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Following massive pressure on financial markets and the economy in 2008 and at the start of 2009, the containment of the financial and banking crisis and a gradually improving outlook for the global economy as a whole were cheered by stock markets, debt markets, and markets for financial instruments.

The economic and financial backdrop

The global economy

2009 confirmed that the recovery from the deep crisis that had enveloped the global economy actually got underway earlier and with greater vigour than most people had expected. The series of extraordinary measures taken across the board by governments around the world to boost demand and support the financial system, along with the surprising buoyancy and resilience shown by the so-called emerging economies, allowed financial conditions and the overall economic backdrop to gradually stabilise. The effect of this was to reduce the level of uncertainty surrounding future prospects for the global economy and financial markets. The changing scenario triggered price rises across stock markets.

The latest revisions to macroeconomic forecasts by international bodies now assume that globally the worst of the financial and economic crisis that we are still going through is now behind us. This implies that there are signs of improvement in the overall economic climate, with a more upbeat outlook for global product and trade than just a few months ago. Obviously, forecasts are not the same for all parts of the globe, but the resilience of China, the improvement in certain basic activity indicators in the US, and the stabilisation of rates of decline by the main economic variables in the EU combine to paint a backdrop that is, for the first time in several months, encouraging.

The OECD's 2009 forecasts point towards –a 3.5% contraction in GDP for its member countries as a whole, with growth 1.9% and 2.5% for 2010

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OECD economic forecasts (November 2009)

	2009	2010	2011
GDP growth (%)			
US	-2.5	2.5	2.8
Japan	-5.3	1.8	2
Eurozone	-4	0.9	1.7
OECD	-3.5	1.9	2.5
Annual inflation (%)			
US	0.2	1.4	1.2
Japan	-1.2	-0.9	-0.5
Eurozone	0.2	0.9	0.7
OECD	0.5	1,.3	1.2
TRADE volume (annual %)	-12.5	6	7.7
Current account Balance (% of GDP)			
US	-3	-3.4	-3.7
Japan	2.5	2.8	2.8
Eurozone	-1.1	-1	0
OECD	-0.9	-0.8	-0.8
Budget deficit (% of GDP)			
US	-11.2	-10.7	-9.4
Japan	-7.4	-8.2	-9.4
Eurozone	-6.1	-6.7	-6.2
OECD	-8.2	-8.3	-7.6
3M interest rates (%)			
US		0.3	1.8
Japan		0.3	0.2
Eurozone		0.8	19

and 2011, respectively. The OECD also expects global trade volumes to pick up significantly after the 12.5% setback estimated for this year. Undoubtedly, this last factor is key to the future development of the corporate business cycle and industrial production, although it will take some time to correct the dramatic imbalances that have built up around the world, both in labour markets and public deficits, to levels that are more consistent with healthy economic growth. The latest GDP forecasts by the European Commission (EC) show a marked improvement on those published back in the spring of 2009 in all its most important areas and regions. There is little doubt that this improved outlook is to a large extent attributable to the impact that the huge fiscal stimulus packages (introduced pretty much uniformly and in a coordinated fashion worldwide) had on the stabilisation of financial markets.

As an example of the scale of government intervention in the economy, according to the EC's Economic Outlook report last autumn, the effective measures used by EU governments to prevent the collapse of the banking sector since the start of the crisis represents 12.7% of the economic area's GDP, this forming part of a total amount approved for potential measures equivalent to 31.4% of GDP. These are estimated figures, but the Anglo-Saxon economies of the EU stand out most: Ireland, with packages

Global recovery underway: improving outlook
EC GDP forecasts (% yoy)

				Autumn 2009 forecasts		Difference (pp) with Spring 2009 forecast	
	2006	2007	2008	2009	2010	2009	2010
World	5.1	5.1	3.1	-1.2	3.1	0.2	1.2
US	2.7	2.1	0.4	-2.5	2.2	0.4	1.3
EU	3.2	2.9	0.8	-4.1	0.7	-0.1	0.8
Eurozone	3.0	2.8	0.6	-4.0	0.7	0.0	0.8
Japan	2.0	2.3	-0.7	-5.9	1.1	-0.6	1.0
Asia ex Japan	9.1	9.7	7.2	4.9	6.8	1.6	1.2
China	11.6	13.0	9.7	8.7	9.6	2.6	1.8
Latin America	5.6	5.7	4.1	-2.5	3.1	-0.9	1.5

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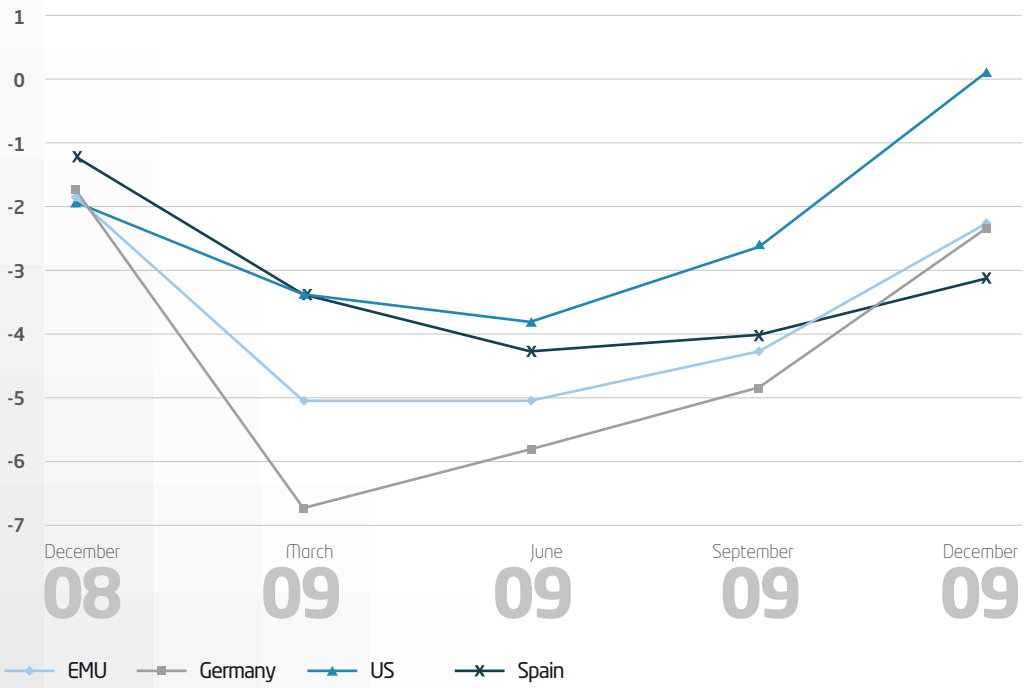
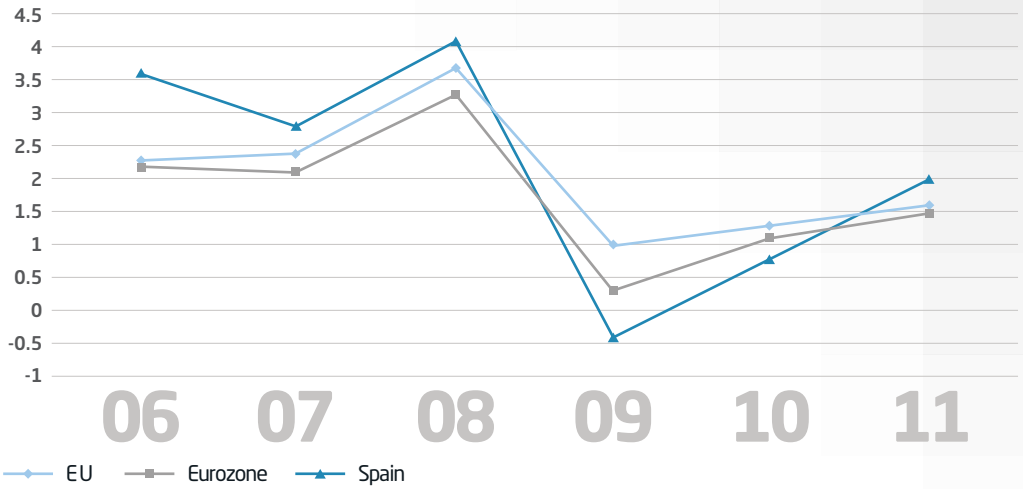
Recovery?: Activity contraction slows
GDP (% yoy). Quarterly data.



Absence of clear inflationary risks
Harmonised price index (% chg yoy)
EC autumn forecasts



equivalent to 175% of GDP, and the UK with a ratio of 28.4%. Spain appears below several of the region's larger countries, at 5.8%, placing it (at least in terms of financial-system soundness) in a relatively strong position versus its European peers. The different forms of assistance include capital injections, guarantees to cover payment obligations, purchases of low-quality assets, and stakes taken in struggling companies.

Too soon to withdraw fiscal stimuli

The positive effects of these and other government-financed initiatives began appearing in the second half of 2009, with the shift in the previously acutely negative trend in certain basic leading indicators (e.g. economic climate, new vehicle registrations), particularly in the US.; and also in gradually lower rates of quarterly GDP contraction in the world's main economies (positive growth in some cases in the third and fourth quarters).

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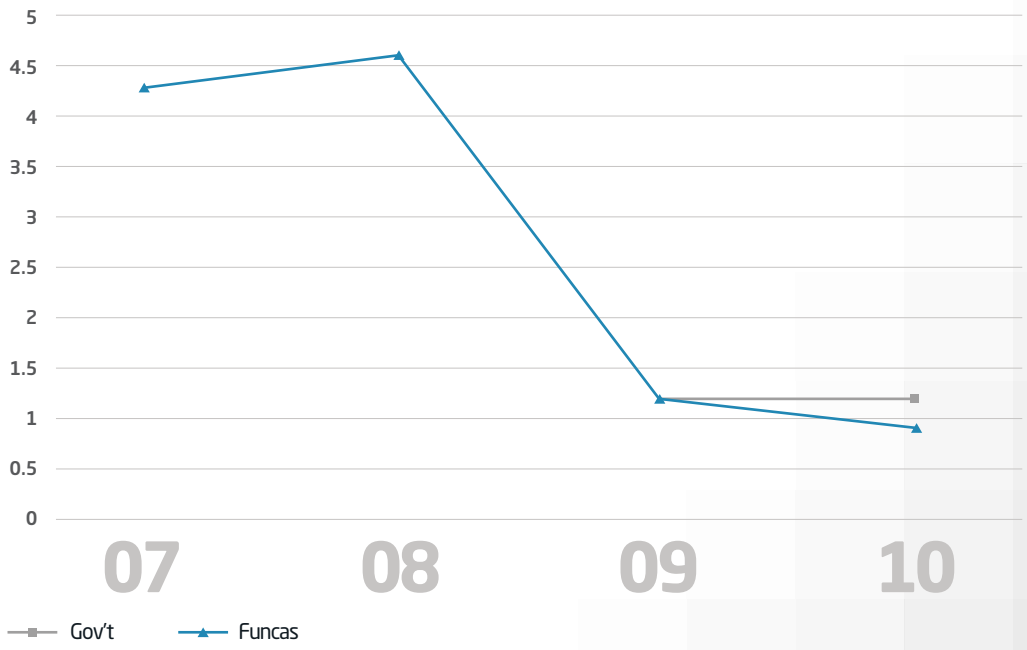
Nevertheless, the persistent contraction in private sector credit, depressed investment levels, and the continued rise in household savings against a backdrop of mounting job losses, enhance the experts' recommendation that fiscal stimulus measures should be maintained while the foundations of the recovery are being put in place (keeping a broad monetary base) and until plans have been drawn up to withdraw these measure gradually, until credible medium-term fiscal-consolidation programmes have been established, and until the recapitalisation and cleaning up of financial groups is all but complete.

So, in terms of the outlook for equities, 2009 paved the way for a steadily improving scenario, but one in which many doubts persist concerning the depth and speed of a "bounce" in economic activity that is conditioned by the various accumulated imbalances worldwide (especially budget-related), the weakness of the financial sector following the shocks, the real consistency behind emerging economies in their new role as drivers of the recovery (basically China), the risk of new bubbles resulting from such a low interest rate environment for such a long period, and the divergence between what are indispensable global responses and the specific needs of each area or region.

The new role of emerging economies

2009 also brought confirmation of the important role that emerging economies are likely to play as we exit the crisis, due to their lower exposure to the financial collapse. Their contribution to the global economy has been growing in recent years, especially that of China, as the main example in Asia (but also India whose GDP grew by 7.9% in the 3Q09), and Brazil in Latin America. In the case of the great economy of the East, sustained GDP growth in excess of 8% reflects a fortitude that nobody really doubts looking further out. However, in the current situation there are some underlying doubts concerning certain weak points that may threaten its competiveness and, to a certain extent, the steadfast international currency market. China's decision to maintain its currency's parity with the US dollar for the time being is generating a lot of pressure: on the one hand, it is preventing us from knowing the real level of domestic activity in a market with millions of potential consumers who spend far less than they would do in an economy where there is no intervention; and on the other, Chinese companies are cannibalising foreign markets, provoking protectionist measures in other countries, which feel that some of their core sectors are being threatened. Both the IMF and the OECD have warned of the dangers involved in sustaining China's massive contribution to global trade and economic activity with something as peremptory as a foreign market buoyed by an exchange rate that many brand as fictitious.

No pressure expected on interest rates.
3M Euribor (%)



■ Latibex, BME's commitment to Latin America.

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US

International currency markets came under renewed pressure in 2009, so much so that the US Treasury felt compelled to intervene to defend the dollar. Between February and the end of the year, the euro rose 20% against the dollar, reaching $/€ 1.50. The weak currency is what has enabled net trade to offset the drop in domestic activity in the world's largest economy. Certain internal indicators relating to the slower deterioration in the residential real estate market or increased car sales provide cause for a degree of optimism in terms of annualised quarterly GDP data. GDP rose 0.1% in the fourth quarter after contracting 3.8%, 3.3% and 2.6% in the three previous quarters. This good news is, essentially, the result of a considerable improvement in the consumption trend, which has recovered from yoy growth rates of -1.5% and -1.7% in the first and second quarters of 2009 to a mere -0.1% in the third quarter and positive growth of 1% in the final quarter. The contraction in investment has also slowed (to 13% yoy in 4Q09 following falls of nearly 20% in the three previous quarters), while industrial production rose 0.9% yoy in January 2010 after contracting more than 11-12% during several months in 2009. Having said this, doubts about the sustainability of these initial hints of a positive economic reaction look more than justifiable. With out a doubt, the most negative news, as in Spain, relates the labour market, where the unemployment rate now exceeds 10% of the active population.

UE

The fourth quarter of 2009 appears to have marked the beginning of a timid recovery in the European Union as well. GDP –contracted 2.3% compared with 4.3% and 5% in the two previous quarters. The change in pace has been even more dramatic in the euro zone, where GDP growth went from -4.8% and -4.1% in the second quarter and third quarter respectively to -2.1% in the final quarter. The explanation lies in the relative weight of the area's central economies, Germany and France, both of which experienced a sharp slowing of their economic contraction in the fourth quarter: Germany saw its negative growth slow from 6.8% yoy in the first quarter to 2.4% in the fourth quarter; while in France the change was from -3.5% to -0.3%. The slowdown in economic contraction is in line with the performance of consumer and producer confidence indicators, although in real terms supply-side data (industrial production) is improving faster than demand-side data (retail sales).

The ECB and the EC acknowledge the signs and attribute them to the impact of the huge fiscal stimulus packages, to the extent where there have been voices for several months now suggesting that interest rates should start to be tightened very slightly and gradually to prevent any medium-term inflationary pressure. In addition, a degree of pressure has been detected, with the headline inflation rate in the euro zone running at 1% yoy in January. While of

Euro/dollar exchange rate in 2009

Dollars per euro. Daily data.

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little concern for the time being, it is a revealing figure bearing in mind the negative yoy rates every month of 2009 through to November. At the same time, the continued deterioration in the labour market, with unemployment nearing 10%, indicates that activity is not picking up enough to generate healthy potential growth. For both these reasons, this year we have seen the idea of a significant withdrawal of government aid being pushed back to the second half.

If the signs of improvement are confirmed, we need to understand that the structure of the global economy once the crisis is over will differ from those during other modern-day post-crisis scenarios. Global growth is likely to be weaker than in other recoveries for quite some time, while the centre of gravity is likely to shift due to the increased weighting and importance of emerging markets. Monetary conditions will be less accommodating, and fiscal-consolidation processes will be more intense. The next few quarters (of 2010 and 2011) will be crucial for gauging the capacity of private sector activity to take over from the largely government-induced impetus.

Spain

Following the sharp deterioration in public finances and the labour market in 2009, the outlook for Spain is for a more delayed and less "shiny" recovery. The Spanish crisis has much in common with those being suffered by the other developed economies. However, the collapse of what has been one of our economy's core activities in recent years (real estate-construction) and the need to restructure the financial sector significantly reduce the chances of a swift return to growth and of correcting the drastic downturn in the level of employment.

Provisional data suggest the Spanish economy contracted by around 3.6% in 2009, and forecasts point towards a contraction of approximately 0.5% for 2010. The dramatic deterioration in the labour market and the burgeoning budget deficit are the key issues affecting the outlook for recovery by Spain. Consensus forecasts suggest that the unemployment rate will soon reach 20% of the active population, with the number of people out of work having risen by 1.5 million over the last 18 months. Job creation, despite having improved very slightly over the last few months, dropped 6.1% yoy in December. Meanwhile, the effects of the automatic stabilisers, the sharp decrease in activity-related income (VAT revenues dropped almost 37% in 2009), and the huge aid programmes introduced to get over the worst stage of the crisis are causing a rapid widening of the country's budget deficit; the central government deficit is close to 9.5% of GDP and many experts put the total deficit of Spain's combined administrations at nearly 11.5% at the close of 2009.

Spanish Macroeconomic Scenario 2009-2010
% yoy change except where stated

	2009				2010	
	Funcas (24 - 02-10) Registered data	Gov't Budget 2010	European Commission (Autumn 09)	Analyst consensus (Funcas panel 10-02-10)	Funcas (24-02-10)	Gov't Budget 2010
Macroeconomic figures						
GDP	-3.6	**-3.6**	-0.8	-0.5	-0.7	**-0.3**
Household consumption	-5.0	**-4.1**	-0.5	-0.5	0.1	**-0.4**
Public consumption	3.8	**2.9**	1.7	2.7	-1.0	**1.8**
GFCF	-15.3	**-14.1**	-8.4	-5.9	-7.6	**-4.6**
Capital goods	-20.7	**-21.3**	-6.0	-4.3	-5.7	**-2.4**
Construction	-11.2	**-12.5**		-6.6	-9.0	**-7.5**
Domestic demand	-6.4	**-5.6**	-1.9	-1.3	-1.9	**-1.0**
Exports	-11.5	**-16.2**	1.3	2.4	6.5	**2.1**
Imports	-17.9	**-20.5**	-2.7	-1.0	1.6	**-0.6**
Net trade (contrib GDP)	2.8	**2.3**	1.0		1.1	**0.7**
Other activity indicators						
Employment	-6.7	**-5.9**	-2.3	-2.1	-2.8	**-1.7**
Unemployment rate (% of labour force)	18.0	**17.9**	20.0	19.7	19.4	**18.9**
Unit labour costs	0.4	**0.4**	0.6	1.4	-0.7	**0.0**
Household savings rate (% of GDI)	19.0		17.3		18.1	
Balance of current account payments (% GDP)	-5.1	**-9.2**	-4.6	-4.6	-4.6	**-6.6**
Borrowing capacity/requirement (% GDP)	-4.5	**-5.2**	-3.7		-4.2	**-5.2**
Central govt. balance (% GDP)	-11.4		-10.1	-10.5	-10.8	

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The trend in both imbalances is worrying and it conditions the medium-term growth outlook. The aim of the government's Sustainable Economy Law, which was received with certain scepticism in many quarters, is to introduce a series of reforms that redirect the Spanish growth model towards a structure that is less vulnerable to adverse developments. Although concrete measures are finding their way to the table, they are doing so slowly and rather haphazardly, and perhaps the most pressing problem for Spain right now is one of time: the country needs to gain competitiveness urgently in order reap the benefits of the recovery in international trade and to start creating jobs.

Difficult situation

A look at the latest economic figures provides little cause for optimism in the short term. Spain's household savings ratio is rising inexorably towards 19% of gross disposable income (10% in 2007), illustrating the underlying caution behind the sharp decrease in private consumption, which according to provisional figures fell 4.8% in 2009. There is little doubt that tougher lending conditions (in the form of larger guarantee demands rather than higher interest rates) are largely at fault. Despite all this, however, it is also true that the third quarter revealed a slight improvement versus previous quarters (-5.9% and -5.2% in the second and first quarters, respectively), in line with consumers' positive reaction to stimulus plans aimed at the new car purchases. That said, the consistency of this reaction needs to be tested over the coming quarters.

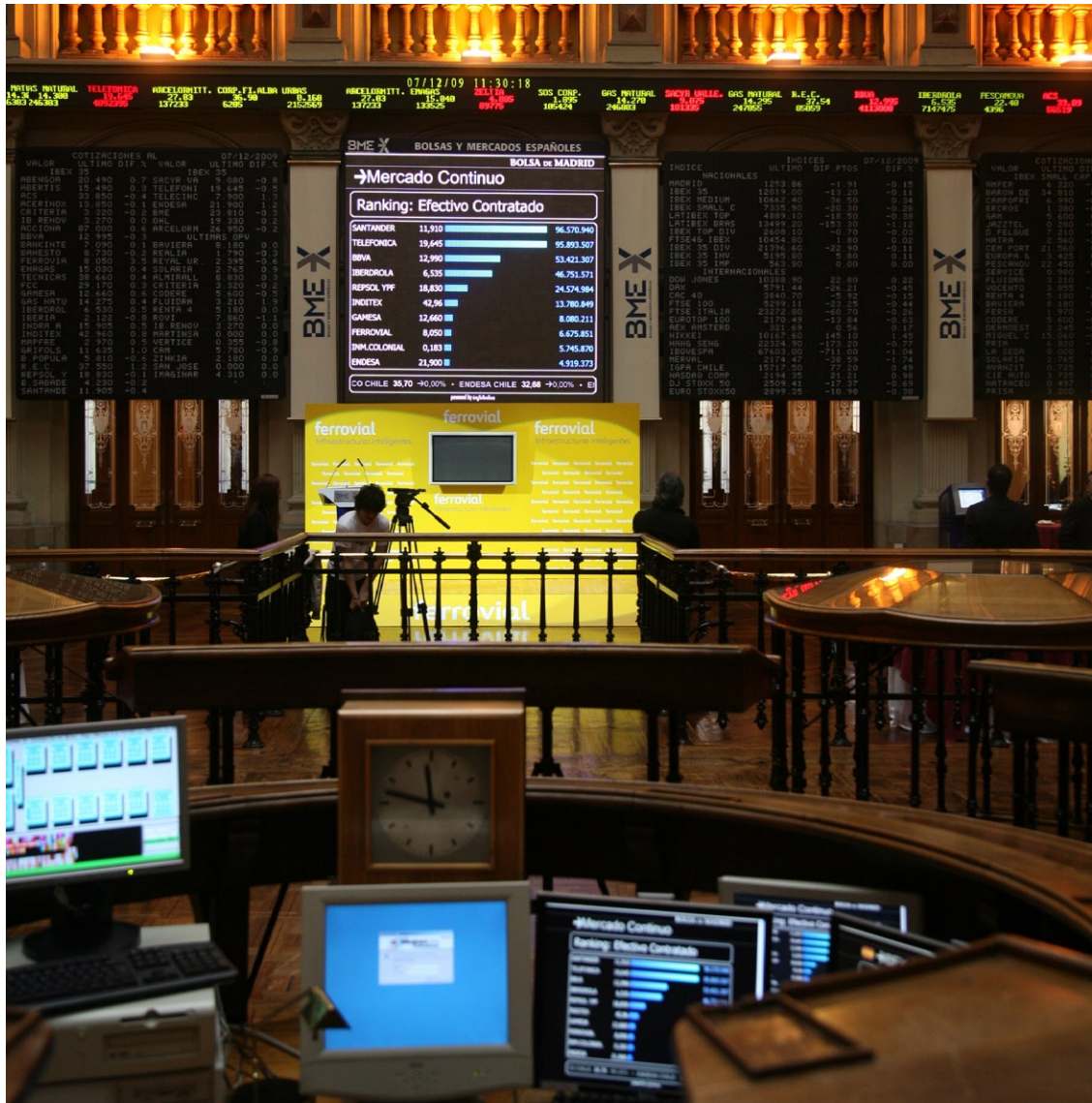
The worst of this crisis is embodied in Investment. Capital goods GFCF contracted almost 24% in 2009. Construction investment, which was for years one of the main motors of the Spanish economy, shows year-on-year growth rates of almost -11% (2009), with a sharp deterioration in house-building investment.

None of the supply-side sources shows positive growth. And, while agriculture and market services saw negative growth of -2.4% and -2% respectively in 2009, industry and construction contracted by -14.7% and -6.3%. Capacity utilisation dropped from 80% in 2007 to its current level of 68%.

Some positive aspects

In economic terms, virtually the only thing offsetting the decline in Spain's domestic activity is net trade, whose positive contribution to GDP is based more on the euro/dollar exchange rate's favourable impact on exports and on the bigger drop in import volumes (-18% last year versus -11% in exports).

First day of trading of the new Ferrovial.



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The crisis is nonetheless also serving to correct certain important imbalances and to reach long-sought-after targets: firstly, Spain is seeing a rapid reduction in foreign financing requirements, which have fallen from the equivalent of 9% of GDP at the end of 2008 to around 4% currently; and secondly, for the first time ever Spain's harmonised inflation rate was, for several months, lower than the EMU average, after the country spent more than five years trying to cut its almost chronic one-point positive gap. January actually saw a convergence as inflation in both the euro zone and Spain was running at 1% yoy. Falling prices was one of the main features in the Spanish economy, as well as in several of the major economic areas during the course of 2009 and to such an extent that, in fact, until recently there were analysts (the minority) who were still not ruling out a longer deflationary period. The contraction in activity was so extreme that it managed to neutralise the positive impact on prices from the doubling of oil prices (Brent rose from $40 to $80/barrel) last year.

Oil price in 2009
$ per barrel of brent. Daily data.

There are various matters pending following a 2009 that was complicated, yet at the same time encouraging. The stock market is discounting more upbeat economic scenarios and has reacted positively to degearing by the country's largest companies, the lack of any upward rate pressure (looks likely to continue), and the impact of the incipient recovery in international trade on business at quoted companies in general. However, the national obligation to create jobs looks likely to push Spain towards a period of necessary reforms to market labour markets more flexible, control public spending, and adapt the size of the country's financial system to the new paradigm, so that the it can once again become one of the key drivers at the start of and then during the development of a new period of expansion.

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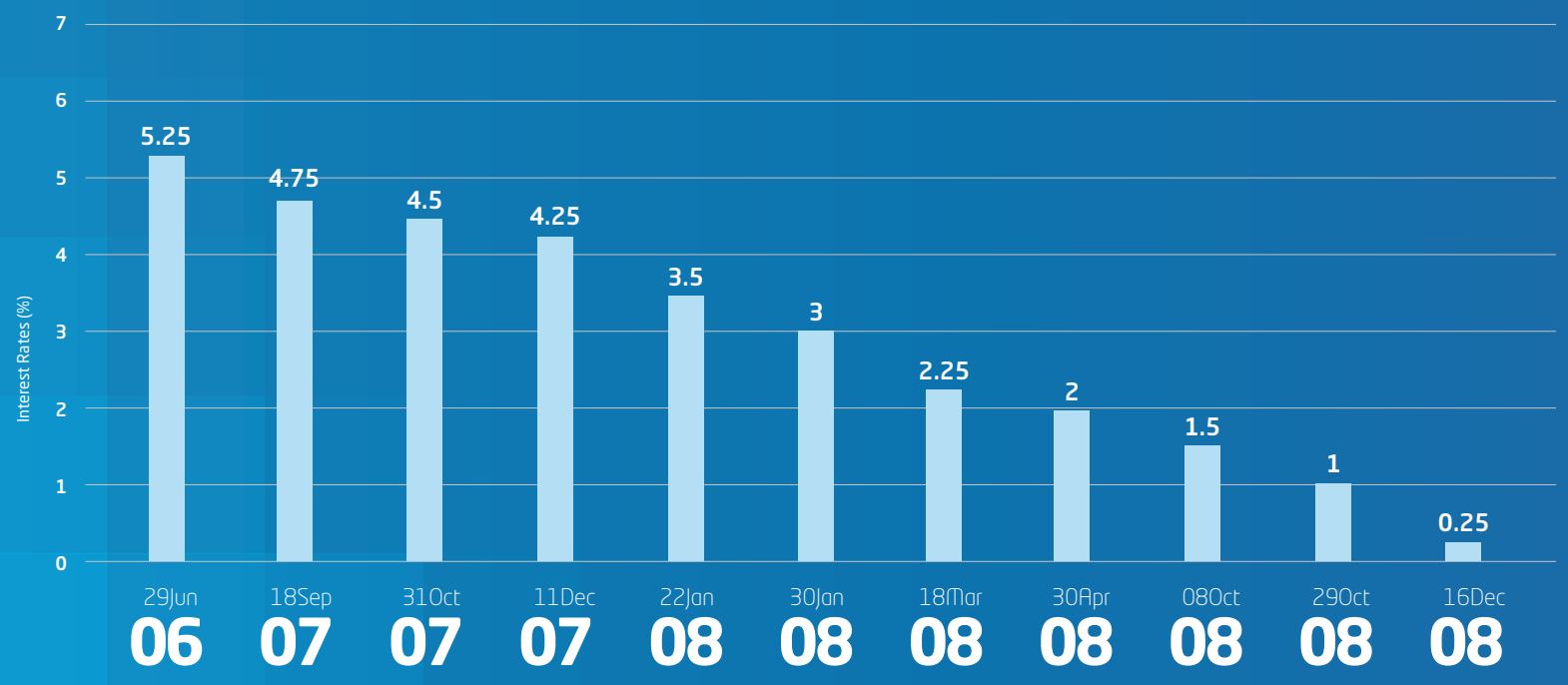
U.S. intervention rates since the start of the crisis
Fed Funds performance (2007-2008)



Historically low interest rates boost debt markets
The end to the financial crisis in 2009 was very much driven by the positive performance of debt markets and the recovery in equity and private fixed-income markets. We saw an unprecedented level of international coordination in terms of monetary policy decisions, and these were decisive in the chain of events.

Of the various measures introduced by the monetary authorities, one of the most important was the maintaining of intervention rates at historically low levels. The US Federal Reserve surprised markets when it slashed its rates to their all-time low between 0% and 0.25% on 16 December 2008, having already made six cuts during the course of the year; and there they remained throughout 2009. The European Central Bank, meanwhile, traditionally more progressive with its policy, cut its rates to 2% on 15 January, before reducing them to 1.5% on 6 March, to 1.25% on 2 April, and then finally to 1% on 7 May, an all-time low for euro zone intervention rates.

These cuts were also accompanied by an expansive monetary policy. In Europe, this took the form of purchases of euro-denominated bonds issued in the euro zone and an extension in lending periods to banks to up to 12 months (until this measure, in May 2009, the ECB provided liquidity to euro zone commercial banks for a maximum of six months). In the US, the Federal Reserve set in motion a plan to buy in government bonds worth $300 billion.

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Practically all the monetary authorities around the world followed similar liquidity expansion policies in order to stem the deterioration on their financial systems. The Bank of England, for example, in addition to low intervention rates it introduced wide-ranging programmes for buying in large amounts of government debt and private fixed-income. The Bank of Japan, meanwhile, left its rates at 0.1% throughout year.

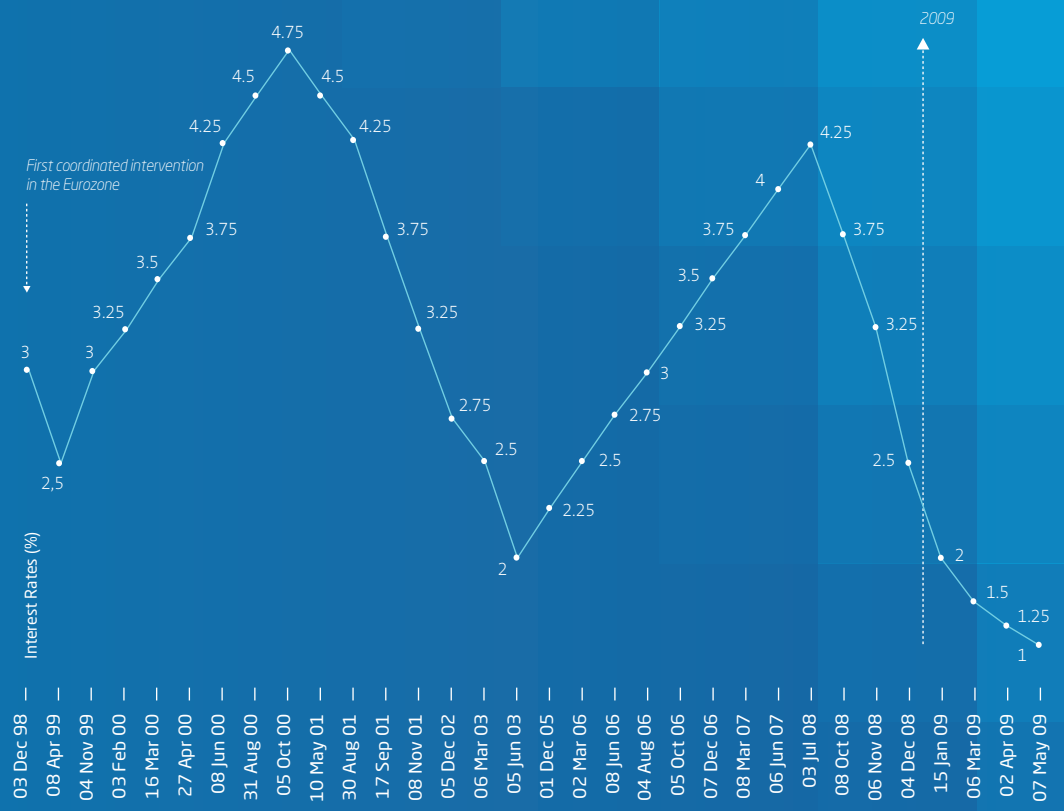
The reduction in rates and the massive liquidity injections into the banking system were aimed at kick-starting the interbank market and ultimately at avoiding a freeze on corporate and household spending. While the situation in the interbank market has improved, lack of credit remains one of the weak points in this recovery, according to the latest reports from the main international economic organisations.

In this sense, debt markets have become a key instrument for the financing of companies and also central governments and other public administrations.

Long-term government debt yields remain low

Over the course of the year, government bond prices reflected the various factors that were shaping the financial backdrop. One of the most influential factors in terms of long-term rates was the lack of any inflationary threat, and it was a factor that offset the potential upward pressure on interest rates presented by the massive issuance of government debt for the funding of the measures introduced to support and reactivate the economies. Two other factors that helped to keep rates low were the high level of liquidity in the system (result of the expansive measures introduced by the monetary authorities) and huge purchases of government debt by banks, which increased their holdings of this asset class substantially.

ECB intervention rates
(1999 - 2009)



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10Y bond yields
Spain - Germany (2007-2009)

After the sharp drop in yields on US and German 10Y bonds over the last few weeks of 2008, 2009 was a year of two very different halves. The first six months saw yields in a clear upward trend, with US bonds reaching 3.95% in June after starting the year at 2.20%, and with German bunds increasing from 2.91% to 3.70%, on the back of brighter economic prospects and the fear of massive issuance. In the second half, yields began a gradual correction, albeit interrupted by some rebounds during the last weeks of December, which left German and US yields at 3.30% and 3.78% respectively at the end of the year. If the fact that there were no inflationary pressures on the global economy's horizon made for a more relaxed climate during the first part of the year, figures revealing burgeoning budget deficits in developed economies and massive issuance drove yields higher in the weeks leading up to the year end.

Volatility was significantly higher on US bonds than it was on bunds.

As overall financial market uncertainty diminished during 2009, debt markets in Europe saw a gradual tightening of the 10Y government bond spreads between different euro zone countries. In the case of Spain, for example, the spread surpassed 100 basis points (1%) at the beginning of the year -first time this level had been seen since monetary union- but following a sharp correction it reached almost half a point (0.5%) by the beginning of December, before picking up again right at the end of the year to 60 basis points (0.6%).

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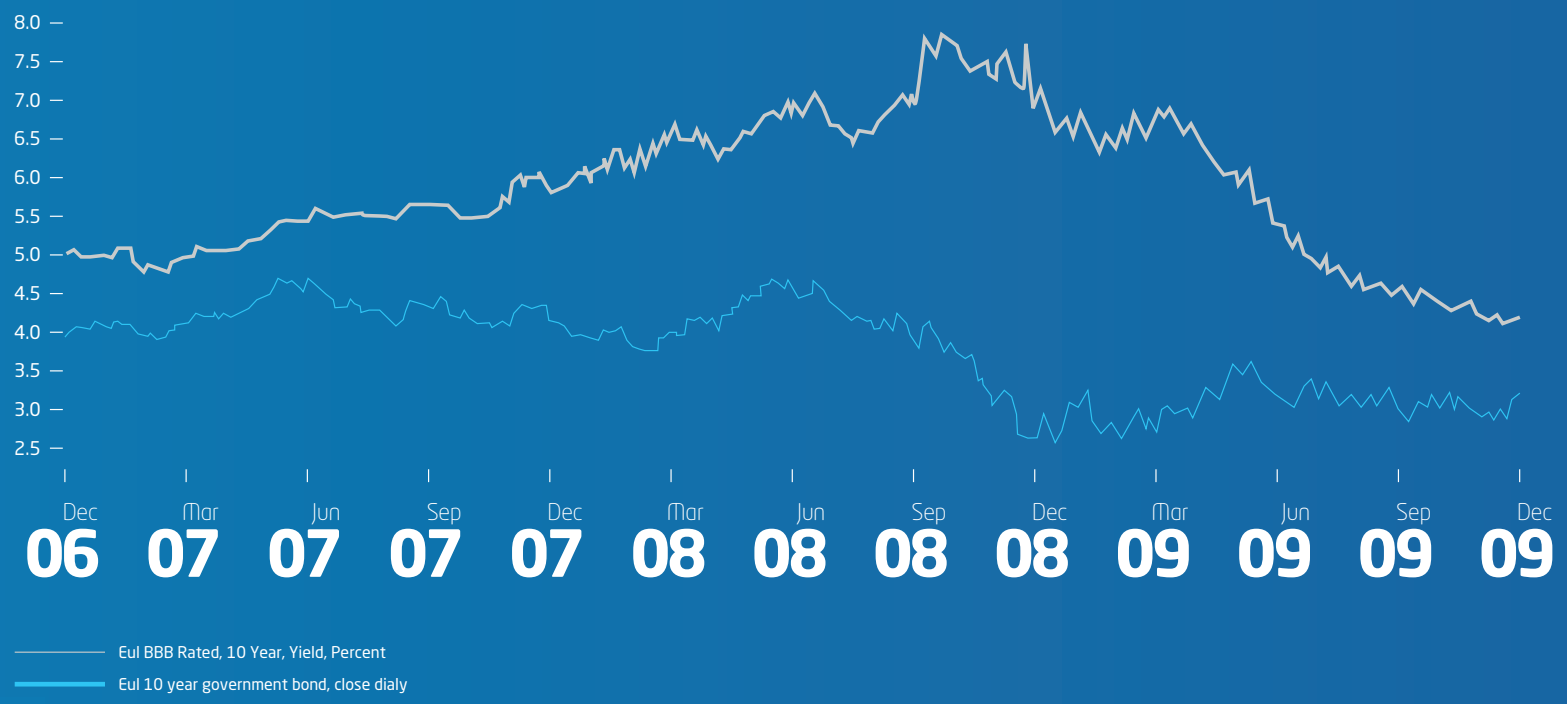
Lower risk premiums on private fixed-income
The most important development in debt markets in 2009 was probably the improvement in financing conditions for the business sector, in the form of private fixed-income and as an alternative to the troubled credit markets.

The spread between the European 10Y government bond index and European 10Y second-class private fixed-income securities index, which had exceeded 4.5 points in December 2008, returned to the 1.33% level at the end of the year.

Upbeat results during the crisis from a series of companies and sectors around the globe have eased investors' fears, and the resulting growing demand has encouraged private fixed-income issues, particularly among large companies. According to reliable sources, private fixed-income issues in Europe are likely to have reached record levels in 2009, at more than €250 billion, with important contributions from Spanish companies such as Gas Natural, Enagás, Iberdrola, Telefónica, and others.

10Y interest rates in Europe: BBB-grade private fixed-income vs. government bonds 2007 - 2009
Percent



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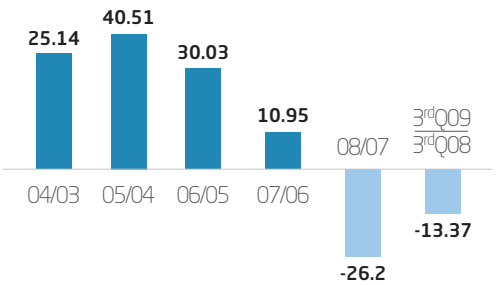
Business environment

Earnings and dividends

The overall drop in economic activity wreaked havoc on the results of listed companies in 2009. Management teams focused efforts on bolstering their companies' financial positions, supporting their established lines of business, and finding sources of funding in order to keep investment projects on track. Corporate expansion and innovation, trademarks of the recent growth phase, were moved to the back burner in anticipation of better times. However, despite this strategic turnabout caused by the current environment, companies listed on the Spanish stock market maintained their remuneration commitments to shareholders. Moreover, dividends have helped many investors to alleviate the effects of the crisis. Despite the strong rise in many share prices, the dividend yield on the Spanish market as a whole remains one of the highest among developed markets. At the same time, and faced with the drying up of the normal financing systems and the need to strengthen equity, nearly 30 companies tapped the market in order to raise capital.

Earnings performance of listed companies
Domestic companies quoting on SIBE
% chg, yoy

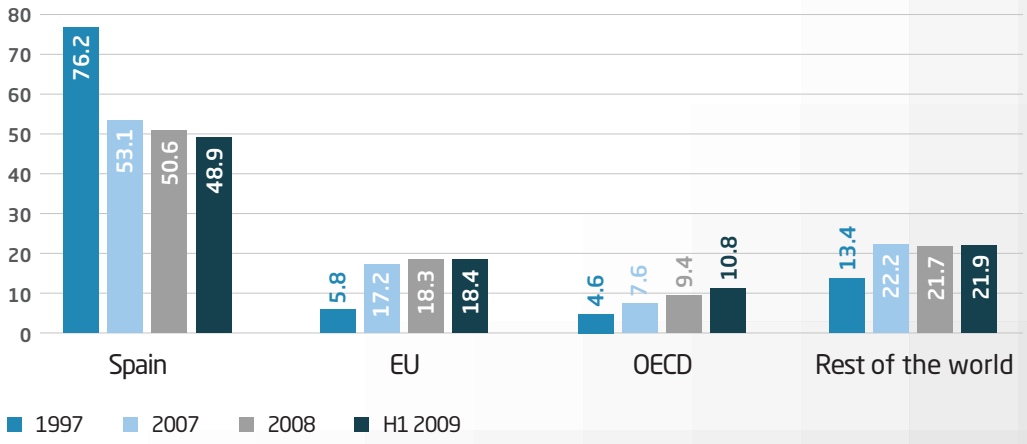


Earnings at the listed companies in 2009 reflected this change in pace of the global economy. However, as the IMF points out, activity remains below pre-crisis levels. Listed company earnings continued to fall during the first nine months of 2009, albeit at a slower rate than in previous quarters. This seems to have marked a visible turning point in most sectors and companies where results proved resistant to the adverse conditions. By the end of the third quarter of 2009, the Spanish companies listed on the continuous market had registered profits of €33.3 billion, a 13% reduction on the same period in 2008. This decrease is 13 points smaller than the one registered between full year 2007 and full year 2008. The drop in profits was led by a 4% setback in revenues.

One positive aspect in company results was the performance of EBITDA, which at the end of the first half of 2009 had risen 5.7%. EBITDA shows the operating result before tax, interest, depreciation and amortisation. It reflects a company's results from its ordinary activities and is not affected by the level of extraordinaries or by the company's financing policy. The cost controls implemented at many companies go a long way to explaining this upbeat performance of EBITDA.

Another interesting feature of the business environment accompanying the market during 2009 was the increased importance of Spanish companies' foreign business. In the first half of 2009, foreign sales at IBEX 35 companies outstripped sales in the domestic market. They accounted for 51.13% of the total and helped to

Geographical breakdown of IBEX 35 revenues
(1997 - H1 2009)



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mitigate the effects of the crisis and to offset to some extent the sharp downturn in internal demand.

The current situation, in which foreign markets' contribution to company margins continues to rise, is the result of the investment policy followed by the main listed companies over the course of the last 15 years. A comparison of the geographical breakdown of revenues in 1997 with that in the first half of 2009 shows some dramatic changes: in 1997, 76.17% of the revenues generated by IBEX 35 companies came from the domestic market and the remainder from abroad; while in June 2009, foreign sales accounted for 51.3%, more than half of the total.

Meanwhile, the effort made by companies to maintain shareholder remuneration during a crisis and lower-earnings environment was crucial to the renewal of confidence in stock markets in 2009. Shareholder remuneration via dividends and share buybacks beat its record again, registering €33.89 billion (+19% on 2008), reflecting companies' commitment to maintain shareholders' loyalty and to transmit confidence in future results. The high levels of shareholder remuneration have ensured that dividend yields on listed companies remain attractive, despite the significant rise in share prices. Shareholder remuneration, therefore, has held up against the crisis, reaching record levels and easily surpassing the figures registered throughout the first decade of the 21st century.

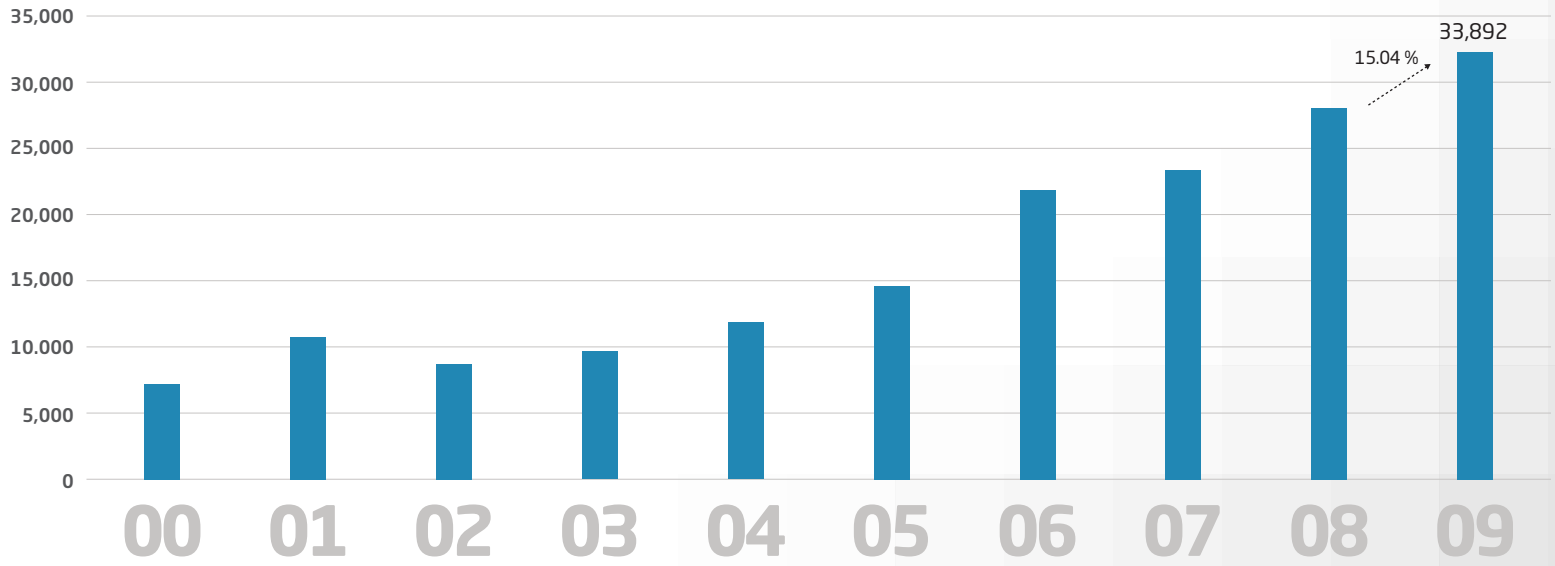
Company funding via markets

The recovery in stock markets and the credit restrictions stemming from the crisis in the financial system have meant that more companies are turning to the stock market as an attractive source of financing. During the course of 2009, there were 50 capital increases by some 30 listed companies, raising a total of €11,35 billion.

Company fundraising via cash-payment new share issues reached €7.9 billion, one of the biggest volumes in the last 10 years. More companies tapped the market for financing, and the number of cash-payment deals doubled.

Upbeat results during the crisis from a series of companies and sectors around the globe eased investors' fears, and the resulting growth

Dividends paid by listed companies
(Gross amount in million euros)



Market Environment

in demand encouraged private fixed-income issues, particularly among large companies. The most important development in debt markets in 2009 was probably the improvement in financing conditions for the business sector in the form of private fixed-income, as an alternative to the troubled credit markets. Yield spreads between government bonds and private fixed-income are in many cases back at pre-crisis levels. Private fixed-income issuance in Europe hit a new all-time high in 2009, at more than €250 billion, with Spanish companies playing a significant role.

Limited corporate activity and signs of a slight recovery

M&A activity among listed companies was subdued in 2009. Companies focused on consolidating previous years' investments or on the odd specific acquisition. As the year progressed, there were signs of a pick-up, particularly over the last few months.

Flotations were heavily concentrated in the second half of the year, and nearly half of the main foreign acquisitions were announced in the last few months. Over the year as a whole, three companies took up a stock market listing, there were five bids (worth a total of €7 billion), and there were foreign acquisitions worth more than €5 billion. In addition, Spain's listed multinationals strengthened their international presence with selective, but highly significant, acquisitions, such as those involving Spain's biggest banks.

Initial Public Offering (IPOs) and Public Offerings (POs)

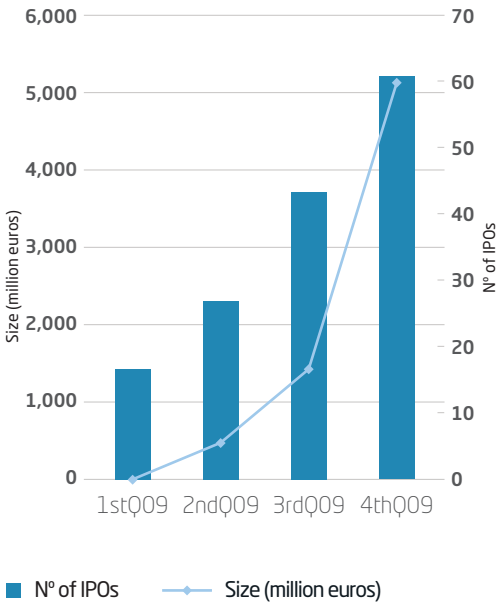
The number of flotations recovered gradually in 2009. In the wake of the volatile conditions in global stock markets in recent years, companies are starting to look to the stock market again because of the difficult financing environment. The value of European flotations increased gradually over the course of the year and reached €4.99 billion in the fourth quarter, virtually triple the cumulative amount over the first nine months of the year. Stock market flotations on European markets in 2009 reached a total value of €6.83 billion.

The number of deals also increased as the year progressed, from 18 in the first quarter to 61 in the fourth. The total number in 2009 was 151. The Spanish stock market saw three flotations in different markets: two in the third quarter and one in the fourth, reflecting increased activity during the second half as in other European markets.

Takeover bids

There was little takeover-related activity during 2009. There were five deals, all of which were successful. None of these was hostile, and in each case, the offer was in cash. These deals were worth a combined €7 billion.

European IPOs



Market Environment

Main investments by listed companies in foreign companies

Acqurirer	Amount € million	% stake	Payment method	Companies and activities in which it invests
Banco Santander	1,400.00	75.65	Own shares	Sovereign Bancorp, parent company of Sovereign Bank, financial institution with main markets in US northwest. The deal gives it 100% control over the company.
BBVA	1,000.00	4.93	Cash	The deal forms part of the strategic agreements between the Spanish bank and the Chineses group, CITIC.
Telefónica	900.00	100.00		HanseNet. German telecoms operator. Deal due to be closed in 1Q10.
Telefonica	702.20	2.68	Own shares	China Unicom, Chinese telecoms company in which it is increasing its stake.
Abertis	621.00		Cash	Acquires Itinere's stake in Chilean companies (deal also includes 50% of Avasa in Spain).
Banco Santander	225.00	50.00	Cash	Real Marine Vida e Previcia, Brazilian insurance company in which it already owned 50%. Deal carried out via subsidiary, Banco Santander Brazil.
ACS	115.80	65.53	Cash	Pol-Aqua.- Polish construction company. Acquisition by way of a takeover.
Prosegur	108.20	100.00		Acquires the whole of various companies located mainly in South America.
Grifols	49.00	25.00		Australian-Swiss group, operating in the diagnostics market.
Europac	41.70	100.00	Cash	Mondi Packaging Atlantique and Mondi Packaging Savoi , French cardboard manufacturers
Cie Automotive	32.40	100.00	Cash	The Mexican companies, Pintura, Estampado y Montaje, S.A.P.I., and Cie Celaya, S.A.P.I. The deal was carried out via the Mexican subsidiary, Cie Bérriz de México, S.A.
Telefonica	23.98	1.80	Cash	Telefónica de Argentina. The deal takes Telefónica's stake up to 100%.
Befesa	23.40	100.00	Cash	Three production plants belonging to German subsidiaries of Agor S.A. The plants specialise in the treatment and recycling of saline slag.
Mecalux	20.19		Cash	Assets belonging to various companies located in the US and Mexico.
Aguas de Barcelona	20.00	50.00	Cash	Taeyong Environment Technologies, South Korean company, subsidiary of the Taeyong Group, which is dedicated to environmental technologies.
Iberdrola Renovables	12.39	3.50	Cash	C. Rokas, Greek subsidiary. Following the takeover bid presented at the end of last year, there has been a squeeze out on the shares it did not already own.
Elecnor	10.62		Cash	Takes up shares in its Brazilian subsidiary, Elecnor Transmissao de Energia, S.A.
ACS	77.94	100.00	Cash	Pulice Construction Inc. US construction companies, with headquarters in Arizona and specialising in public works (mainly roads and motorways). Deal carried out via the subsidiary, Dragados construccio-nes USA, Inc.
Natraceutical	57.33	33.91	Non-monetary	Naturex, French company dedicated to the production and sale of natural ingredients for the food, nutraceuticals, pharmaceuticals, and cosmetics industries. As payment, Natraceutical transferred its Ingredients division to Naturex.

■ The MAB, a financing alternative.

Market Environment

Legal environment

List of measures for dealing with the crisis in Spain

Since the end of 2008, the government has approved a series of economic measures, referred to as anti-crisis measures, which are aimed at easing the international financial crisis's impact on the Spanish economy.

- A moratorium on mortgage repayments. Royal Decree 97/2009 of 6 February.
- Urgent measures for maintaining and encouraging employment and for protecting the unemployed. Royal Decree-Law 2/2009.
- Authorisation of the granting of guarantees relating to the Bank of Spain's financing of Caja de Ahorros de Castilla-La Mancha. Royal Decree-Law 4/2009.
- The Bank of Spain Executive Committee resolution relating to Caja de Ahorros de Castilla-La Mancha. Resolution of 28 March 2009.
- New economic, financial, and judicial measures to help companies. Royal Decree-Law 3/2009.
- Extraordinary and urgent measures to help local authorities pay off debts with companies and the self-employed. Royal Decree-Law 5/2009.
- Procedure and information to be provided by local authorities that apply for help with debt repayments as established under Royal Decree-Law 5/2009. Resolution of 5 May 2009.
- Extraordinary loan for subsidising the acquisition of automobiles and replacement of the vehicle fleet. Royal Decree-Law 7/2009.
- Package of socially-focused budget measures, and increase in taxes on tobacco and petrol. Royal Decree-Law 8/2009.
- Creation of the Fund for Orderly Bank Restructuring (FROB). Royal Decree-Law 9/2009.
- New guarantees on obligations resulting from new financing transactions by credit institutions. Resolution of 24 July 2009.
- New regulation governing the annual contribution of institutions belonging to the Investment Guarantee Fund. Royal Decree-Law 1819/2009.

New tax regime on savings in 2010

The Central Government Budget Law for 2010 includes a series of tax changes, including an increase in the rate charged on savings income (from 18% to 19% on the first €6,000, and to 21% on the remainder). The impact of this increase is significant given the wide range of returns included under savings income (e.g. from dividends, interest on current accounts and deposits, yields on bonds and debenture issues, investment funds, capital gains).

There is also to be an increase from 18% to 19% on withholding and prepaid tax on investment income and capital gains made on the sale or redemption of shares or units in collective investment institutions.

Other tax changes introduced by the Budget Law include:

- The elimination of the €400 income tax deduction for employees and the self employed.
- The 5-point reduction in the corporate tax rate for SMEs with fewer than 25 workers or income of less than €5 million that maintain or increase employment. The reduction in this tax rate to 20% is applicable to the tax years starting in 2009, 2010, and 2011. A similar measure has been introduced in personal income tax withholding for the self-employed generating income of less than €5 million with an average workforce of less than 25 and who are maintaining or increasing their number of workers. In this case, the taxpayer will be able to reduce their taxable income by 20%.
- An increase in two of the three types of VAT. The standard rate increases two points to 18%, while the reduced rate rises by a point to 8%. The super-reduced rate remains at 4%. This change is to take place as of 1 July 2010.