 conversations to be held at the same time. The wires that currently linked Europe with North America can handle up to 200,000,000 simultaneous connections and, above all, there is the Internet, which in the last decade has seen user numbers increase from 270 million to 1.7 billion worldwide, 40% in Asia[6]. More than 247 billion e-mails are sent daily[7]. There are 109.5 billion websites[8] containing more than 1 trillion pages[9] and of the 10 most visited, 5 are social networking sites. There are more than 100 million blogs, 120,000 new blogs are created each day and 1.5 million new posts are uploaded to them daily. More than 30% of Internet users share their videos/photos online. Youtube, Wikipedia, Yahoo and Google are among the world's best-known brands.

And these changes are taking place at an increasingly blinding pace. The cycles of new technology are increasingly short.

Not only is the connected world changing consumers habits but it is also helping to transform organizations, bringing them much closer to their customers and rendering much them much more efficient.

Workers have new devices to enable them to communicate in a much quicker and more efficient fashion, wherever they are. Working areas have evolved from a static workstation to a place where work is more efficient, and offices have become meeting places for customers and employees.

The Internet is able to transmit and store almost anything that can be seen, heard, read... Points of sale, suppliers and agents inter-relate, regardless of distance.

There is a plethora of new devices (cameras, meters, etc.) which can be used remotely and which, with a more efficient use of resources, perform tasks which previously required constant and costly physical travel.

It is up to each organization to make the most of this new paradigm. The efficient and innovative use of the

6 http://www.internetworldstats.com/stats.htm
7 http://www.storagenewsletter.com/news/miscellaneous/radicati-email-total-247-billion-messages-per-day
8 "Domain Counts & Internet Statistics". Name Intelligence. http://www.domaintools.com/internet-statistics/. Retrieved May 17, 2009
9 Alpert, Jesse; Hajaj, Nissan (July 25, 2008). "We knew the web was big...". The Official Google Blog. http://googleblog.blogspot.com/2008/07/we-knew-web-was-big.html

connected world is and will continue to be pivotal for companies' internationalization.

When one talks of the internationalization of companies, it is not merely a question of how to approach traditional trade channels, but how to win all the new business which is developed and conducted on the Internet, how to facilitate the relationship with consumers, how to support new methods of work for employees, and now to accommodate their multiple devices, as well as how to tap new ways of using ICT infrastructure based on online capacities to boost cost efficiency and become more productive.

This will bring change at organizations and will oblige companies to reconsider what their role should be in an increasingly complex and global economy and to find their true sources of competitive advantage.

How the connected world affects models of internationalization of companies — Table 4.1

Source: Own research

Organization and people	Transformation of organizational models and working environment... towards faster, more collaborative, more motivating and more productive models.
ICT infrastructure	Transformation of ICT infrastructure...towards more radical outsourced pay-as-you-go models.
Customer relations and business models	New ways of relating to customers and citizens... tapping opportunities offered by new types of consumer. New, more specialized, leaner business models involving more partners.

The race to the mass market — Chart 4.1

Facebook reached 150 million users in January. Here's how other technologies stack up.

Source: Fortune 2009

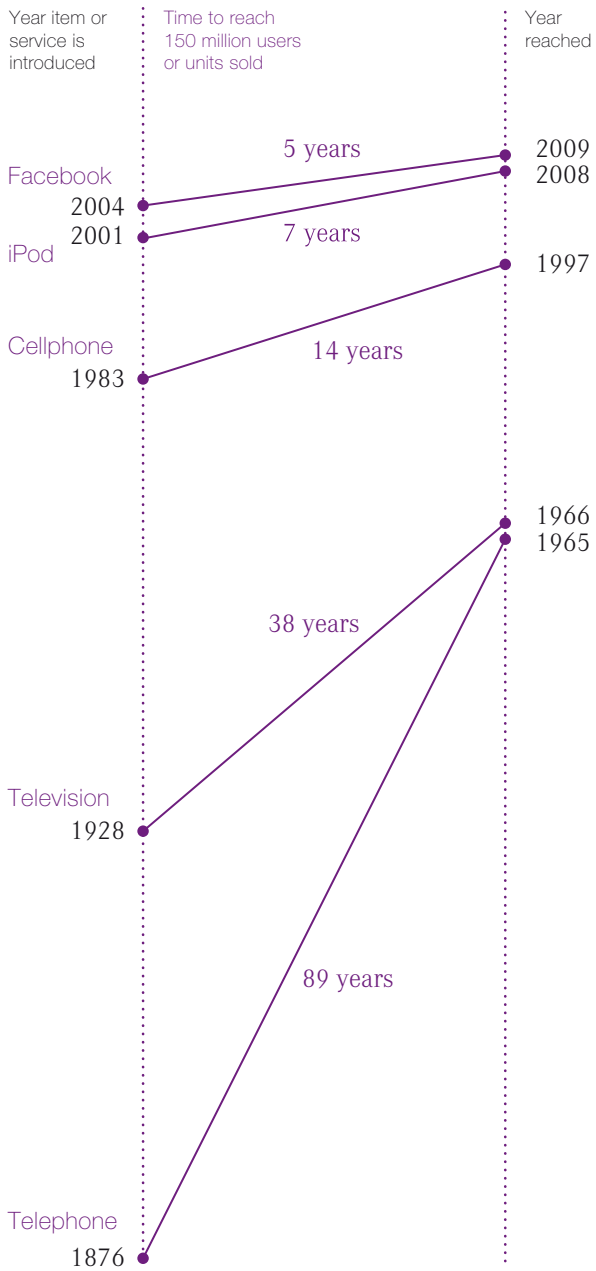
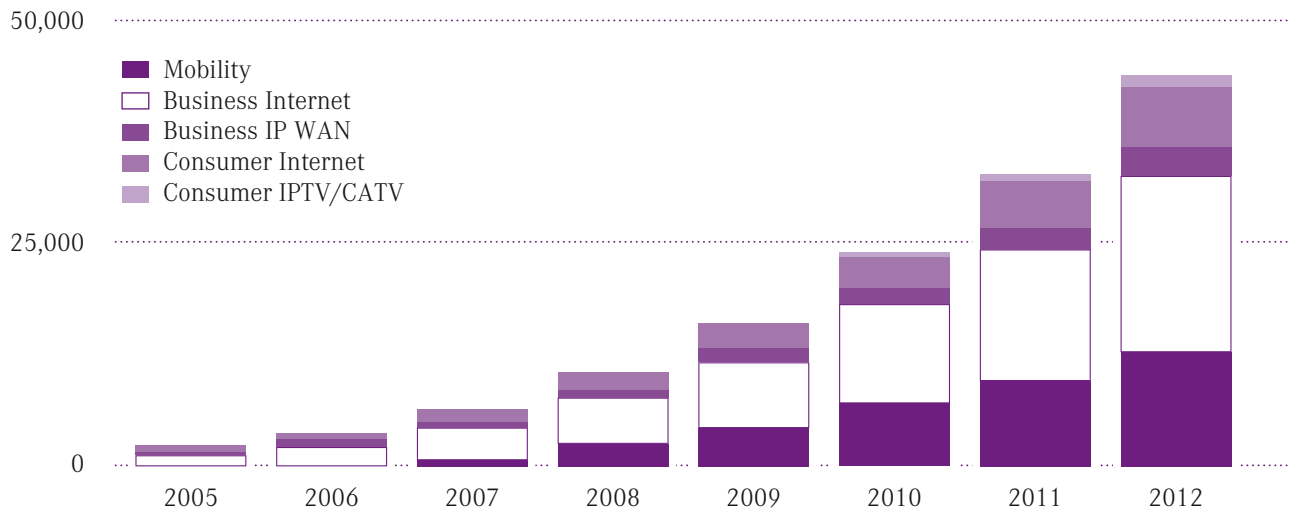


Chart 4.2 Projected growth in Internet traffic 2007-2012

46% CAGR 2007-2012.
IP traffic will increase 6x from 2007 to 2012.
In 2012, half a zettabyte will cross the global network.

Source: Cisco Visual Networking Index Forecast, 2007-2012, June 2008



4.2 Relationship with customers: new consumers

It is interesting to see the changes in the media consumers are using to get informed and in how they communicate with each other.

It is not enough to receive information. Reading printed newspapers and passively watching television has given way to interactive media which enable users to find the information they need immediately.

Every household is sprouting a wealth of new devices to receive, search for and share information. Few households do not have one or more television, fixed and mobile telephones, computers and game consoles.

Furthermore, these new devices have evolved from being simple and useful instruments to being 'basic elements' without which we cannot get by, and they have even become 'cult objects' in some cases. Users fall in love with the latest models and queue up for hours to be the first to own them.

The television screen is no longer the only screen we look at. Increasing numbers of people turn to their computer or cellphone screen to search for and receive information and to be permanently connected to their social networks and professional activities (Chart 4.5).

All of this capacity for interactive communication is clearly present on the street and in other public places like service stations, waiting rooms, gas stations, airports, etc. A fourth screen shows advertising, news or real-time traffic, weather or transport information, etc. People share their time between these four screens in a very different way. The younger they are, the more they tend to use the Internet (on any device) rather than watching television or other traditional media (Chart 4.6).

In Spain, the Internet already has 13 million users, i.e. more than 33% of the population, and its growth has been much swifter than any other media in the last few years (Charts 4.7 and 4.8).

All of these new screens have one thing in common: they are not confined to a single physical territory. Consumers anywhere can obtain real-time information from anywhere.

Communication habits are changing. We have seen how in the last few years 'asynchronic' communication has grown. In other words, the other person does not need to be available. All you need to do is send an e-mail or text message and, when you have time again, you read the reply. The next wave of change is coming from the proliferation of social networks aimed at increasingly fragmented audiences and with increasingly personalized contents (Chart 4.9).

The volume of user involvement in these networks has grown exponentially, underpinned by technological advances which enables these communities to be accessible from any device (Table 4.2).

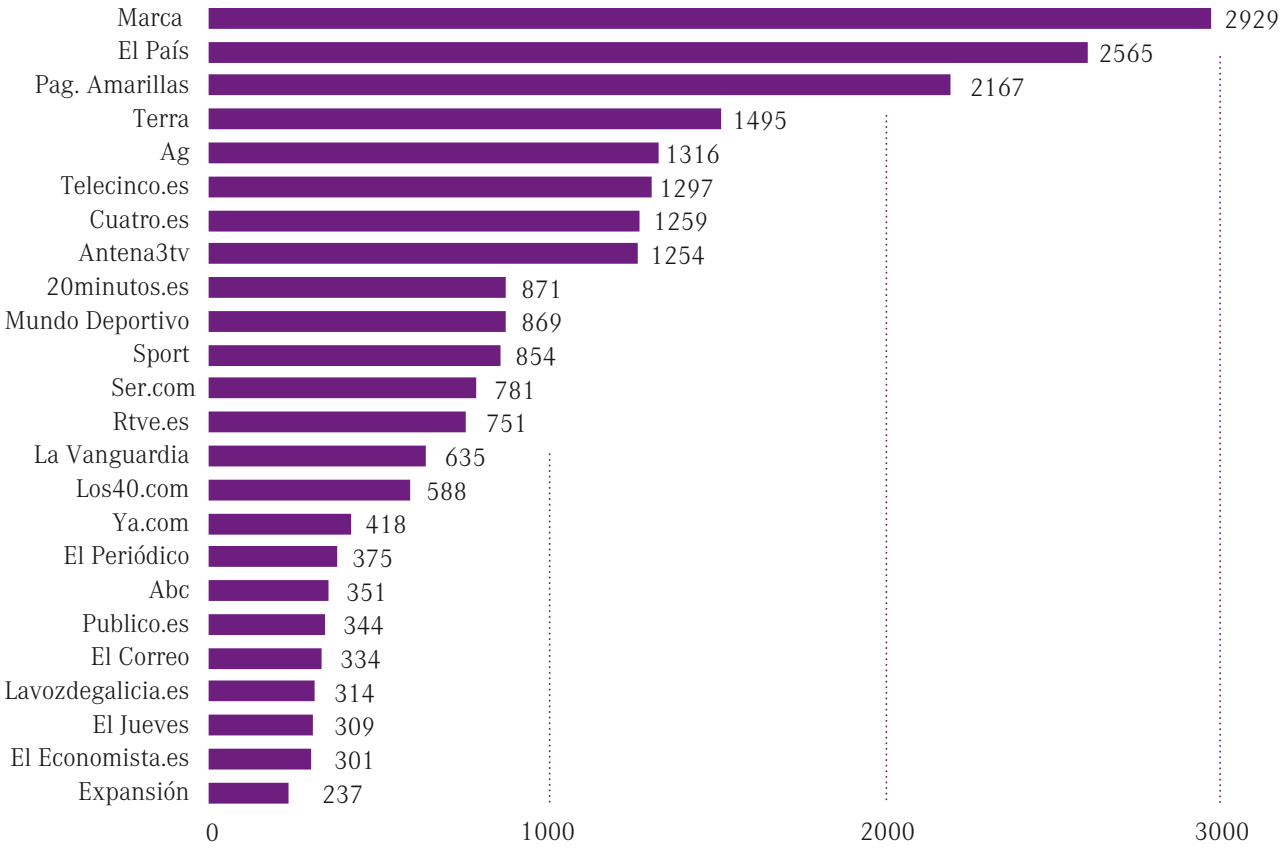
Mobility of social networks foments the component of immediacy which is increasingly important in this kind of collaborative communication.

Media website hits

Chart 4.3

Hits/Last 30 days (´000)

Source: EGM April/May 2009

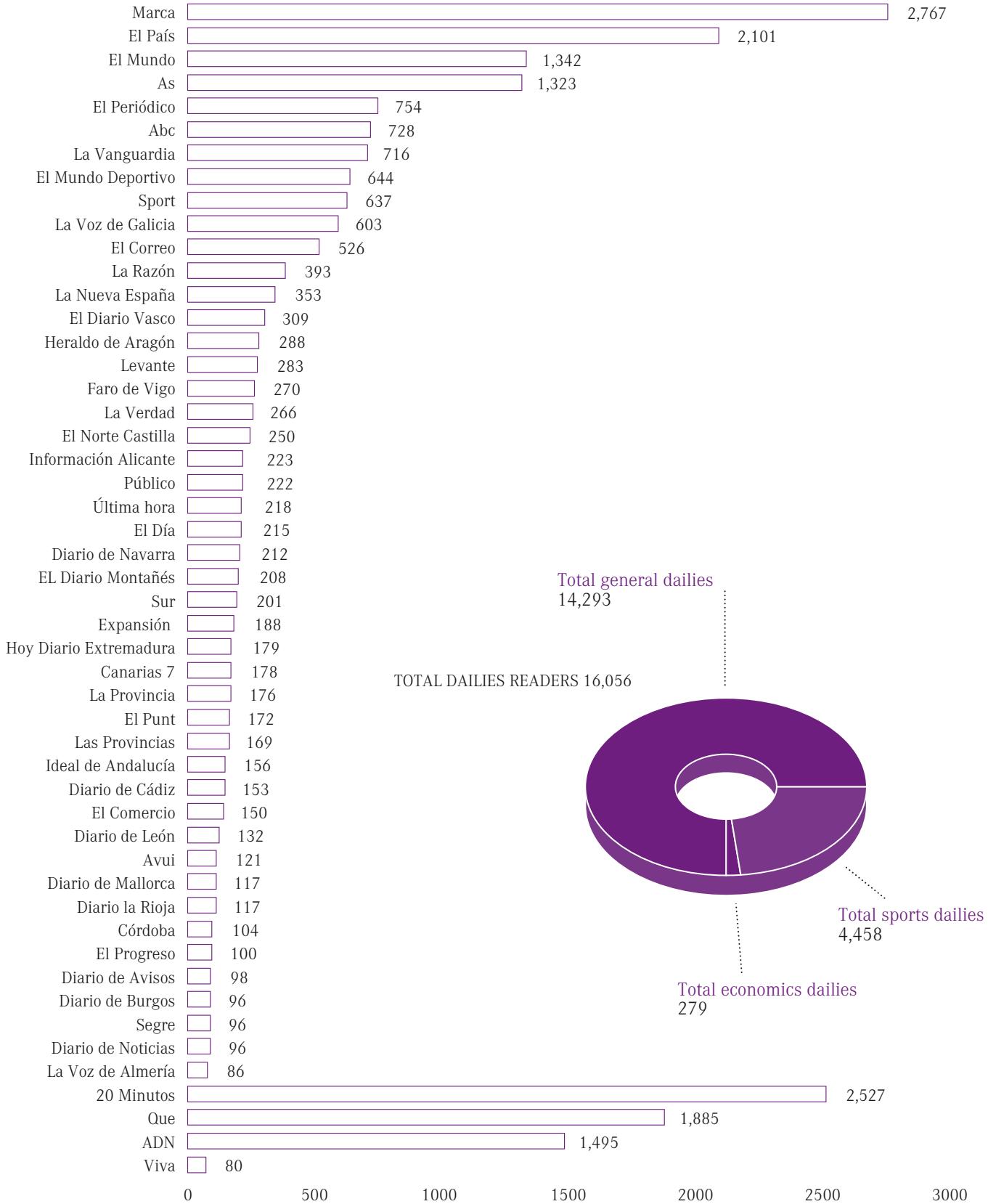


Note 1: This information only refers to the websites surveyed by the EMG
Note 2: Because of a problem with the compilation of data in this wave, the information about the audience of the website: "hola.com", "Interviu.es", "ondacero", "ozu.es" and "plus.es" is not available.

Chart 4.4 Daily readership of print media

Readers/day, in thousands

Source: EGM April/May 2009



In social networks, users have taken the real role, since it is they who create the content to share with other users. This new way of relating to each other makes the information available to all members of a network, and may be completed or updated by any of them immediately, improving and enriching the final product. The development of this way of relating to other people, although it began in the sphere of personal communications, has now transcended to the world of business, because of its evident potential in the business world, both internally as a tool for employees (company 2.0), and because it sets up a new channel of communication between people and companies/administration (Table 4.3).

Accordingly, the spheres of application of social networks are increasingly varied. One example of this is the mounting presence of political parties in the world of 'social media' to gain proximity via their digital image. This kind of initiative is well-received by citizens, since they believe they offer new channels of communication through which they can express themselves and share their views (Chart 4.10).

Consequently, marketing has turned into conversation. Companies are no longer abstract entities, and customers have the chance to share their opinions with company employees, people with real names to whom they can address their views, thereby forging ever-closer links and hugely boosting the power of traditional 'grapevine'. Opinions on the poor quality of a product or complaints about the standard of technical services of a particular company can be divulged very quickly, and are often echoed in traditional media, causing real corporate reputational crises (and not necessarily fairly, since there is no kind of filter to ensure the veracity and accuracy of information divulged through these channels).

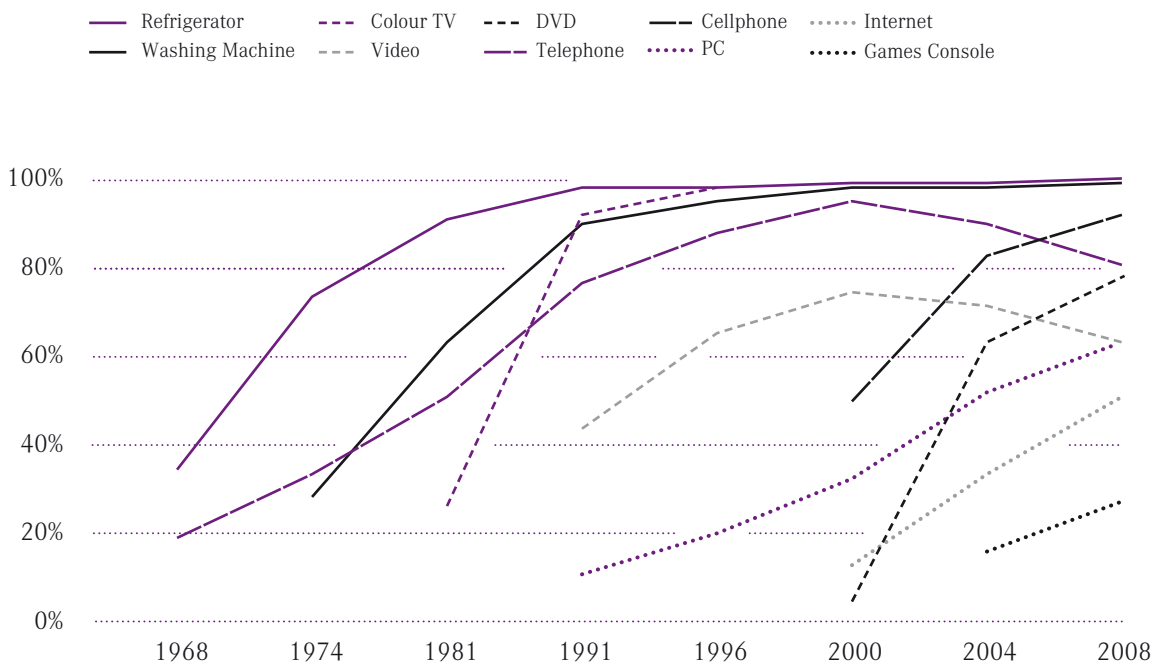
Furthermore, social networks enable customers to have a much closer relationship with companies, offering their opinions and helping to improve the products and services they consume.

So much so, that sometimes they even become free labor, as in Wikipedia or Wordreference, where users provide content and permanently add to existing content through a process of discussion and revision, which boost the value of the hosting sites.

Multi-channeling is a must. Communication with companies must be seamlessly possible using any device without having to physically travel for any particular procedure. A highly significant example of this trend is the way Spaniards now relate to their banks.

Technological equipment of Spanish households. 1968-2008 Chart 4.5

Source: INE



We can see how mobile and Internet access has clearly gained ground, although the network of bank branches in Spain is still one of the densest in the world (Charts 11 and 12).

Public administrations at all levels are also making a firm commitment to virtualizing their relationship with citizens, from the standpoint of investment and resources, as well as legislative changes.

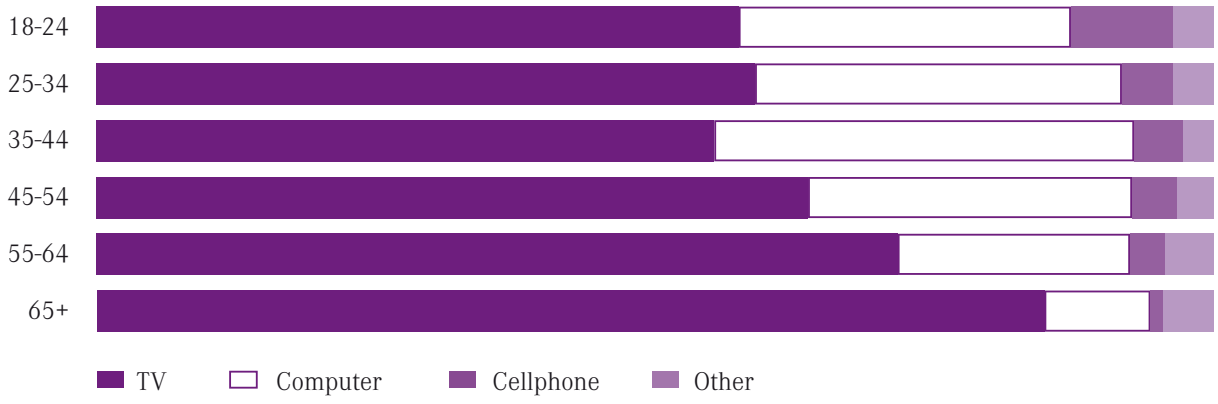
One last fundamental factor is that consumers express their tastes and needs and expect to receive commercial information of their interest through these new channels.

This provides a huge opportunity for companies to reach their customers more effectively using techniques like viral marketing, contextual advertising or buying behavior analysis (Box 4.2).

The lower the age group, the more of these new consumers there are. The barrier to the use of new technologies opens a gap between people in which age is a significant factor. On the one hand, are the 'natives', the new generations who were born and bred with the Internet and mobile telephony, and on the other, are the 'immigrants' who reached these new technologies from traditional habits and customs. There is no doubt that in the next few years 'membership' will continue of a connected world in which consumers and users have all the information they need in order to make informed decisions and, increasingly, do their shopping, at a single click.

Chart 4.6 Use of the 4 screens depending on age range

Source: Nielsen



MyStarbucksIdea

Box 4.1

In "MyStarbucksIdea", the coffee chain enables its customers to make recommendations, put forward ideas, vote and monitor how proposals are being implemented. According to Starbucks, since the initiative was launched, users have sent in 70,000 new idea. This year, they have launched 25 new products created by customers.

Audience in Spain

Chart 4.7

Penetration %

Source: EGM April/May 2009

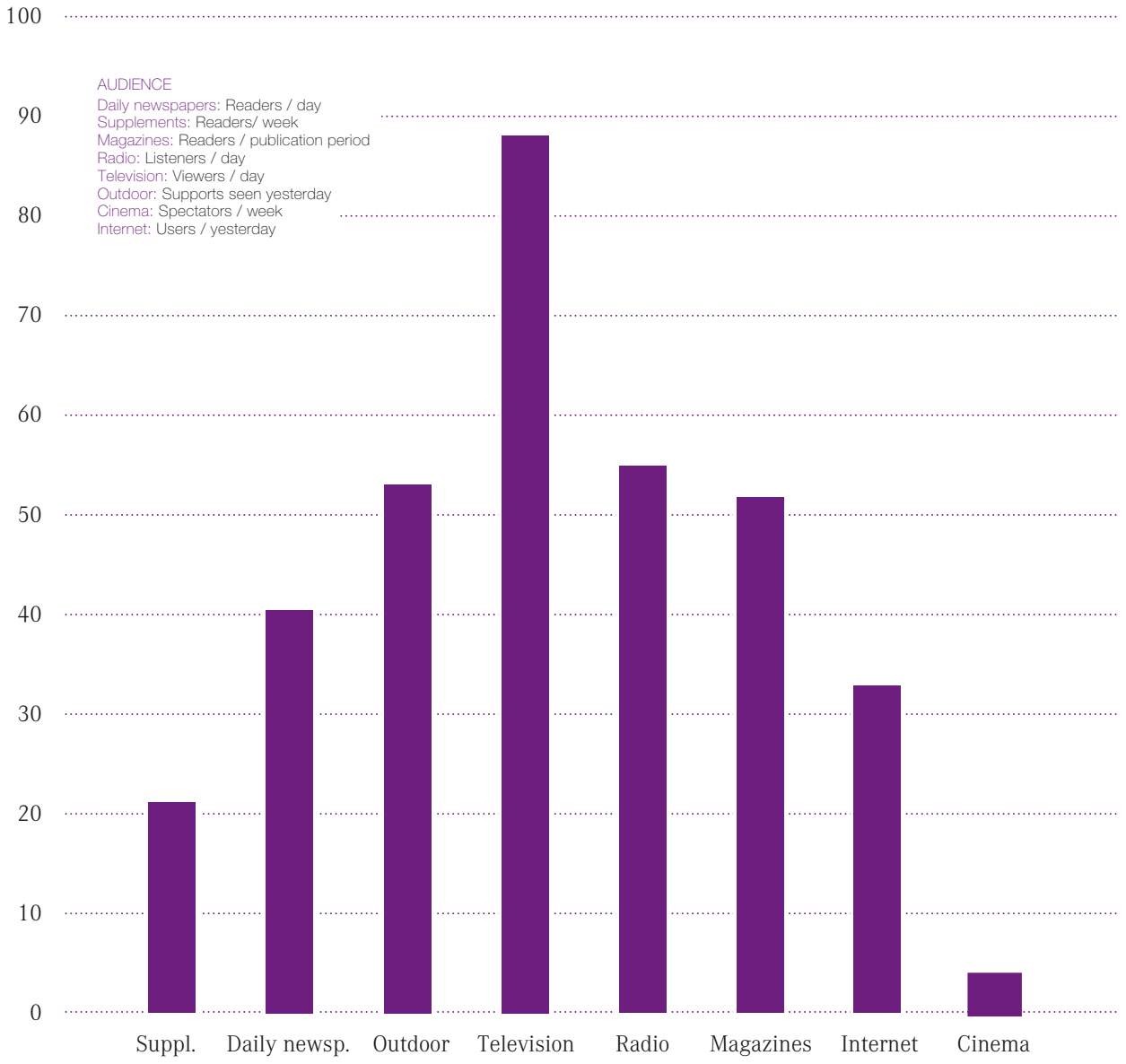
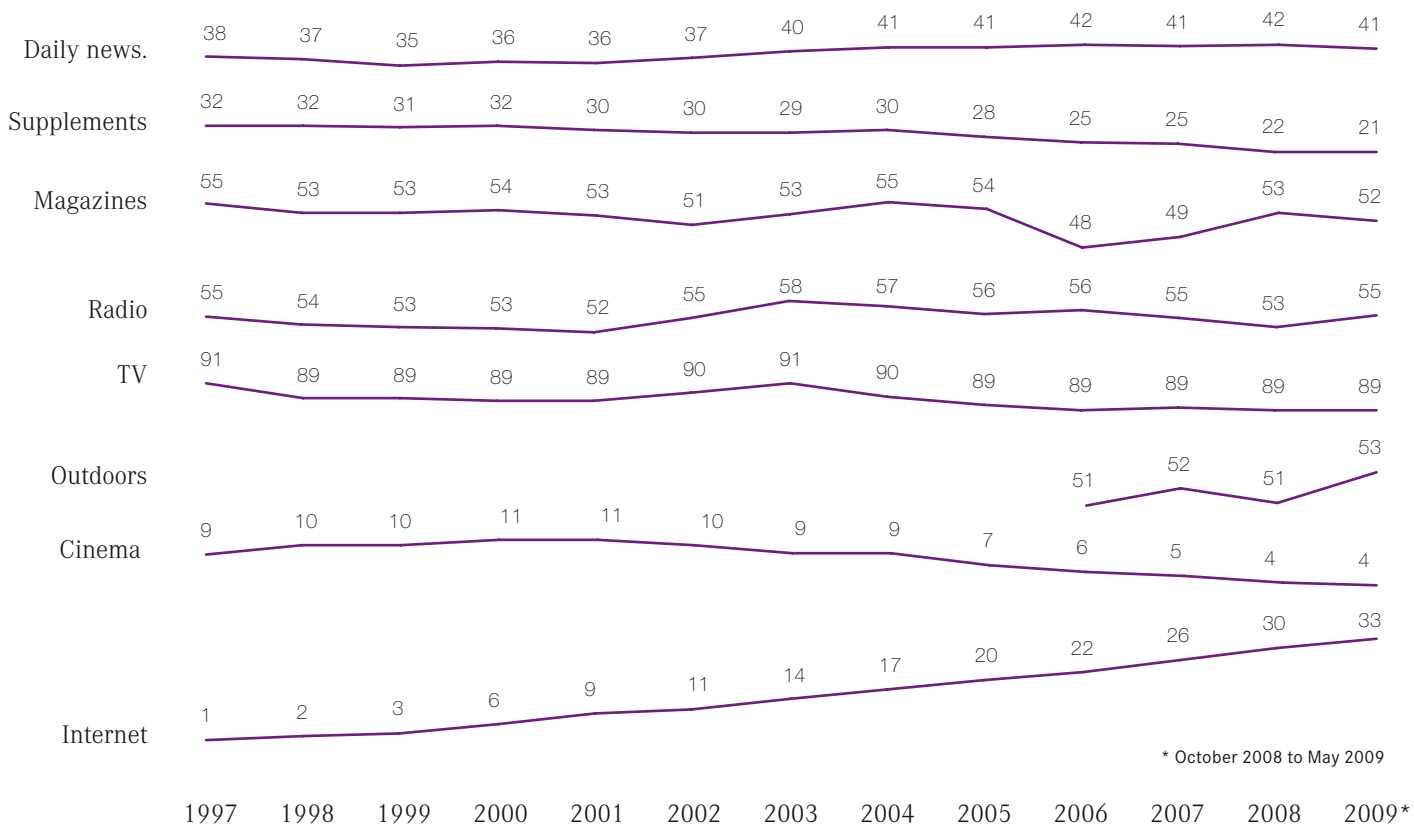


Chart 4.8 Media audience in Spain

Evolution (%)

Source: EGM April/May 2009

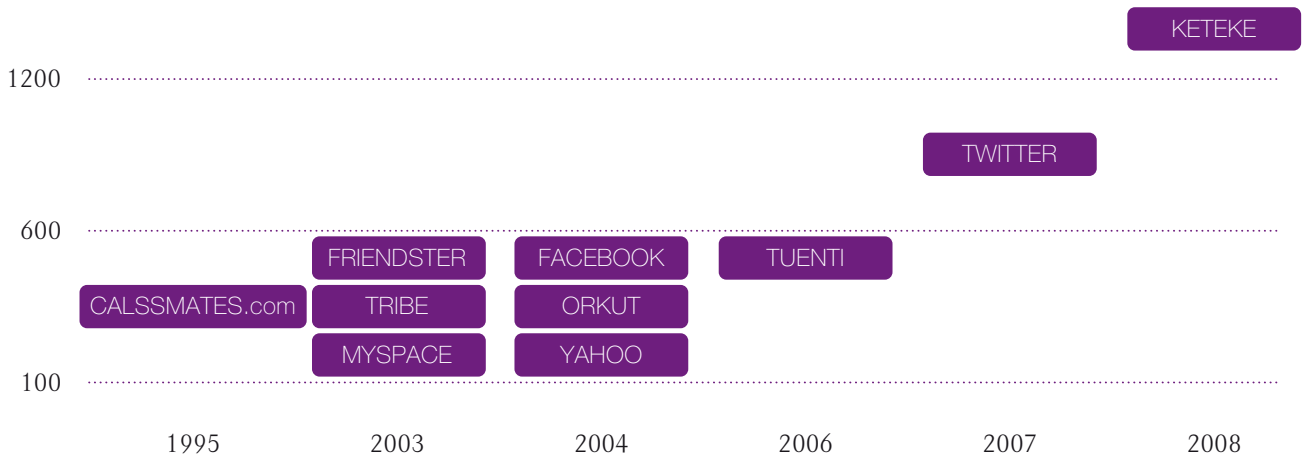


* October 2008 to May 2009

Chart 4.9 Main social networks

From 1995 there are more than 1,200 representative networks in the world

Source: Economy/Internet Trends, Morgan Stanley, December 2008



New trends to be implemented in mobile telephony and dominate the world of TV

Table 4.2

Million users

Source: www.emarketer.com and European Information Technology Observatory (EITO), April 2008

	Users of mobile social networks 2007-2012		
	2007		2012
Mobile telephony	3,078	**x1.4**	4,275
Mobile Internet	405	**x3**	1,228
Mobile social networks	82	**x10**	803

Social networks develop communication, sharing and cooperation at personal and business level

Table 4.3

Source: Economy/Internet Trends, Morgan Stanley, December 2008

FACEBOOK

- *Applications on entertainment*
- *Games*
- *Sports*

TWITTER

YAMMER
SOCIALCAST
IDIDWORK
TRILL
PROLOGUE

- *Proliferation of microblogging for companies*

How do you regard the use of social networks by political parties?

Chart 4.10

Do citizens and customers welcome this?

Source: European Parliament Website (http://www.europarl.europa.eu/elections2009/polls) May 2009

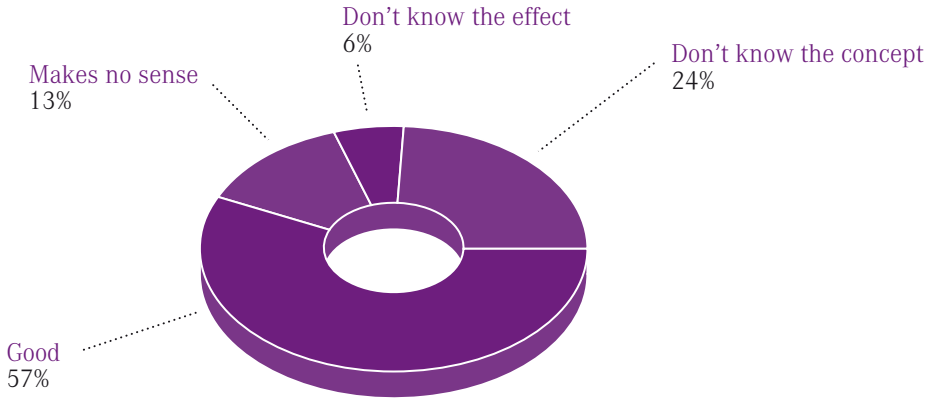
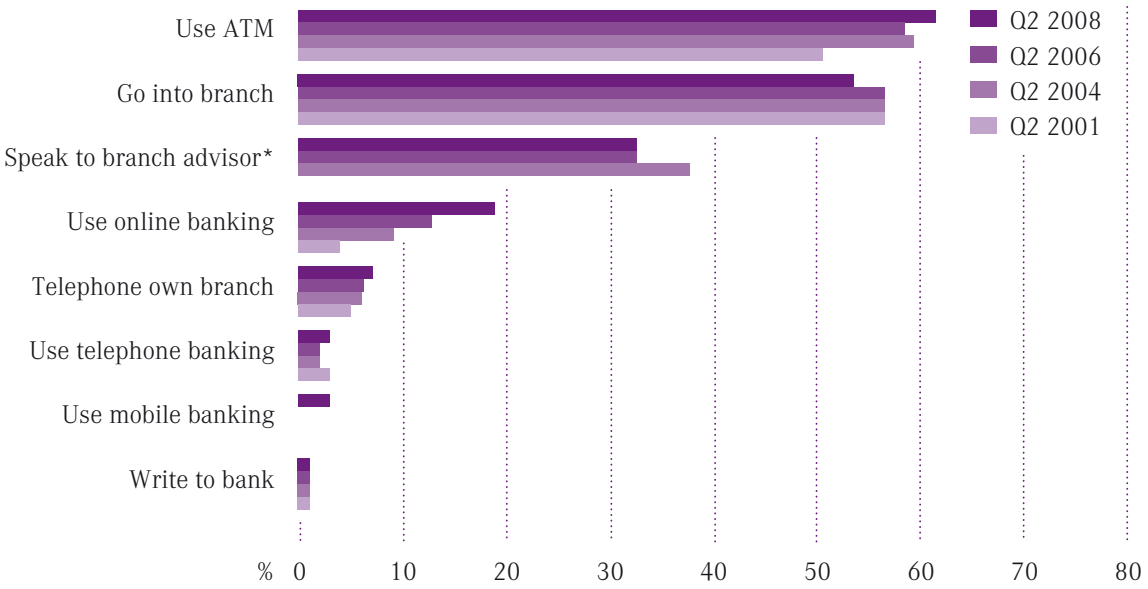


Chart 4.11

Online banking is the fastest growing channel
"Which of the following banking channels do you use at least monthly?"

Sources: European Technographics® Benchmark Survey, Q2 2008; Forrester´s Consumer Technographics® Q2 2004 European Study; Forrester ECTAS Q2 2006 Benchmark Survey; Consumer Technographics® Q2 2001 Europe Benchmark Study



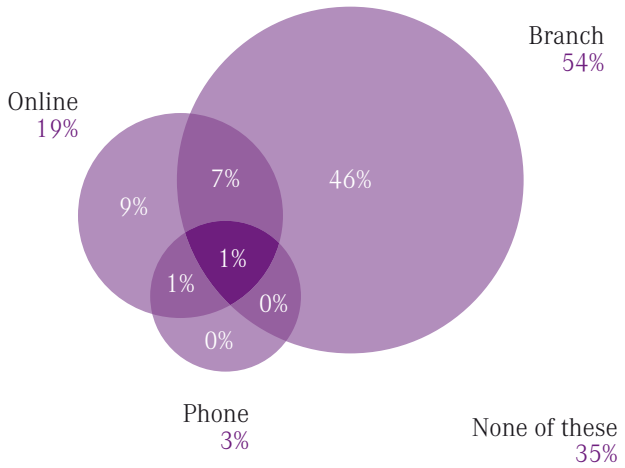
*See someone in branch in Q2 2001

Chart 4.12

Few Spaniards are multichannel customers

Do you use the following banking channels at least monthly?

Sources: European Technographics® Benchmark Survey, Q2 2008



Base: Spanish consumers (ages 16 and older) (percentages do not total 100 because of rounding)

Box 4.2

In 1885, John Nelson Wanamaker owned the largest department store chain in the United States, and he was a great innovator. He introduced the 'one price' concept in his establishments, and did away with haggling, he was among the first merchants to offer a 'money-back guarantee' and his stores were the prelude to 24-hour telephone shopping. He was famous for his saying "Half the money I spend on advertising is wasted, the trouble is I don't know which half". Today, John Wanamaker's pronouncement sounds anachronistic. The use of techniques like contextual advertising, impact micro-measurement, viral marketing or buying behavior analysis enables companies in the "connected world" to know their customers better and accurately gauge the impact of their advertising drives on their customers.

E-commerce and new organizations 4.3

According to a report by Spain's Telecommunications Watchdog *(Comisión del Mercado de las Telecomunicaciones - CMT)*, e-commerce in Spain in 2008 generated a business volume of 1,929.9 million euro in the first quarter, implying 52% year-on-year growth.

Despite this strong growth, penetration of e-commerce is still low in Spain. In 2007, only 20% of the country's Internet users acquired a product or service online, compared with a European average of 32% (see chart) or with the most advanced countries like the UK or Germany, where the rate is already close to 60%. This also impacts on another, much more worrying imbalance, namely cross-border e-commerce flows.

Of all e-commerce transactions performed in Spain in the last quarter of 2007, purchases from foreign suppliers accounted for 47,7%, with a volume of 569.1 million euro and a total of 7 million operations performed. EU countries were the main receivers of this amount, accounting for 495.5 million euro, followed by the United States with another 60.2 million euro.

In the same period, transactions originating abroad for the acquisition of products from suppliers located in Spain increased to only 180.6 million euro, 15.1% of the total, and the remaining 37.2 % were domestic transactions.

The European average for e-commerce abroad is 27% and, although there is some considerable variation depending on the volume and development of the various economies, the decisive factor appears to be the maturity of e-commerce markets in each country. Accordingly, for example the UK and northern European countries have a more long-standing tradition and greater experience in online sales; consumers and businesses are used to it and, therefore, they make use of this experience to capture market outside their own borders.

This is hugely significant in better understanding the risk to which businesses which do not make a firm commitment to internationalization and to tapping the connected world are exposed.

Nevertheless, growth in Europe of online cross-border business is growing more slowly than the various internal markets, with rates of 6% and 7%. This can be explained by various factors, including legislative, logistic and fiscal aspects, but it appears to be mainly due to cultural barriers and a mistrust of unknown suppliers. The table shows a summary of the main causes (Table 4.4).

This difficulty in approaching markets abroad boosts the value of those companies that have managed to make a name for themselves internationally and that have resolved all the logistics, payment and legal processes for the supply of goods and services.

They have also given a considerable boost to services companies that are able to provide their services internationally and to associate with suppliers of goods and services (Box 4.3).

All of this reshapes companies' strategies and models to tackle the international market.

Table 4.4

Reasons given by those surveyed as impediments to cross-border e-commerce in Europe

Source: Eurostat, Statistics on the Information Society, 3/2/2009

Language, cultural and technical barriers	• Mantaining websites and customer support, complaint/dispute resolution in multiple languages • Different consumer preferences and technical standards translate into complex inventory management and website customisation • Failure to understand customer demographics outside home market
Cross-border logistics	• Lack of interoperability of postal systems and difficulty of managing the last mile to the consumer • "Border effect" increases cost of delivery • Difficult to set up reverse logistics to deal with returns
Cross-border payments	• Lack of interoperability of payment systems • Credit card fraud a real threat in cross-border transactions • Consumer reluctance concerning privacy/security
Administrative and regulatory barriers Inter Alia VAT, national transposition of WEEE, copyright, consumer protection rules, selective distribution, sector-specific rules	• Uneven application at national level generates compliance costs that are prohibitive • Territorial nature of some rights may lead to market segmentation at retailer level • Retailers may refuse to serve some countries
Search and advertising	• Search engines might not naturally show cross-border offers, requiring more time and efforts by consumers • Advertising is "geo-targeted" • Price comparison websites do not generally operate on a cross-border basis

Box 4.3

Examples of companies that facilitate cross-border e-commerce

Source: various

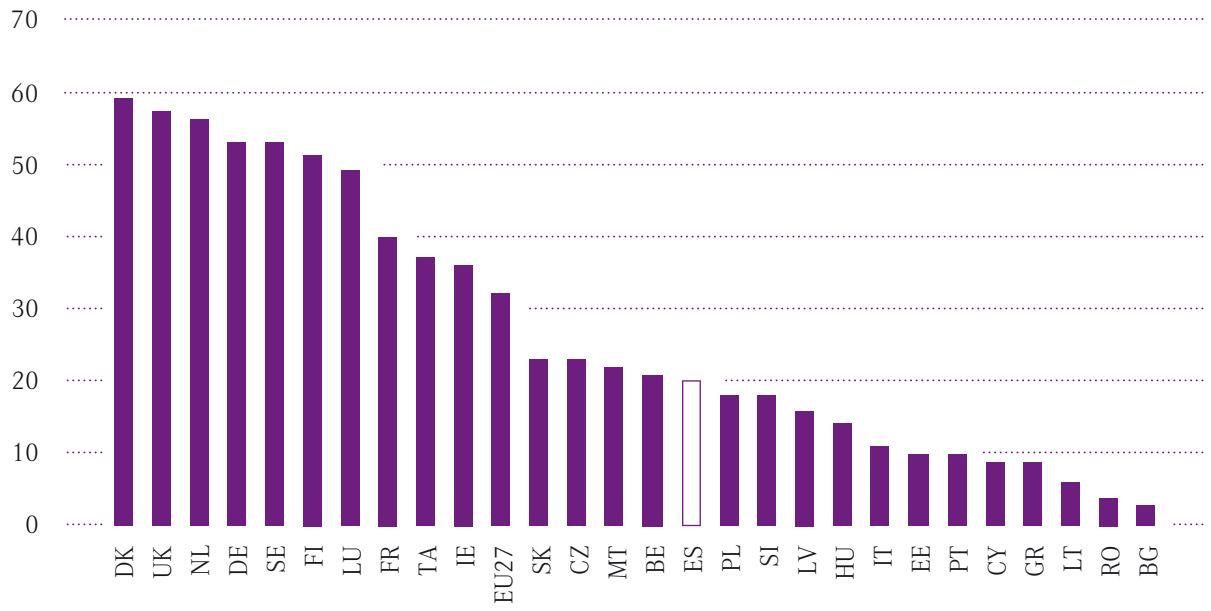
PAYPAL allows money to be transferred between users with e-mail accounts, an alternative to traditional paper methods like cheques or postal orders. It also processes payment requests for e-commerce and other web-based services, at a percentage fee.

ONEUSAADDRES.COM enables users all over the world to purchase at online stores in the US which require a zip code within the country. The company collects the delivery and re-sends it anywhere in the world.

Percentage of Internet users buying any kind of product or service through e-commerce in 2008

Chart 4.13

Source: Eurostat, Statistics on the Information Society, 3/2/2009



A new way to configure companies internationally: aggregators, specialists and services companies

4.4

The 'connected world' is facilitating a new classification of companies that is being further accelerated by the economic crisis. It is pivotal upon two main axes: focusing solely on what is key for its business and capacity to relate to other companies.

Deciding what is key, is no easy task, as the chart 4.15 shows.

Only what is critical and differentiated must constitute the focus of our activity. The rest must be subcontracted or developed via agreements with partners.

In the connected world the most important asset for a company today are 'the customers who visit you and who place their trust in your company' or the differentiating characteristics of your product.

When a company has managed to become an 'aggregator' of customers, in other words a company that has earned a reputation in the market that attracts customers, this is its main asset. It must ensure that it is able to grow in terms of the number of countries where it operates and to supply more products to its customers while naturally preserving the attributes that have earned its reputation in the first place.

When it comes to growing in terms of the number of countries where it operates, we have seen the difficulties in supplying products and services abroad. Trying to resolve this problem using one's own resources is a difficult, slow and complex task. There is currently no doubt that the most efficient way to proceed is to rely on specialist services companies.

However, once we have resolved the international network and customer aggregation capacity, the value of this must be unlocked in order to aggregate suppliers that do not have those capabilities, and in order to increase supply capacity and therefore sales. For this purpose, it is

Chart 4.14 What to outsource?

Source: Telefónica

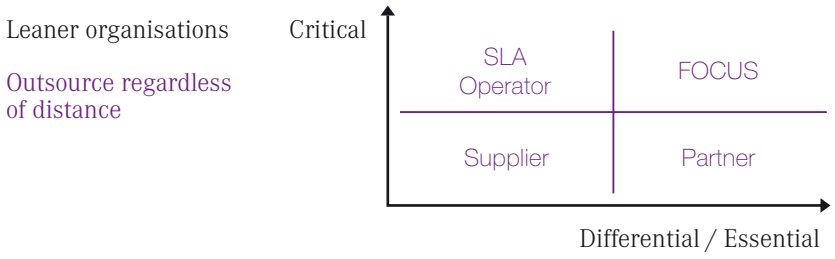
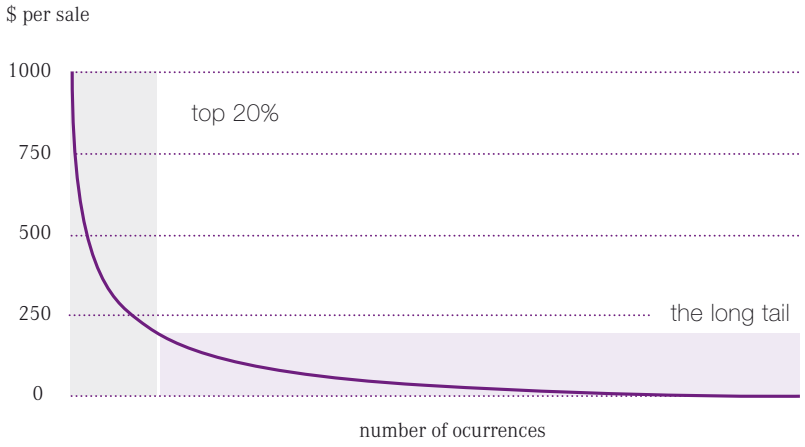


Chart 4.15 Chris Anderson's 'Long Tail' concept

Source: Telefónica

New technologies allow considerable efficiency in costs and make it unnecessary to focus all efforts on 'star' products and services to obtain profitability. Indeed, if we represent statistical distribution of the market in graph form, colouring the various products in the x axis and their corresponding demand in the y axis, we see how the pink area (showing the 'long tail') presents a surface area (profit) that can even exceed that of the grey area (profit accumulated by 'top sellers').
This effect increases the larger the customer base is, so companies operating internationally benefit most from scale economies and potential earnings using 'long tail' schemes.



necessary to know the tastes of all one's customers, use the best specialist product suppliers and offer customers products which one knows will match their tastes.

The 'connected world' has enabled 'aggregators' such as Amazon to obtain increasing knowledge of the tastes and purchasing power of their customers and to anticipate their needs and offer them products which they know will interest them from a range of small, specialist enterprises which they would not otherwise know of. This increases their volume sales per customer and also boosts customer loyalty.

Furthermore, this model has enabled small specialists to access a market that would otherwise be off-limits to them because of their size.

Can a business model that ignores these movements be configured today?

International markets are increasingly accessible for all, and this is due to communications.

Lastly, none of these companies proposes that their logistics, infrastructure or ICT be proprietary. Successful

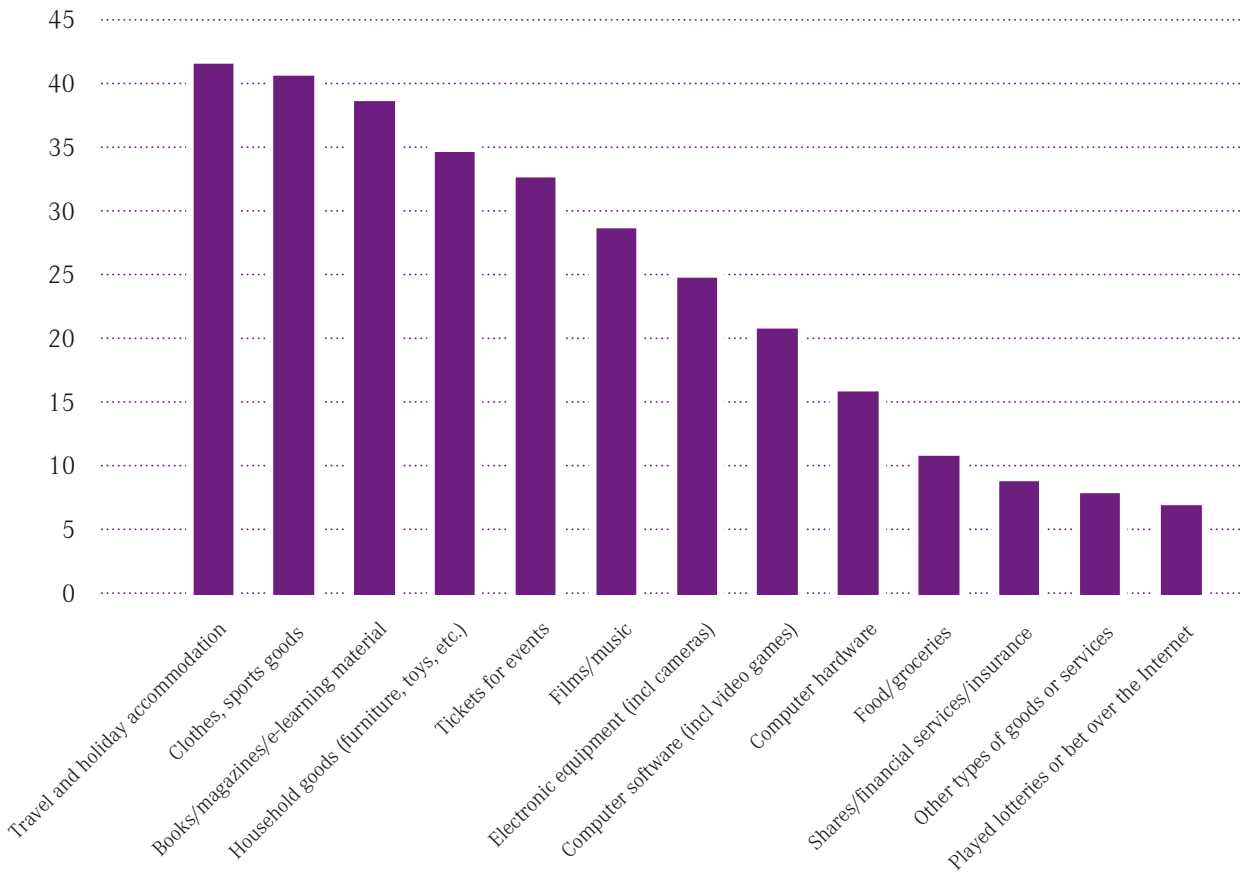
business models for services companies are those that commit to standards in line with their customers' needs.

Naturally, there are sectors that benefit much more or are significantly more impacted by these models than others. A classic example is the music industry. Others are tourism, publishing or financial services. In general, any sector whose business model is based on the distribution of a more or less homogeneous product to a large customer base. Of course, there are economic sectors in which aggregation models are less suitable, but to a larger or lesser extent the world of business is being globalized in all its spheres, both commercial and productive, and the way agents and companies involved relate to each other can only respond as quickly as current market standards require them to if it is based on IT media underpinned by communications platforms.

Goods and services ordered over the Internet, for private use, in the last year (2008) Chart 4.16

Unit: Percentage of individuals who ordered goods or services, over the Internet, for private use, in the last year

Source: Eurostat, Information society statistics (2009)
Data extracted on 3 February 2009



4.5 A new way of working for an international organization

Organizational models are always fluctuating between mainly vertical and hierarchical models and flat, decentralized models with significant degrees of freedom. The direction a company takes depends on growth and efficiency at a given time and on the varying degrees of maturity of their structures and markets.

Information systems have become the basis for increasingly complex processes and, at the same time, are the source of business and performance indicators to guide organizations' strategies. This has afforded greater productive capacity and efficiency, but at the same time it has gathered the momentum to perform the changes which the market demands.

But today, the pace of change in the competitive environment and business evolution makes new and much faster organizational models necessary. These must be organizational models in which working groups are created to meet specific targets quickly, with no need to change hierarchical structures.

Collaborative models are needed with work groups in which knowledge flows and is pooled and where differential talent is tapped to the utmost, applying it only where most necessary for the company at any given time.

The need for this is even greater in the models of international organizations, where hierarchical organizations have a significant territorial component, and where personal objectives and the manner of measuring businesses have multiple 'viewpoints', at product and territorial level.

The development of ICT is helping, and to a large extent allowing, organizations to progress towards these models.

The convergence of communications, in other words, the fact that the same networks now transmit data, voice and video, coupled with the increase in bandwidth, has enabled people to communicate without traveling but at the same time to maintain all the depth of non-verbal language and to be able to share every thing they see, hear, etc.

Mobile communications, both voice and data, have made true the paradigm that work can be performed where it is most useful and not in fixed workstations, and there is no need to 'carry you house on your back'.

This would not be possible without being able to access information wherever you are and without being able to access internal and external information systems from anywhere. This is not a problem that is resolved only through communications and bandwidth. In this case the solution has come through the convergence of communications and information technology.

It is increasingly difficult to distinguish between communications and information technology. What is e-mail, a browser, a social network? Are they IT applications? Or are they communications services?

The contents are online. The processing and search for information are no longer performed by the personal computer, but online. The evolution comes when one goes from talking about a network with unlimited bandwidth to a network with unlimited storage and processing capacity.

The new configuration for workers results in a user who accesses and identifies himself from various devices and locations, with the highest possible degree of confidentiality and security, to whom the network gives whichever access and usage rights the company has ordered at a particular time.

This accessibility of information from any location is pivotal to the development of new working models at international organizations.

Work areas become meeting places for employees, and for customers.

This facility of access also allows greater reconciliation between a worker's personal life and the various scheduling demands imposed by an international organization.

Points of sale are significantly affected by the 'connected world'. Customers act through different channels, receive information, make purchases, complete procedures... and when they reach a point of sale they expect it to recognize them and know their opinions, etc. But they also understand that the points of sale are themselves interconnected and therefore that they will be able to exchange what they bought in one point in another or look for the closest point of sale of the product they are looking for. At the same time, companies store customers' purchase track records as a basis for their offering and their viral marketing. This problem is more complex in international models where the processing of information is performed in local mode. Multi-channel application models are being introduced where communications and information systems combined play an increasingly crucial role.

Consequently, communications and information technology are indissolubly combined, and together they provide incalculable value for companies' international development.

ICT infrastructure are evolving towards models of use 4.6

Information technology has become a key element at companies, not only as a support to financial and human resource processes that are common to all businesses, but as an element that supports the specific features of processes and the definition and construction in many cases of a company's product, as is the case at financial institutions or operators. Traditionally, information technology has been considered to be an internal activity developed using self-servicing models.

At the same time, communications have become key and critical elements, but unlike the IT model they have been considered as an external service provided by a services company and acquired pay-as-you-go.

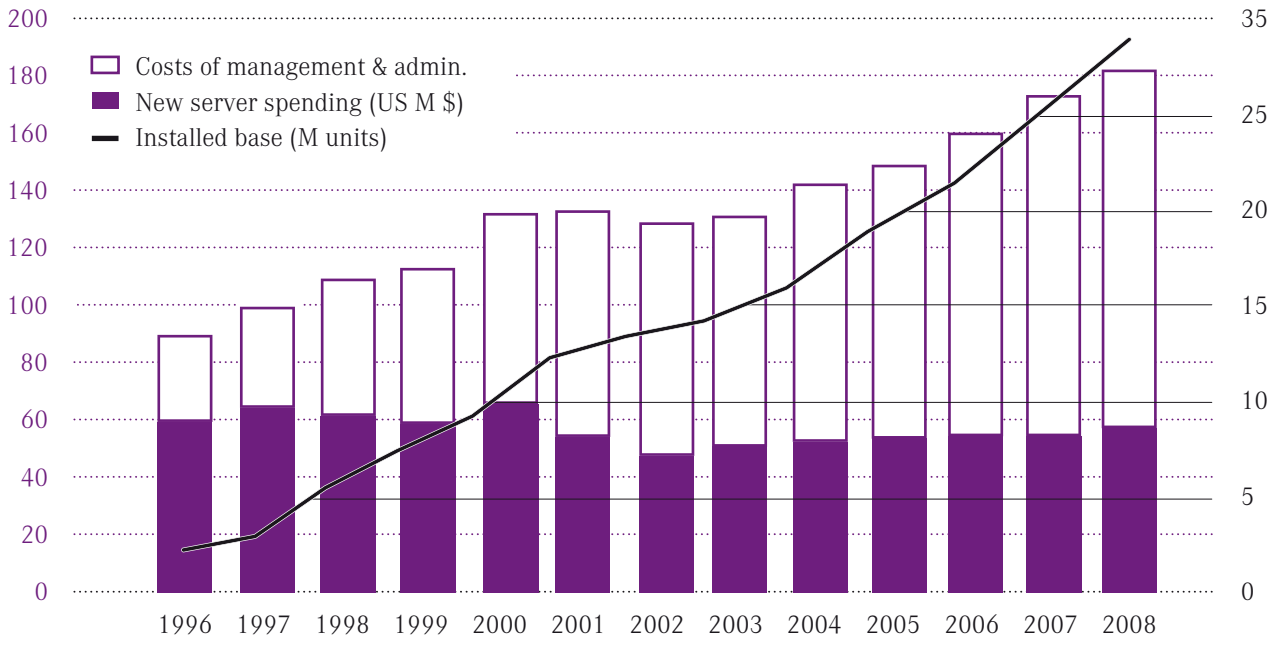
Why this difference? The simple response has traditionally been that information technology was a differentiating and highly personalized aspect, while communications were often restricted to a specialist world in which the required investments were very sizeable and an operator could always provide the service in pricing and quality conditions that were simply unattainable in the self-servicing modality.

The evolution of technology towards standards and the maturity of IT has meant that the propriety of information technology is not an element of differentiating value protection for companies, but the effect is that costs are much higher than at rivals opting for outsourced models. This has led companies to turn increasingly to outsourcing in their IT activities. Globalization and communications have made it possible to perform these activities from different hubs where, due to concentration of resources, lower costs or pure specialization, the service is provided more efficiently.

Meanwhile, the model for usage of communications has remained valid and has progressed, incorporating data

Cost of managing own infrastructure Chart 4.17

Source: IDC



Project and operation in self-servicing or service?

For every dollar we spend on HW we spend 7 on support. Electricity and cooling of servers costs 40,000 dollars a year (US data).

communications services that are still being developed as self-servicing in some institutions.

ICT, in other words convergent solutions that straddle information technology and communications, are evolving in the same way as data networks. The operator model prevails. And these services are gaining in value, so that shared ICT infrastructure over communications networks are adding storage and processing capacity, collaboration tools like e-mail and, lastly, support platforms to processes via the provision of the software as a service.

This model of outsourcing and use of the Web as a platform not only for communications but also for IT makes even more sense in international models where accessibility to resources is even more important than their physical location.

4.7 A new concept of ICT infrastructure

All of this configures a new Web model. A convergent fixed, mobile and IT network divided into three layers. The first layer contains the personal environment, the second shared ICT infrastructure and the third supports for processes relating people with companies.

In the personal environment, each individual will handle several devices that will be interoperable. The user will have the same experience regardless of the device. These devices will be increasingly powerful, easier to handle and will have more and more converging functionalities. They will not be tied to a single fixed location.

Access will be suited to each situation (Wifi, 3G, etc.).

And information will be wherever people are; they will not carry it with them; it will be on the Web.

They will have their personal environment where they will choose their online service providers such as e-mail, storage or social networks, and their professional environment, suited to the characteristics and functions of their work and in which confidentiality, security and availability will meet the strictest standards.

In the other layers, those of ICT infrastructure and processes, proprietary infrastructure will still coincide for some time with services provided online, but the proportion of the latter will tend distinctly to increase.

The shared ICT infrastructure environment is developed as an ICT backbone for communications and unlimited storage and processing capacity. This is based on Virtual Private Networks (VPN) and the fiber-optic rollout

Table 4.5 Evolving environments of ICT infrastructure at companies in an international context

Source: own research

Inter-usable multi-devices and multi-mode access	Unlimited backbone ICT	
- Same user experience. *- Services integrated between devices.* *- Access is adequate at all times.* *- Information is wherever I am.* *- Necessary standards of security and confidentiality.*	*- Unlimited Communication* *- Shared IT infrastructure* *- Virtual Private Networks* *- Profits and scale synergies*	*- Software as a service* *- Support for related precesses* *- Privacy and integration with legacy* *- Clean and secure networks*
People *- Citizens/customers* *- Employees*	*Infrastructure* *- Owner environment*	*Processes* *- Owner environment* *- Companies* *- Public Administrations* *- Suppliers*

to headquarters, and its value is increasing as it adds services provided from Data Centers, Virtual Hosting, etc., all faithful to the same concept of confidentiality and privacy of the VPN.

This backbone is what we might call our concept of cloud computing, a shared ICT infrastructure, secure and scalable that grows from infrastructure to processes.

On top of this infrastructure layer is the processes layer, providing basic accessible services from applications to the handling of remote devices or IMS, and providing software as a service and support to processes which enable people to relate to each other, companies and the Administration.

An ICT backbone which transfers to customers the benefits of scale economies, synergies and best operating practices.

This cloud concept in the sphere of Large Customers will gain in value, providing the features of privacy and suitability to each organization that each of their characteristics require and ensuring seamless integration with proprietary systems.

A clear movement and trend affecting the development of technology and how it is provided: the cloud

4.8

The speed at which business is conducted creates the need to capture the huge complexity of new technology in abstractions to facilitate its use. It is fascinating to see the path any advance has traveled before becoming something useful and day-to-day: initially, a discovery is made (often by chance), an application is sought, it is tested and perfected, and, once it has attained 'industrialized' standard, we make its use simpler.

Almost by magic the advances enter the public domain like an abstraction or 'black box' which allows them to be used easily in the development of new advances.

And this is what is happening, right now, with Information and Communications Technology (ICT).

The cloud is a synonym for the Internet.

The term 'cloud' has been used since telephone operators began to channel the traffic of data using more or less public networks. At that time, it was necessary to have a level of abstraction to enable the detail and complexity of managing these connection lines between related points to be concealed and the use became widespread of a chart form whose shape was reminiscent of a cloud and which became the 'telco problem'. Later, this chart shape was also used to represent the interconnection of computer equipment when we want to abstract from the specific details of a network topology. With the generalization of the Internet as a global network for connecting computers worldwide, the metaphor was adopted as a way to describe the Web.

The complexity of communication was neatly packaged and a type of provider had been found in which to entrust the entire operation. From then one, it would be seen 'as a service'.

Computation capacity is evolving towards a 'utility'.

Having overcome the complexity of connectivity between computer equipment, and even with the capillarity of fixed and mobile data allowed by the mass advent of broadband, the idea is emerging of offering IT capacities (linked to processing, memory and storage) in a similar way to the way in which we receive electric current: with no concern for the complexity of infrastructure and network required for the service provider; simply arranging the service and demanding that it be supplied to us in line with previously established quality parameters.

The industry offers: virtual hosting, online storage and grid computing, to name some products that have brought us closer to paying solely for resources consumed. At present, the two most complete visions would be: utility computing (metered payment for what is really used – similar to the model used by electric utilities) and subscription computing (fee depending on capacities contracted – like a flat fee for data).

Analysts believe that cloud computing is not a passing fashion:

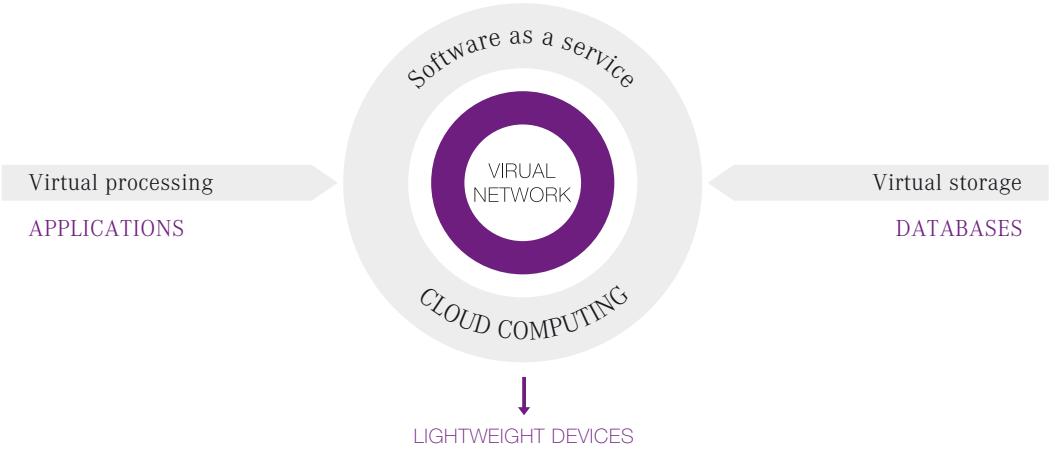
- Gartner projects that in 5 years it will have attained a global turnover of close to 150 billion dollars.
- IDC, meanwhile, indicates that in Spain its penetration will reach 25% in just 5 years, and 100% (almost all IT infrastructure management) in just over 10 years.

These figures are surprising and indicate that it is one of the trends that will grow most swiftly in the next few years. It is not surprising that, based on these forecasts, IT investment in this new market is soaring: cloud computing is here to stay.

Table 4.6

The virtualization of data and applications around cloud computing will be necessary in the future

Source: own research



4.9 Epilogue

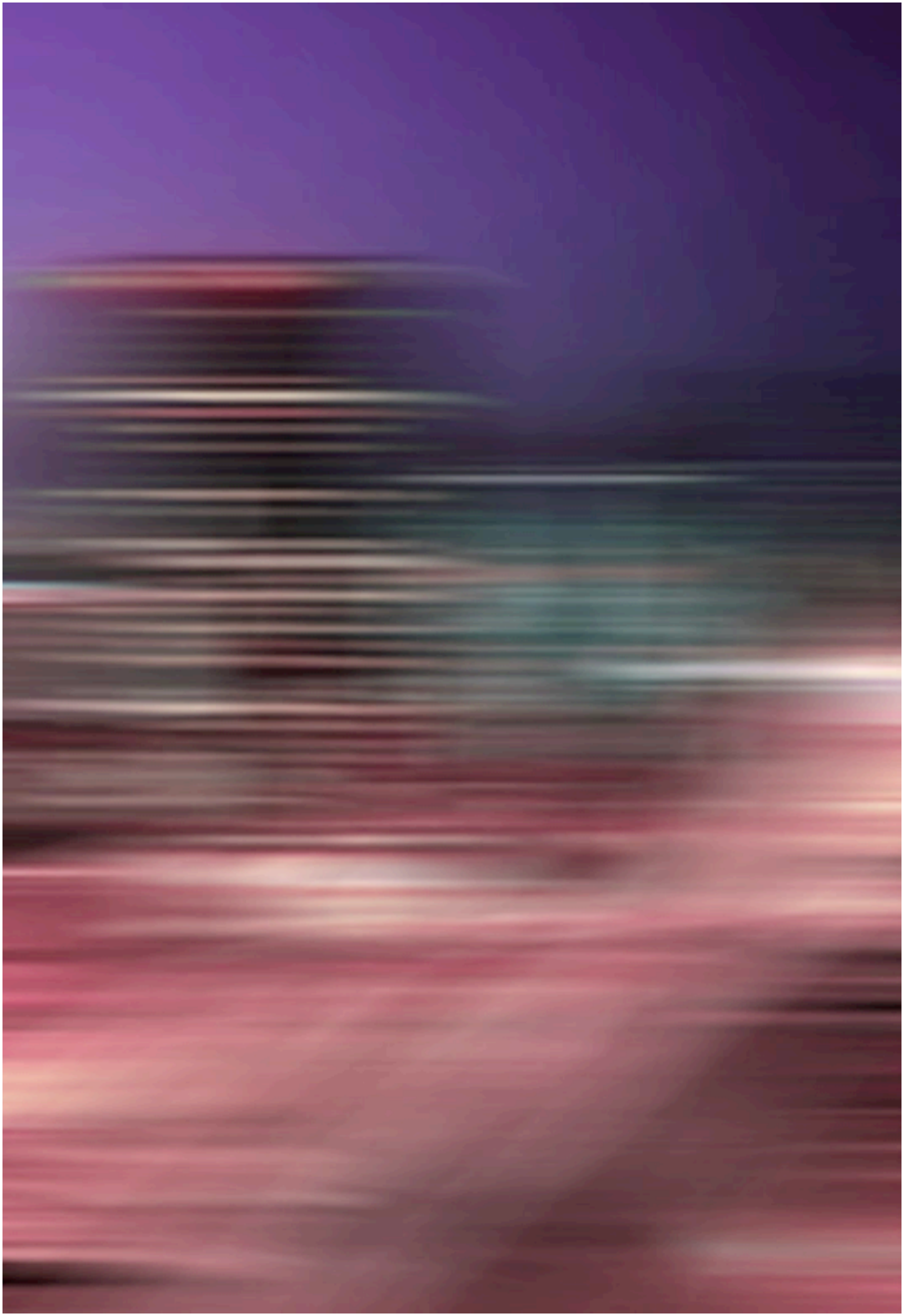
Convergence between communications and information technology is a reality. Information and Communication Technologies have grown together, providing increasing benefits and possibilities through their indissoluble combination.

Furthermore, this convergence not only affects companies but it also affects households and people, and its proliferation, largely facilitated by Administrations, has created a connected world which is probably one of the phenomena that most clearly breaks with previous ways of life and development of people and companies in the last few years.

This new connected world has no borders and the drive of its users is breaking down all the barriers and walls existing between territories to share everything: what we see, what we hear, what we know...

In view of this phenomenon, companies need to redefine their strategies and tap new opportunities arising and this will affect the way they relate to their customers, the way they work, and their organizational and business models.

Capacity for innovation and relation will be the key for business development. Never before have there been as many resources.



5 Statistical Annex

Total shareholder return rates in the IBEX-35

Table A.1

Companies and indices arranged as in 2008

Source: Datastream International through Wharton Research Data Services

Company	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average 1995 2008[b]	Average 2006 2008[b]
Unión Fenosa	41.8	100.6	8.0	72.4	19.7	14.7	-5.3	-29.4	22.5	33.8	66.2	21.9	25.9	**19.1**	25.6	22.3
Indra Sistemas	-54.7	14.4	445.6	121.5	40.8	8.0	-4.8	-31.4	58.4	25.3	35.3	15.2	3.3	**-10.7**	22.8	2.0
Red Eléctrica	---	---	---	---	---	70.0	7.5	-4.5	40.1	31.4	62.7	27.1	36.1	**-14.9**	25.4	13.7
ACS	5.7	12.9	312.6	53.0	-28.0	7.7	10.6	13.5	28.4	32.5	64.5	59.6	-2.6	**-16.0**	26.5	9.3
Mapfre	27.4	18.8	3.9	-3.3	-27.9	27.9	-1.7	21.1	47.9	2.6	31.1	24.7	-9.7	**-16.8**	8.4	-2.1
Endesa	30.9	37.0	19.3	41.6	-11.2	-5.6	-0.4	-34.2	43.0	17.8	33.0	74.7	5.1	**-18.0**	13.1	14.6
Grifols	---	---	---	---	---	---	---	---	---	---	---	---	53.0	**-19.6**	10.9	10.9
Enagas	---	---	---	---	---	---	---	---	52.6	46.0	32.3	13.9	16.0	**-20.0**	20.8	1.8
Inditex	---	---	---	---	---	---	---	5.7	-28.1	36.9	29.3	50.7	4.6	**-23.3**	7.2	6.5
Telefónica	11.4	84.4	46.8	54.0	104.3	-29.0	-11.1	-41.0	46.6	22.7	-1.2	31.2	41.7	**-25.4**	16.7	11.5
Iberia	---	---	---	---	---	---	---	27.9	66.3	13.1	-8.6	21.5	9.5	**-27.9**	11.2	-1.4
FTSE 100[a]	26.0	16.9	28.7	17.5	20.6	-8.2	-14.1	-22.2	17.9	11.2	20.8	14.4	7.4	**-28.3**	6.1	-4.2
Acerinox	0.2	57.3	22.4	-25.2	103.3	-15.9	20.5	-4.0	9.3	28.9	6.3	91.0	-25.7	**-30.7**	10.8	-0.5
Banco de Sabadell	---	---	---	---	---	---	---	-4.9	26.6	12.8	31.8	56.4	-10.3	**-31.7**	8.0	-1.4
DJIA[a]	36.4	22.4	32.3	12.2	14.0	5.1	-11.1	-15.9	29.4	15.6	9.5	15.7	8.9	**-31.9**	8.5	-5.0
Iberdrola	44.2	72.6	12.2	35.7	-11.8	0.0	13.0	-5.6	21.7	23.5	27.5	47.8	28.5	**-35.5**	16.4	7.0
Repsol	14.6	29.1	33.5	18.8	54.7	-24.8	-1.6	-22.2	25.1	26.5	31.5	8.5	-4.9	**-35.9**	7.8	-12.9
IBEX 35[a]	22.4	47.1	44.5	38.6	20.1	-20.5	-6.1	-26.5	32.2	21.1	22.0	36.0	10.7	**-36.5**	11.2	-1.5
Banesto	-9.2	19.6	49.3	24.7	40.2	-8.9	-3.6	-43.5	39.4	13.9	23.6	36.3	-17.9	**-36.6**	4.9	-10.8
S&P500[a]	37.6	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9	15.8	5.5	**-37.0**	6.8	-8.4
Abertis	52.1	41.3	23.1	24.1	-26.4	5.2	30.6	4.9	20.4	45.6	40.8	13.4	4.8	**-38.0**	14.1	-9.7
CAC40[a]	2.8	27.6	33.0	34.1	54.1	1.0	-20.3	-31.9	19.9	11.4	26.6	20.9	4.2	**-40.3**	6.8	-9.1
DAX 30[a]	7.0	28.2	47.1	17.7	39.1	-7.5	-19.8	-43.9	37.1	7.3	27.1	22.0	22.3	**-40.4**	6.1	-3.8
World Market[a]	16.8	13.1	13.4	21.7	32.5	-15.3	-16.2	-16.8	37.8	17.9	13.6	23.8	15.1	**-43.3**	5.5	-6.8
Criteria Caixacorp	---	---	---	---	---	---	---	---	---	---	---	---	---	**-43.5**	-43.5	-43.5
Cintra	---	---	---	---	---	---	---	---	---	---	21.7	37.3	-14.1	**-45.5**	-6.0	-13.7
Banco Popular	48.4	17.6	71.6	2.5	3.0	17.8	2.0	8.7	25.3	5.7	9.4	36.9	-12.6	**-45.6**	10.2	-13.3
BBVA	39.2	65.5	114.6	36.4	7.5	13.9	-10.6	-32.4	23.9	22.9	19.1	24.4	-5.3	**-45.7**	13.4	-13.8
Iberdrola Renovables	---	---	---	---	---	---	---	---	---	---	---	---	---	**-46.0**	-46.0	-46.0
Bankinter	12.2	75.9	31.5	22.7	61.7	-26.4	-7.9	-26.3	41.8	23.6	22.4	29.7	7.3	**-48.3**	10.3	-10.4
Banco Santander	25.9	41.4	88.0	14.2	34.1	3.3	-15.5	-28.2	48.6	0.3	26.0	30.8	8.1	**-48.7**	11.1	-10.2
Gas Natural	68.4	60.9	5.3	96.8	-25.7	-14.3	-2.5	-2.0	4.6	26.0	6.7	30.6	36.3	**-50.6**	10.8	-4.2
Abengoa	---	---	63.8	68.4	0.0	61.4	-17.7	-17.6	5.4	28.1	72.7	125.6	-12.7	**-50.8**	17.3	-1.1
FCC	-27.2	31.4	93.3	82.7	-36.0	1.2	17.2	-6.3	39.5	24.9	39.1	65.3	-31.9	**-52.5**	8.4	-18.9
Telecinco	---	---	---	---	---	---	---	---	---	---	45.1	6.1	-14.8	**-53.1**	-11.4	-24.9
OHL	-14.3	-10.4	242.9	95.2	-38.6	-28.5	33.6	-25.3	49.8	6.4	116.8	76.5	-0.9	**-56.2**	13.6	-8.5
Técnicas Reunidas	---	---	---	---	---	---	---	---	---	---	---	---	52.3	**-57.2**	-19.2	-19.2
Grupo Ferrovial	---	---	---	---	---	-3.8	46.8	24.4	17.8	43.8	51.0	27.9	-34.1	**-58.0**	5.3	-29.3
Bolsas y Mercados Españoles	---	---	---	---	---	---	---	---	---	---	---	---	52.8	**-58.1**	-20.0	-20.0
Acciona	-26.2	52.1	152.1	182.1	-19.2	-29.7	6.4	-3.0	26.0	38.1	48.0	52.0	55.8	**-58.2**	19.4	-0.3
Gamesa	---	---	---	---	---	---	-39.8	1.4	70.0	21.1	22.7	70.4	54.3	**-59.9**	6.2	1.7
Sacyr Vallehermoso	0.4	27.1	68.0	31.4	-42.3	-4.8	11.4	45.6	25.6	6.1	78.7	129.7	-40.1	**-73.4**	5.7	-28.5

Notes: a Market indices calculated based on companies included each year
b Calculated as a geometrical average

Table A.2 Total shareholder return rates in the IBEX-35

Companies and indices arranged by 1995-2008 average

Source: Datastream International through Wharton Research Data Services

Company	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average 1995 2008[b]	Average 2006 2008[b]
ACS	5.7	12.9	312.6	53.0	-28.0	7.7	10.6	13.5	28.4	32.5	64.5	59.6	-2.6	-16.0	**26.5**	9.3
Unión Fenosa	41.8	100.6	8.0	72.4	19.7	14.7	-5.3	-29.4	22.5	33.8	66.2	21.9	25.9	19.1	**25.6**	22.3
Red Eléctrica	---	---	---	---	---	70.0	7.5	-4.5	40.1	31.4	62.7	27.1	36.1	-14.9	**25.4**	13.7
Indra Sistemas	-54.7	14.4	445.6	121.5	40.8	8.0	-4.8	-31.4	58.4	25.3	35.3	15.2	3.3	-10.7	**22.8**	2.0
Enagas	---	---	---	---	---	---	---	---	52.6	46.0	32.3	13.9	16.0	-20.0	**20.8**	1.8
Acciona	-26.2	52.1	152.1	182.1	-19.2	-29.7	6.4	-3.0	26.0	38.1	48.0	52.0	55.8	-58.2	**19.4**	-0.3
Abengoa	---	---	63.8	68.4	0.0	61.4	-17.7	-17.6	5.4	28.1	72.7	125.6	-12.7	-50.8	**17.3**	-1.1
Telefónica	11.4	84.4	46.8	54.0	104.3	-29.0	-11.1	-41.0	46.6	22.7	-1.2	31.2	41.7	-25.4	**16.7**	11.5
Iberdrola	44.2	72.6	12.2	35.7	-11.8	0.0	13.0	-5.6	21.7	23.5	27.5	47.8	28.5	-35.5	**16.4**	7.0
Abertis	52.1	41.3	23.1	24.1	-26.4	5.2	30.6	4.9	20.4	45.6	40.8	13.4	4.8	-38.0	**14.1**	-9.7
OHL	-14.3	-10.4	242.9	95.2	-38.6	-28.5	33.6	-25.3	49.8	6.4	116.8	76.5	-0.9	-56.2	**13.6**	-8.5
BBVA	39.2	65.5	114.6	36.4	7.5	13.9	-10.6	-32.4	23.9	22.9	19.1	24.4	-5.3	-45.7	**13.4**	-13.8
Endesa	30.9	37.0	19.3	41.6	-11.2	-5.6	-0.4	-34.2	43.0	17.8	33.0	74.7	5.1	-18.0	**13.1**	14.6
Iberia	---	---	---	---	---	---	---	27.9	66.3	13.1	-8.6	21.5	9.5	-27.9	**11.2**	-1.4
IBEX 35[a]	22.4	47.1	44.5	38.6	20.1	-20.5	-6.1	-26.5	32.2	21.1	22.0	36.0	10.7	-36.5	**11.2**	-1.5
Banco Santander	25.9	41.4	88.0	14.2	34.1	3.3	-15.5	-28.2	48.6	0.3	26.0	30.8	8.1	-48.7	**11.1**	-10.2
Grifols	---	---	---	---	---	---	---	---	---	---	---	---	53.0	-19.6	**10.9**	10.9
Gas Natural	68.4	60.9	5.3	96.8	-25.7	-14.3	-2.5	-2.0	4.6	26.0	6.7	30.6	36.3	-50.6	**10.8**	-4.2
Acerinox	0.2	57.3	22.4	-25.2	103.3	-15.9	20.5	-4.0	9.3	28.9	6.3	91.0	-25.7	-30.7	**10.8**	-0.5
Bankinter	12.2	75.9	31.5	22.7	61.7	-26.4	-7.9	-26.3	41.8	23.6	22.4	29.7	7.3	-48.3	**10.3**	-10.4
Banco Popular	48.4	17.6	71.6	2.5	3.0	17.8	2.0	8.7	25.3	5.7	9.4	36.9	-12.6	-45.6	**10.2**	-13.3
DJIA[a]	36.4	22.4	32.3	12.2	14.0	5.1	-11.1	-15.9	29.4	15.6	9.5	15.7	8.9	-31.9	**8.5**	-5.0
Mapfre	27.4	18.8	3.9	-3.3	-27.9	27.9	-1.7	21.1	47.9	2.6	31.1	24.7	-9.7	-16.8	**8.4**	-2.1
FCC	-27.2	31.4	93.3	82.7	-36.0	1.2	17.2	-6.3	39.5	24.9	39.1	65.3	-31.9	-52.5	**8.4**	-18.9
Banco de Sabadell	---	---	---	---	---	---	---	-4.9	26.6	12.8	31.8	56.4	-10.3	-31.7	**8.0**	-1.4
Repsol	14.6	29.1	33.5	18.8	54.7	-24.8	-1.6	-22.2	25.1	26.5	31.5	8.5	-4.9	-35.9	**7.8**	-12.9
Inditex	---	---	---	---	---	---	---	5.7	-28.1	36.9	29.3	50.7	4.6	-23.3	**7.2**	6.5
S&P500[a]	37.6	23.0	33.4	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9	15.8	5.5	-37.0	**6.8**	-8.4
CAC40[a]	2.8	27.6	33.0	34.1	54.1	1.0	-20.3	-31.9	19.9	11.4	26.6	20.9	4.2	-40.3	**6.8**	-9.1
Gamesa	---	---	---	---	---	---	-39.8	1.4	70.0	21.1	22.7	70.4	54.3	-59.9	**6.2**	1.7
FTSE 100[a]	26.0	16.9	28.7	17.5	20.6	-8.2	-14.1	-22.2	17.9	11.2	20.8	14.4	7.4	-28.3	**6.1**	-4.2
DAX 30[a]	7.0	28.2	47.1	17.7	39.1	-7.5	-19.8	-43.9	37.1	7.3	27.1	22.0	22.3	-40.4	**6.1**	-3.8
Sacyr Vallehermoso	0.4	27.1	68.0	31.4	-42.3	-4.8	11.4	45.6	25.6	6.1	78.7	129.7	-40.1	-73.4	**5.7**	-28.5
World Market[a]	16.8	13.1	13.4	21.7	32.5	-15.3	-16.2	-16.8	37.8	17.9	13.6	23.8	15.1	-43.3	**5.5**	-6.8
Grupo Ferrovial	---	---	---	---	---	-3.8	46.8	24.4	17.8	43.8	51.0	27.9	-34.1	-58.0	**5.3**	-29.3
Banesto	-9.2	19.6	49.3	24.7	40.2	-8.9	-3.6	-43.5	39.4	13.9	23.6	36.3	-17.9	-36.6	**4.9**	-10.8
Cintra	---	---	---	---	---	---	---	---	---	---	21.7	37.3	-14.1	-45.5	**-6.0**	-13.7
Telecinco	---	---	---	---	---	---	---	---	---	---	45.1	6.1	-14.8	-53.1	**-11.4**	-24.9
Técnicas Reunidas	---	---	---	---	---	---	---	---	---	---	---	---	52.3	-57.2	**-19.2**	-19.2
Bolsas y Mercados Españoles	---	---	---	---	---	---	---	---	---	---	---	---	52.8	-58.1	**-20.0**	-20.0
Criteria Caixacorp	---	---	---	---	---	---	---	---	---	---	---	---	---	-43.5	**-43.5**	-43.5
Iberdrola Renovables	---	---	---	---	---	---	---	---	---	---	---	---	---	-46.0	**-46.0**	-46.0

Notes: a Market indices calculated based on companies included each year
b Calculated as a geometrical average

Total shareholder return rates in the IBEX-35

Table A.3

Companies and indices arranged by 2006-2008 average

Source: Datastream International through Wharton Research Data Services

Company	2006	2007	2008	Average 1995-2008[b]	Average 2006-2008[b]
Unión Fenosa	21.9	25.9	19.1	25.6	22.3
Endesa	74.7	5.1	-18.0	13.1	14.6
Red Eléctrica	27.1	36.1	-14.9	25.4	13.7
Telefónica	31.2	41.7	-25.4	16.7	11.5
Grifols	---	53.0	-19.6	10.9	10.9
ACS	59.6	-2.6	-16.0	26.5	9.3
Iberdrola	47.8	28.5	-35.5	16.4	7.0
Inditex	50.7	4.6	-23.3	7.2	6.5
Indra Sistemas	15.2	3.3	-10.7	22.8	2.0
Enagas	13.9	16.0	-20.0	20.8	1.8
Gamesa	70.4	54.3	-59.9	6.2	1.7
Acciona	52.0	55.8	-58.2	19.4	-0.3
Acerinox	91.0	-25.7	-30.7	10.8	-0.5
Abengoa	125.6	-12.7	-50.8	17.3	-1.1
Iberia	21.5	9.5	-27.9	11.2	-1.4
Banco de Sabadell	56.4	-10.3	-31.7	8.0	-1.4
IBEX 35[a]	36.0	10.7	-36.5	11.2	-1.5
Mapfre	24.7	-9.7	-16.8	8.4	-2.1
DAX 30[a]	22.0	22.3	-40.4	6.1	-3.8
FTSE 100[a]	14.4	7.4	-28.3	6.1	-4.2
Gas Natural	30.6	36.3	-50.6	10.8	-4.2
DJIA[a]	15.7	8.9	-31.9	8.5	-5.0
World Market[a]	23.8	15.1	-43.3	5.5	-6.8
S&P500[a]	15.8	5.5	-37.0	6.8	-8.4
OHL	76.5	-0.9	-56.2	13.6	-8.5
CAC40[a]	20.9	4.2	-40.3	6.8	-9.1
Abertis	13.4	4.8	-38.0	14.1	-9.7
Banco Santander	30.8	8.1	-48.7	11.1	-10.2
Bankinter	29.7	7.3	-48.3	10.3	-10.4
Banesto	36.3	-17.9	-36.6	4.9	-10.8
Repsol	8.5	-4.9	-35.9	7.8	-12.9
Banco Popular Español	36.9	-12.6	-45.6	10.2	-13.3
Cintra	37.3	-14.1	-45.5	-6.0	-13.7
BBVA	24.4	-5.3	-45.7	13.4	-13.8
FCC	65.3	-31.9	-52.5	8.4	-18.9
Técnicas Reunidas	---	52.3	-57.2	-19.2	-19.2
Bolsas y Mercados Españoles	---	52.8	-58.1	-20.0	-20.0
Telecinco	6.1	-14.8	-53.1	-11.4	-24.9
Sacyr Vallehermoso	129.7	-40.1	-73.4	5.7	-28.5
Grupo Ferrovial	27.9	-34.1	-58.0	5.3	-29.3
Criteria Caixacorp	---	---	-43.5	-43.5	-43.5
Iberdrola Renovables	---	---	-46.0	-46.0	-46.0

Notes: a The market indices were calculated based on the companies included each year
b Calculated as a geometrical average

Table A.4

Top Spanish companies by total shareholder returns in 2008, compared to companies in the same sector within the Euro area

	Outright rate		Euro area (standardized rate)		World (standardized rate)	
Company	Rank	%	Rank	%	Rank	%
Unión Fenosa	1	19.1	1	2.24	4	1.50
Tecnocom	5	-1.0	2	2.11	2	1.71
Viscofán	4	-0.1	3	1.70	17	0.55
Prosegur	6	-1.7	4	1.66	8	0.99
ACS	14	-16.0	5	1.62	11	0.79
Acerinox	29	-30.7	6	1.48	37	-0.10
Bodegas Riojanas	7	-2.9	7	1.47	7	1.04
Cepsa	8	-3.5	8	1.36	3	1.53
CVNE	9	-5.9	9	1.33	9	0.90
Miquel y Costas	18	-19.2	10	1.32	15	0.60
Inditex	23	-23.3	11	1.30	25	0.19
Construcción y Auxiliar de Ferrocarril	10	-7.4	12	1.28	5	1.24
Banco de Valencia	22	-22.2	13	1.17	20	0.27
Indra Sistemas	11	-10.7	14	1.17	6	1.04
Iberia	27	-27.9	15	1.11	12	0.74
Testa Inmuebles en Renta	3	4.7	16	1.03	1	1.99
Zardoya Otis	24	-25.4	17	0.98	10	0.79
Mapfre	15	-16.8	18	0.94	14	0.62
Campofrío Alimentación	13	-15.3	19	0.92	27	0.11
Prim	28	-28.0	20	0.82	21	0.24
Banco de Sabadell	30	-31.7	21	0.76	30	0.02
SOS Cuétara	17	-18.6	22	0.75	31	0.02
Grupo Catalana Occidente	34	-35.2	23	0.75	72	-0.46
Ebro Puleva	20	-19.8	24	0.69	32	-0.01
Red Eléctrica de España	12	-14.9	25	0.69	18	0.31
Banco Español de Crédito	37	-36.6	26	0.55	40	-0.10
Endesa	16	-18.0	27	0.55	24	0.20
Dogi International Fabrics	32	-32.2	28	0.46	19	0.27
Pescanova	31	-32.2	29	0.37	22	0.24
Renta 4	33	-33.6	30	0.34	16	0.57
Barón de Ley	26	-27.8	31	0.31	46	-0.15
Nicolas Correa	42	-40.7	32	0.30	26	0.11
Telefónica	25	-25.4	33	0.25	34	-0.05
Iberpapel Gestión	44	-42.0	34	0.23	52	-0.21
Banco Popular Español	53	-45.6	35	0.16	56	-0.34
BBVA	54	-45.7	36	0.16	57	-0.34
Inypsa Informes y Proyectos	51	-45.3	37	0.13	53	-0.25
Mecalux	48	-45.0	38	0.11	36	-0.08
Banco de Andalucía	59	-47.2	39	0.09	60	-0.38
Vidrala	39	-37.5	40	0.05	59	-0.38
Repsol	36	-35.9	41	0.04	23	0.21
Bankinter	61	-48.3	42	0.04	63	-0.41
Enagas	21	-20.0	43	0.03	33	-0.03
Banco Guipuzcoano	62	-48.5	44	0.03	64	-0.41
Banco Santander	65	-48.7	45	0.02	66	-0.42
Corporación Financiera Alba	41	-40.4	46	0.01	41	-0.11
Abertis	40	-38.0	47	-0.01	35	-0.05
Befesa Medio Ambiente	43	-40.9	48	-0.06	70	-0.45
Amper	91	-59.1	49	-0.07	88	-0.78
Grifols	19	-19.6	50	-0.09	51	-0.19
Reyal Urbis	57	-47.0	51	-0.10	42	-0.11
Banco Pastor	70	-51.9	52	-0.12	74	-0.50
Tubos Reunidos	81	-55.8	53	-0.12	38	-0.10
Montebalito	60	-47.6	54	-0.12	43	-0.11
Criteria Caixacorp	45	-43.5	55	-0.15	29	0.10
Abengoa	68	-50.8	56	-0.16	69	-0.45
Cie Automotive	69	-51.3	57	-0.21	28	0.10
Gamesa Corporación Technológica	92	-59.9	58	-0.21	54	-0.26
Iberdrola Renovables	56	-46.0	59	-0.21	86	-0.72

(continued) Table A.4

Source: Datastream International through Wharton Research Data Services

Company	Outright rate		Euro area (standardized rate)		World (standardized rate)	
	Rank	%	Rank	%	Rank	%
Natraceutical	38	-37.5	60	-0.22	76	-0.52
Ercros	47	-44.8	61	-0.23	55	-0.32
FCC	72	-52.5	62	-0.24	75	-0.51
Iberdrola	35	-35.5	63	-0.25	62	-0.40
Aguas de Barcelona	55	-45.9	64	-0.25	95	-0.95
Duro Felguera	75	-53.2	65	-0.26	68	-0.44
Metrovacesa	77	-53.6	66	-0.30	44	-0.12
Cintra	52	-45.5	67	-0.32	58	-0.36
Papeles y Cartones de Europa	76	-53.4	68	-0.32	78	-0.61
Itinere Infraestructuras	58	-47.1	69	-0.38	67	-0.43
Zeltia	49	-45.1	70	-0.41	92	-0.83
Laboratorios Farmaceuticos Rovi	50	-45.3	71	-0.41	93	-0.83
Obrascón Huarte Laín	82	-56.2	72	-0.43	79	-0.64
Unipapel	46	-44.0	73	-0.44	65	-0.42
Cleop	83	-56.4	74	-0.44	80	-0.65
Telecinco	74	-53.1	75	-0.45	83	-0.70
Técnicas Reunidas	84	-57.2	76	-0.48	81	-0.68
Azkoyen	90	-59.0	77	-0.51	82	-0.69
Codere	73	-52.7	78	-0.52	61	-0.40
Grupo Ferrovial	85	-58.0	79	-0.52	84	-0.70
Acciona	88	-58.2	80	-0.53	85	-0.71
Antena 3	79	-55.4	81	-0.53	90	-0.80
Dinamia Capital Privado	78	-54.2	82	-0.53	73	-0.47
Corporación Dermoestética	71	-52.2	83	-0.61	89	-0.78
Fersa Energias Renovables	80	-55.7	84	-0.63	98	-1.05
Tubacex	98	-64.2	85	-0.65	39	-0.10
Fluidra	93	-61.6	86	-0.69	96	-0.97
Exide Technologies	64	-48.5	87	-0.75	71	-0.46
Avanzit	113	-77.3	88	-0.75	118	-1.56
Parquesol Inmobiliaria	105	-70.0	89	-0.80	45	-0.15
Cementos Portland Valderribas	99	-64.7	90	-0.81	103	-1.10
Sol Meliá	89	-58.2	91	-0.86	87	-0.76
Vocento	108	-71.6	92	-0.86	102	-1.09
Grupo Empresarial Ence	100	-64.7	93	-0.87	97	-1.01
Natra	66	-50.2	94	-0.87	94	-0.88
Bolsas y Mercados Españoles	87	-58.1	95	-0.88	77	-0.59
Gas Natural	67	-50.6	96	-0.92	105	-1.11
Realia Business	112	-75.7	97	-0.98	47	-0.16
Faes Farma	94	-62.2	98	-0.98	112	-1.39
Laboratorios Almirall	95	-62.8	99	-1.00	113	-1.41
Vertice 360 Grados	102	-68.2	100	-1.02	110	-1.36
Solaria	118	-91.1	101	-1.02	108	-1.18
Sniace	101	-67.5	102	-1.12	101	-1.07
Adolfo Dominguez	107	-70.8	103	-1.19	107	-1.17
NH Hoteles	103	-69.0	104	-1.19	106	-1.14
Jazztel	63	-48.5	105	-1.20	91	-0.82
General de Alquiler de Maquinaria	111	-75.4	106	-1.23	114	-1.42
Tavex Algodonera	106	-70.0	107	-1.26	100	-1.06
Puleva Biotech	86	-58.0	108	-1.27	104	-1.11
Sacyr Vallehermoso	110	-73.4	109	-1.31	109	-1.25
Service Point Solutions	109	-72.8	110	-1.32	119	-1.59
Vueling Airlines	96	-63.1	111	-1.34	99	-1.06
Renta Corporación Real Estate	116	-87.5	112	-1.34	48	-0.18
Inmobiliaria Colonial	117	-90.9	113	-1.45	49	-0.19
Afirma Grupo Inmobiliario	119	-92.0	114	-1.48	50	-0.19
PRISA	115	-82.1	115	-1.49	116	-1.51
Elecnor	97	-63.8	116	-1.53	111	-1.39
La Seda de Barcelona	114	-80.0	117	-1.61	115	-1.48
Clinica Baviera	104	-69.4	118	-1.63	117	-1.55

Note: The Pearson correlation coefficient between the standardized rate in the Euro area and the standardized rate in the world is 84.2%

Table A.5 Top Spanish companies by total shareholder return rate in 2008, ranked by sector, compared to companies in the same sector within the Euro area

Company	Sector	Outright rate	Standardized rate	
			Euro Area	World
Acerinox	Steel	-30.70	**1.48**	-0.10
Tubos Reunidos	Steel	-55.80	**-0.12**	-0.10
Tubacex	Steel	-64.20	**-0.65**	-0.10
Aguas de Barcelona	Water	-45.90	**-0.25**	-0.95
Viscofan	Food	-0.10	**1.70**	0.55
Campofrio Alimentación	Food	-15.30	**0.92**	0.11
SOS Cuétara	Food	-18.60	**0.75**	0.02
Ebro Puleva	Food	-19.80	**0.69**	-0.01
Natraceutical	Food	-37.50	**-0.22**	-0.52
Natra	Food	-50.20	**-0.87**	-0.88
Puleva Biotech	Food	-58.00	**-1.27**	-1.11
Banco de Valencia	Banking	-22.20	**1.17**	0.27
Banco de Sabadell	Banking	-31.70	**0.76**	0.02
Banco Español de Crédito	Banking	-36.60	**0.55**	-0.10
Banco Popular Español	Banking	-45.60	**0.16**	-0.34
BBVA	Banking	-45.70	**0.16**	-0.34
Banco de Andalucía	Banking	-47.20	**0.09**	-0.38
Bankinter	Banking	-48.30	**0.04**	-0.41
Banco Guipuzcoano	Banking	-48.50	**0.03**	-0.41
Banco Santander	Banking	-48.70	**0.02**	-0.42
Banco Pastor	Banking	-51.90	**-0.12**	-0.50
Bodegas Riojanas	Alcoholic beverages	-2.90	**1.47**	1.04
CVNE	Alcoholic beverages	-5.90	**1.33**	0.90
Barón de Ley	Alcoholic beverages	-27.80	**0.31**	-0.15
Grifols	Biotechnology	-19.60	**-0.09**	-0.19
Cie Automotive	Auto parts	-51.30	**-0.21**	0.10
Inditex	Fashionwear and clothing	-23.30	**1.30**	0.19
Adolfo Dominguez	Fashionwear and clothing	-70.80	**-1.19**	-1.17
ACS	Construction	-16.00	**1.62**	0.79
Inypsa Informes y Proyectos	Construction	-45.30	**0.13**	-0.25
Abengoa	Construction	-50.80	**-0.16**	-0.45
FCC	Construction	-52.50	**-0.24**	-0.51
Obrascón Huarte Laín	Construction	-56.20	**-0.43**	-0.64
Cleop	Construction	-56.40	**-0.44**	-0.65
Técnicas Reunidas	Construction	-57.20	**-0.48**	-0.68
Grupo Ferrovial	Construction	-58.00	**-0.52**	-0.70
Acciona	Construction	-58.20	**-0.53**	-0.71
Sacyr Vallehermoso	Construction	-73.40	**-1.31**	-1.25
Vidrala	Packaging	-37.50	**0.05**	-0.38
Unión Fenosa	Electricity	19.10	**2.24**	1.50
Red Eléctrica de España	Electricity	-14.90	**0.69**	0.31
Endesa	Electricity	-18.00	**0.55**	0.20
Iberdrola Renovables	Electricity	-46.00	**-0.21**	-0.72
Iberdrola	Electricity	-35.50	**-0.25**	-0.40
Fersa Energias Renovables	Electricity	-55.70	**-0.63**	-1.05
Elecnor	Electricity	-63.80	**-1.53**	-1.39
Gamesa Corporación Technológica	Renewable energy	-59.90	**-0.21**	-0.26
Solaria	Renewable energy	-91.10	**-1.02**	-1.18
Tecnocom	Telecom equipment	-1.00	**2.11**	1.71
Amper	Telecom equipment	-59.10	**-0.07**	-0.78
Avanzit	Telecom equipment	-77.30	**-0.75**	-1.56
Prim	Medical devices	-28.00	**0.82**	0.24
Zeltia	Pharmaceuticals	-45.10	**-0.41**	-0.83
Laboratorios Farmaceuticos Rovi	Pharmaceuticals	-45.30	**-0.41**	-0.83
Faes Farma	Pharmaceuticals	-62.20	**-0.98**	-1.39
Laboratorios Almirall	Pharmaceuticals	-62.80	**-1.00**	-1.41
Enagas	Gas	-20.00	**0.03**	-0.03
Gas Natural	Gas	-50.60	**-0.92**	-1.11
Sol Meliá	Hotels	-58.20	**-0.86**	-0.76

(continued) Table A.5

Source: Datastream International through Wharton Research Data Services

Company	Sector	Outright rate	Standardized rate	
			Euro Area	World
NH Hoteles	Hotels	-69.00	**-1.19**	-1.14
Testa Inmuebles en Renta	Property	4.70	**1.03**	1.99
Reyal Urbis	Property	-47.00	**-0.10**	-0.11
Montebalito	Property	-47.60	**-0.12**	-0.11
Metrovacesa	Property	-53.60	**-0.30**	-0.12
Parquesol Inmobiliaria	Property	-70.00	**-0.80**	-0.15
Realia Business	Property	-75.70	**-0.98**	-0.16
Renta Corporación Real Estate	Property	-87.50	**-1.34**	-0.18
Inmobiliaria Colonial	Property	-90.90	**-1.45**	-0.19
Afirma Grupo Inmobiliario	Property	-92.00	**-1.48**	-0.19
Codere	Games of chance	-52.70	**-0.52**	-0.40
Iberia	Airlines	-27.90	**1.11**	0.74
Vueling Airlines	Airlines	-63.10	**-1.34**	-1.06
Zardoya Otis	Machinery	-25.40	**0.98**	0.79
Nicolas Correa	Machinery	-40.70	**0.30**	0.11
Mecalux	Machinery	-45.00	**0.11**	-0.08
Duro Felguera	Machinery	-53.20	**-0.26**	-0.44
Azkoyen	Machinery	-59.00	**-0.51**	-0.69
General de Alquiler de Maquinaria	Machinery	-75.40	**-1.23**	-1.42
Fluidra	Construction material	-61.60	**-0.69**	-0.97
Cementos Portland Valderribas	Construction material	-64.70	**-0.81**	-1.10
Construcción y Auxiliar de Ferrocarril	Transport material	-7.40	**1.28**	1.24
Miquel y Costas	Paper	-19.20	**1.32**	0.60
Iberpapel Gestión	Paper	-42.00	**0.23**	-0.21
Papeles y Cartones de Europa	Paper	-53.40	**-0.32**	-0.61
Grupo Empresarial Ence	Paper	-64.70	**-0.87**	-1.01
Pescanova	Fishing	-32.20	**0.37**	0.24
Cepsa	Oil and gas	-3.50	**1.36**	1.53
Repsol	Oil and gas	-35.90	**0.04**	0.21
Unipapel	Household products	-44.00	**-0.44**	-0.42
Exide Technologies	Household products	-48.50	**-0.75**	-0.46
Telecinco	Publications and media	-53.10	**-0.45**	-0.70
Antena 3	Publications and media	-55.40	**-0.53**	-0.80
Vocento	Publications and media	-71.60	**-0.86**	-1.09
Vertice 360 Grados	Publications and media	-68.20	**-1.02**	-1.36
PRISA	Publications and media	-82.10	**-1.49**	-1.51
Ercros	Special chemicals	-44.80	**-0.23**	-0.32
Sniace	Special chemicals	-67.50	**-1.12**	-1.07
La Seda de Barcelona	Special chemicals	-80.00	**-1.61**	-1.48
Mapfre	Insurance	-16.80	**0.94**	0.62
Grupo Catalana Occidente	Accident insurance	-35.20	**0.75**	-0.46
Prosegur	corporate services	-1.70	**1.66**	0.99
Service Point Solutions	corporate services	-72.80	**-1.32**	-1.59
Indra Sistemas	Information services	-10.70	**1.17**	1.04
Corporación Dermoestética	Health services	-52.20	**-0.61**	-0.78
Clinica Baviera	Health services	-69.40	**-1.63**	-1.55
Abertis	Transport services a	-38.00	**-0.01**	-0.05
Cintra	Transport services a	-45.50	**-0.32**	-0.36
Itinere Infraestructuras	Transport services a	-47.10	**-0.38**	-0.43
Renta 4	Financial services	-33.60	**0.34**	0.57
Corporación Financiera Alba	Financial services	-40.40	**0.01**	-0.11
Criteria Caixacorp	Financial services	-43.50	**-0.15**	0.10
Dinamia Capital Privado	Financial services	-54.20	**-0.53**	-0.47
Bolsas y Mercados Españoles	Financial services	-58.10	**-0.88**	-0.59
Befesa Medio Ambiente	environmental services	-40.90	**-0.06**	-0.45
Telefónica	Telecommunications	-25.40	**0.25**	-0.05
Jazztel	Telecommunications	-48.50	**-1.20**	-0.82
Dogi International Fabrics	Textile	-32.20	**0.46**	0.27
Tavex Algodonera	Textile	-70.00	**-1.26**	-1.06

Note: a The classification by sectors is the one used by Datastream International. In the case of these companies, it does not correspond accurately to their activity, but we have chosen not to correct it since international investors consult this database and make decisions based on the classifications contained therein

Table A.6 Top Spanish companies by average recommendation from stock market analysts in 2008, compared to companies in the same sector within the Euro area

Average recommendation 1=best; 5=worst

Company	Number of Recommendations			Average Recommendation		
	Outright	Standardized Euro Area	Standardized World	Outright	Standardized Euro Area	Standardized World
Avanzit	2	-0.75	-0.59	1.00	**-1.76**	-1.60
Duro Felguera	4	-0.45	-0.25	1.25	**-1.73**	-1.42
Pescanova	4	-0.38	-0.26	1.25	**-1.45**	-1.31
Amper	7	-0.35	-0.07	1.29	**-1.39**	-1.29
Técnicas Reunidas	15	0.95	1.61	1.33	**-1.38**	-1.21
Telvent	2	-0.42	-0.56	1.00	**-1.30**	-1.58
Cintra	25	2.19	3.16	1.76	**-1.29**	-0.90
Tubacex	14	0.82	1.44	1.43	**-1.27**	-1.09
Viscofán	14	0.90	1.46	1.50	**-1.18**	-1.02
Acciona	19	1.30	2.08	1.53	**-1.10**	-1.12
Campofrío	10	0.39	0.77	1.60	**-1.07**	-0.90
Ebro Puleva	16	1.15	1.80	1.63	**-1.04**	-0.86
CAF	3	-0.62	-0.42	1.67	**-1.00**	-0.80
La Seda	9	0.07	0.52	1.89	**-0.99**	-0.73
Corporación Financiera Alba	11	0.50	1.10	1.73	**-0.95**	-0.67
Laboratorios FAR	9	0.30	0.57	1.56	**-0.86**	-0.75
Ferrovial	23	1.99	2.97	1.83	**-0.82**	-0.61
Codere	6	-0.10	-0.03	1.67	**-0.79**	-0.83
OHL	15	0.95	1.61	1.87	**-0.77**	-0.57
Papeles y Cartón	9	0.24	0.74	1.89	**-0.77**	-0.49
Vidrala	11	0.50	1.10	1.91	**-0.75**	-0.47
Prosegur	17	1.43	1.78	1.76	**-0.69**	-0.72
GAM	10	0.46	0.63	1.80	**-0.65**	-0.67
Mecalux	7	-0.09	0.25	2.00	**-0.63**	-0.41
Tecnocom	3	-0.62	-0.42	2.00	**-0.63**	-0.41
Dinamia	5	-0.28	-0.14	2.00	**-0.60**	-0.57
Enagas	25	1.56	2.74	1.84	**-0.60**	-0.41
Grifols	17	1.36	1.97	1.82	**-0.54**	-0.42
Iberdrola Renovables	27	1.77	3.03	1.89	**-0.53**	-0.35
Telefónica	45	2.81	4.85	2.00	**-0.50**	-0.47
BBVA	38	3.43	5.09	2.11	**-0.48**	-0.44
Almirall	15	1.10	1.62	1.87	**-0.47**	-0.35
Abertis	28	2.64	3.82	2.18	**-0.42**	-0.20
Bolsas y Mercados Españoles	18	1.18	1.92	2.17	**-0.42**	-0.37
Santander	36	3.21	4.77	2.17	**-0.42**	-0.37
Inditex	29	2.81	4.04	2.21	**-0.42**	-0.18
Zeltia	13	0.75	1.47	2.23	**-0.39**	-0.11
Red Eléctrica de España	25	1.56	2.74	2.00	**-0.38**	-0.21
Cie Automotive	4	-0.40	-0.18	2.25	**-0.37**	-0.09
Endesa	25	1.15	2.26	2.12	**-0.35**	-0.33
Abengoa	16	1.08	1.78	2.25	**-0.34**	-0.12
Service Point	4	-0.49	-0.25	2.25	**-0.34**	-0.12
Iberdrola	36	2.06	3.69	2.14	**-0.32**	-0.30
Natra	10	0.39	0.77	2.30	**-0.32**	-0.07
EDP Renovaveis	18	0.86	1.70	2.06	**-0.31**	-0.13
Aguas de Barcelona	12	0.73	0.96	2.25	**-0.16**	-0.12
Iberia	21	1.68	2.46	2.67	**-0.12**	0.20
Repsol	38	2.87	4.66	2.21	**-0.11**	0.06
Gamesa	25	2.25	3.31	2.48	**-0.09**	0.15
PRISA	18	1.57	1.94	2.33	**-0.08**	-0.02
Criteria Caixacorp	10	0.28	0.66	2.50	**-0.07**	0.02
Grupo Catalana Occidente	5	-0.28	-0.14	2.60	**0.04**	0.14
ACS	21	1.73	2.63	2.62	**0.07**	0.32
Sol Meliá	25	2.55	3.09	2.48	**0.08**	0.16
Indra Sistemas	26	4.19	3.43	2.46	**0.16**	0.11
Mapfre	17	1.07	1.76	2.76	**0.21**	0.33
ENCE	14	0.88	1.65	2.79	**0.24**	0.52

(continued) Table A.6

Source: I/B/E/S (Institutional Brokers Estimates System) through Wharton Research Data Services

Company	Number of Recommendations			Average Recommendation		
	Outright	Standardized Euro Area	Standardized World	Outright	Standardized Euro Area	Standardized World
Clínica Baviera	8	0.16	0.40	2.50	**0.32**	0.46
Tavex	4	-0.38	-0.26	3.00	**0.44**	0.76
Unión Europea de Inversiones	1	-0.73	-0.77	3.00	**0.46**	0.61
Unipapel	2	-0.65	-0.54	3.00	**0.48**	0.76
Fluidra	7	-0.09	0.25	3.00	**0.50**	0.77
Realia	14	0.73	1.29	3.07	**0.53**	0.69
Telecinco	30	3.24	3.92	2.97	**0.61**	0.76
Azkoyen	7	-0.09	0.25	3.14	**0.66**	0.93
Unión Fenosa	23	0.98	2.00	2.96	**0.70**	0.65
Vueling Airlines	6	-0.22	-0.15	3.33	**0.72**	1.00
FCC	20	1.60	2.46	3.20	**0.73**	1.01
Solaria Energía	10	0.05	0.52	2.90	**0.80**	0.93
Cementos Portland	11	0.43	0.93	3.27	**0.81**	1.09
Gas Natural	22	0.90	1.87	3.09	**0.87**	0.80
Miquel y Costas	5	-0.27	0.01	3.40	**0.93**	1.21
Fersa	1	-0.85	-0.81	3.00	**0.93**	1.06
Corporación Dermoestética	12	0.70	1.10	3.00	**0.94**	1.11
Natraceutical	9	0.30	0.57	3.00	**0.94**	1.11
Acerinox	24	2.15	3.49	3.42	**0.95**	1.23
Sacyr Vallehermoso	21	1.52	2.40	3.48	**0.97**	1.17
Ercros	4	-0.40	-0.18	3.50	**1.04**	1.32
Banco Español de Crédito	23	1.74	2.71	3.61	**1.11**	1.32
Tubos Reunidos	4	-0.40	-0.18	3.75	**1.32**	1.60
Vértice Trescientos	3	-0.52	-0.52	3.67	**1.36**	1.62
Zardoya Otis	14	0.88	1.65	3.79	**1.37**	1.64
Barón de Ley	10	0.39	0.77	3.90	**1.41**	1.82
Uralita	11	0.40	0.81	3.91	**1.42**	1.68
Banco Popular Español	30	2.53	3.82	3.93	**1.45**	1.70
Adolfo Domínguez	4	-0.38	-0.26	4.00	**1.52**	1.94
CVNE	1	-0.76	-0.78	4.00	**1.52**	1.94
Martinsa-Fadesa	1	-0.73	-0.77	4.00	**1.52**	1.78
Parquesol Inmobiliaria	3	-0.50	-0.45	4.00	**1.52**	1.78
Reyal Urbis	2	-0.61	-0.61	4.00	**1.52**	1.78
Vocento	15	1.15	1.45	4.00	**1.72**	2.02
Banco Sabadell	27	2.19	3.35	4.19	**1.72**	2.01
Banco Pastor	17	1.07	1.76	4.24	**1.77**	2.06
FAES	6	-0.14	0.19	4.17	**1.79**	2.07
Grupo SOS	11	0.51	0.94	4.27	**1.81**	2.26
NH Hoteles	25	2.28	3.67	4.20	**1.83**	2.11
Bankinter	25	1.97	3.03	4.36	**1.90**	2.21
Antena 3	28	1.40	2.65	3.93	**1.92**	1.77
Inmobiliaria Colonial	6	-0.14	0.19	4.33	**1.97**	2.25
Metrovacesa	11	0.40	0.81	4.55	**2.10**	2.43
Renta Corporación	5	-0.28	-0.14	4.60	**2.16**	2.49
Banco de Valencia	3	-0.50	-0.45	4.67	**2.23**	2.57
Jazztel	11	-0.02	0.45	4.18	**2.23**	2.07
Dogi International Fabrics	4	-0.38	-0.26	4.75	**2.33**	2.83
Cepsa	7	-0.25	0.07	4.14	**2.44**	2.50
Banco Guipuzcoano	1	-0.73	-0.77	5.00	**2.58**	2.96
Renta 4	1	-0.73	-0.77	5.00	**2.58**	2.96
Bodegas Riojanas	1	-0.76	-0.78	5.00	**2.60**	3.13
Paternina	1	-0.76	-0.78	5.00	**2.60**	3.13
Iberpapel	1	-0.78	-0.73	5.00	**2.73**	3.00
Nicolás Correa	1	-0.88	-0.76	5.00	**2.76**	3.13
Puleva Biotech	1	-0.88	-0.76	5.00	**2.76**	3.13
Sniace	1	-0.88	-0.76	5.00	**2.76**	3.13

Note: The average recommendation was calculated giving the following values: “strong buy”=1, “buy”=2, “hold”=3, “underperform”=4, and “sell”=5. The Pearson correlation coefficient between the standardized rate in the Euro area and the standardized rate in the world is 99.5%

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