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THE LONG-TERM WEALTH EFFECT OF CROSS-BORDER ACQUISITIONS EVIDENCE FROM SPAIN (1996-2005)

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The Long -Term Wealth Effect of Cross-Border Acquisitions — Evidence from Spain (1996 – 2005)

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ABTRACT

We study the internationalization of the Spanish companies in the last decade (1996-2005) and the factors driving the process. We specifically focus on the cross-border acquisitions of the largest firms, accounting for more than 86% of all cross-border purchases recorded in the period. We analyze the profit derived from the international operations of these companies and determine how much can be attributable to cross-border acquisitions. Our estimate is that, using current valuation ratios, at least 1,818 points out of 10,734 points of the IBEX- 35 index (as of December 31, 2005 closing) come from foreign acquisitions made during the previous decade. However, in terms of wealth creation, our analysis concludes that the wave of purchases by the Spanish companies in the period has destroyed value for the acquiring firms' long-run shareholders.

1 - INTRODUCTION

The period 1996-2005 was the most active decade for Spain in terms of outward Foreign Direct Investment (FDI). The total amount invested outside represented more than 90% than all outward FDI in the country's economic history. As percentage of GDP, the FDI moved from 0.5% in the previous ten years (1986-1995) to 5% in the targeted period, a higher ratio than the average EU-15, surpassing some of the most developed economies in Europe.

The Spanish FDI was channelled through different routes. While some companies directly invested in the foreign country (greenfield investment), others chose to enter into alliances and joint ventures with locals, and the rest opted for direct acquisitions in order to rapidly gain size on an increasingly global market. Depending on the strategy and the country, companies were not tied to a single mode but in many cases used a combination of the three.

One of the main characteristics of the cross-border M&A activity during the period was the tremendous concentration in terms of location and purchasers. In volume, the nine largest Spanish acquiring firms accounted for more than 86% of all acquisitions completed in the period, while 80% of the targets where located in just eight countries. The total transaction value exceeded €150 Billion, allowing some of these firms to become industry leaders in some specific regions such as Latin America.

However, the main question remains as to whether this frenetic M&A activity, apart from the collateral benefits of gaining size and geographical diversification, created wealth for long-term shareholders. In other words, if the acquisitions reported the appropriate return to stable long-term shareholders or they would have been better investing in other securities. Our objective is to shed light on this question applying a consistent methodology to different scenarios.

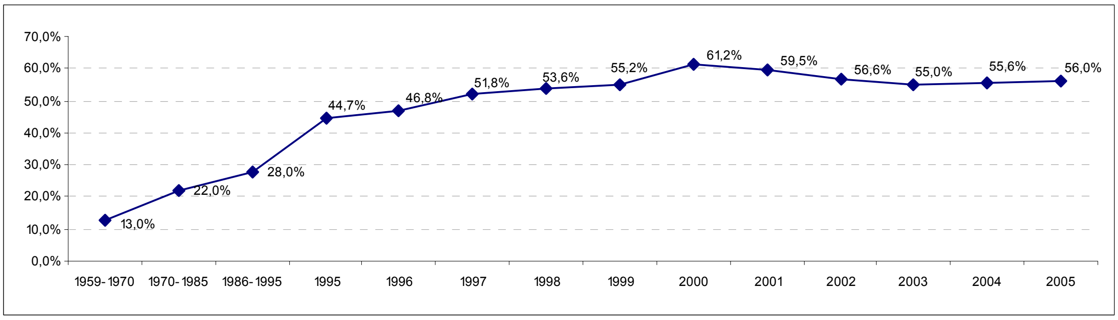
The remaining of this paper is organized as follows: Section 2 reviews the FDI of Spanish Companies; Section 3 studies the cross-border acquisitions and the key drivers of the M&A; Section 4 reviews the previous literature regarding wealth measurement from M&A activity and provides the rationale for the methodology used; and Section 5 analyzes the sample and the results. The final section summarizes the main conclusions.

2 – THE FDI ACTIVITY OF THE SPANISH COMPANIES (1996-2005)

2.1. The internationalization of the Spanish Economy

In the 19th century, both Spain and Russia were considered the two most protectionist economies in the world[1].The convulsed history of the country in the first half of the 20th century not only prevented the economy from opening to the world, but put the pubic finances close to default. Following the 1959 Stabilization Plan, Spain joined the economic international organizations such as the IMF (1958), the World Bank (1958) and the GATT 1963, a prerequisite in order to access to international funding (Varela, 2001). As a result of the economic development during the 60's and 70's the trade openness index (measured as total exports plus total imports divided by GDP) increased from 10% in1959 to 31% % in 1985, the year before Spain joined the EU. After full membership, the index stayed flat close to the 30% until 1995 when it strongly reacted to reach 45%. The additional liberalization measures taken during the 1996-2000 period (Becker, 2002) contributed to its pick in 2000 (61.2%), stabilizing since then in the range of 55-60%, the cruise speed of the openness index so far (See Chart 1)

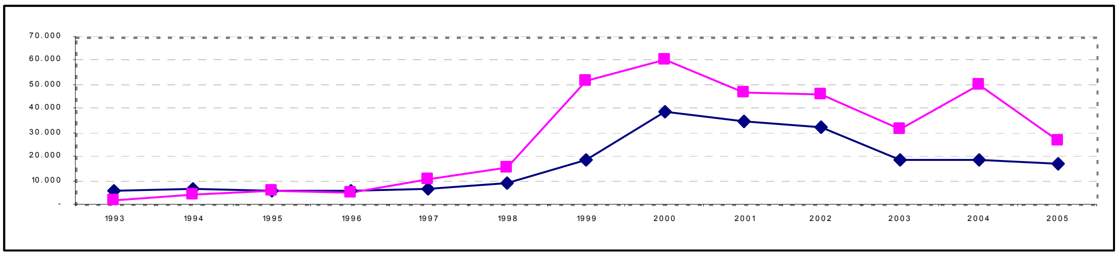
Chart 1 – Trade Openness Index of the Spanish Economy (1959-2005)



Source: 1959-1970 Alcaide Inchausty, J. La renta nacional de España y su distribución. From 1970 onwards: Contabiliadad Nacional de España (INE)

As far as the Foreign Direct Investment[2] (FDI) concerns, the total investment amount (outward and inward) in the period followed a similar pattern as the openness index, moving from a mere € 17.1 Million in 1960 (Carreras/Tascón, 2000) to € 3.9 Billion in 1986**.** The entry into the EU made the country an avid recipient of European investment, and during the window 1986-1995 the FDI inflows more than tripled the FDI outflows. Finally, the trend reversed in 1997, when the outward investment increased significantly, and for the first time in the country's economic history outflows exceeded inflows, a trend that has been kept up to date. Subsequently, in 2000 the cumulative FDI outward stock surpassed the inward stock, and for the first time the sum of all historical investments outside the country exceeded the foreign investments inside.

Chart 2 – Spain Inward and Outward FDI (1993-2005). Million Euro.



Source: Secretaría de Estado de Comercio. Registro de Inversiones Exteriores

1 Rato, R. 2002. Presentación. Revista ICE. April-May 2002.

2 FDI inflows and outflows comprise capital provided (either directly or through other related enterprise) by a foreign direct investor to a FDI enterprise, or capital received by foreign direct investor from a FDI enterprise (UNCTAD)

From the above we can conclude that the targeted period (1996-2005) represented the largest FDI outward effort in Spain's economic history. In comparative terms, In 2004 the FDI outflows from Spain were equivalent to 7.4% of the world's total, compared to just 1.15% ten years ago, a disproportionate percentage if we consider the 2% share of the Spanish economy in the overall international trade (Costa, 2002). This level of outward FDI is in contrast with the most advanced economies in Europe, which, opposite to Spain, have been reducing their weighting in the world's FDI total (See Table 1).

Table 1 – Outward FDI as Percentage of World Total

	1970-85 Avg	1986-95 Avg	1996	1997	1998	1999	2000	2001	2002	2003	2004	1996-04 Avg
France	4,8	9,0	7,6	7,3	7,0	11,5	14,3	11,7	7,7	8,6	6,5	9,2
Germany	8,9	8,6	12,8	8,6	12,8	9,8	4,6	5,3	2,3	-0,6	-1,0	6,1
Italy	2,0	2,4	1,6	2,5	2,3	0,6	1,0	2,9	2,6	1,5	2,6	2,0
Spain	**0,5**	**1,1**	**1,7**	**2,9**	**3,1**	**3,8**	**4,7**	**4,4**	**5,6**	**5,0**	**7,4**	**4,3**
United Kingdom	15,4	13,4	8,6	12,7	17,7	18,2	18,8	7,9	7,7	10,8	9,0	12,4
EU 15	**44,2**	**48,0**	**46,1**	**46,3**	**60,7**	**65,5**	**65,6**	**58,2**	**58,7**	**59,8**	**37,8**	**55,4**
World	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Source. UNCTAD 2005 Report

Measured as percentage of GDP, at the end of 2004, Spain had surpassed some of the countries long considered traditional foreign investors such France and Germany, exceeding the average EU-15 ratio. The 5.0% ratio of the last ten years compares with the 0.5% of the previous decade when the Spain foreign investment was three times less than the EU-15 average. (See Table 2)

Table 2- Outward FDI as Percentage of GDP

	1970-85 Avg	1986-95 Avg	1996	1997	1998	1999	2000	2001	2002	2003	2004	1996-04 Avg
France	0,4	1,6	2,0	2,5	3,3	8,8	13,6	6,6	3,5	3,0	2,4	5,1
Germany	0,5	1,1	2,1	2,0	4,1	5,2	3,0	2,1	0,8	-0,1	0,0	2,1
Italy	0,2	0,5	0,5	1,0	1,3	0,6	1,1	2,0	1,4	0,6	1,2	1,1
Spain	**0,1**	**0,5**	**1,1**	**2,5**	**3,6**	**6,9**	**10,5**	**5,6**	**5,6**	**3,7**	**5,4**	**5,0**
United Kingdom	1,8	3,1	2,9	4,6	8,6	13,8	16,2	4,1	3,2	3,7	3,7	6,8
EU 15	**0,7**	**1,6**	**2,1**	**2,7**	**4,9**	**8,5**	**10,3**	**5,5**	**4,4**	**3,5**	**3,1**	**5,0**
World	**0,5**	**1,0**	**1,3**	**1,6**	**2,4**	**3,6**	**4,0**	**2,4**	**2,0**	**1,7**	**n/a**	**2,4**

Source: UNCTAD 2005 Report

In cumulative terms, the total outward FDI stock at the end of 2005 was more than \$355 B, compared to \$35.6 B at the end of 1995. In other words, the Spain's outward FDI in the period 1996-2005 accounted for approximately 90% of all FDI in the country's economic history.

2.2 Spain's outward FDI by Geographical Area

In geographical terms, the Spanish outward foreign investment shows two patterns clearly differentiated: a first period until 2000, primarily focused in Latin America (LA), with strong investment in utilities, oil and the finance sector, followed by a second quinquennium more orientated towards Europe, where companies in other sectors such as real estate and construction joined previous investors, in its aim for geographical diversification. On average, more than 50% of Spain's foreign investment in the first five years is located in LA, a trend that reverses at the beginning of the century, when Europe becomes the favourite destination of the country outward FDI (See Table 3).

Table 3. Percentage of Spain Outward FDI by Geographical Area (1996-2005)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Avg 96-00	Avg 01-05
UE - 25	27,8%	34,6%	32,0%	29,9%	37,8%	64,1%	60,0%	61,1%	71,9%	72,8%	33,7%	65,8%
Latin America	51,3%	57,0%	50,6%	60,9%	43,3%	24,2%	23,4%	25,2%	18,1%	16,2%	51,7%	21,6%
Other	21,0%	8,3%	17,4%	9,2%	19,0%	11,7%	16,6%	13,7%	10,0%	10,9%	14,5%	12,6%
TOTAL	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**

Source: Secretaría de Estado de Comercio. Registro de Inversiones Exteriores

The reasons for the Latin America investment can be found in several authors (Durán 1999; Dehesa, 2000; Requeijo 2000; Casilda, 2001; Becker, Mahia and Vicens, 2002), and can be summarized as follows:

- Emerging Countries Status. During the first half of the 90s most of the LA countries started to be considered "emerging markets" by international operators. The creation of NAFTA (US, Mexico, Canada), in 1994 and the consolidation of Mercosur (Brazil, Chile, Argentina, Paraguay and Uruguay) in 1995 provided additional confidence to European companies, who made the money flow into the area. After the Argentine crisis and the subsequent resentment of investor confidence, the Region experienced a slowdown, still growing though at lower pace. The fact that in 2004 Brazil, the biggest economy in the area, was included in the top selection of emerging countries, the so called BRICs (Brazil, Russia, India and China) by Goldman Sachs, put the area again in the focal point of investment funds and private equity groups, with BRICs funds absorbing 25% of all emerging market equity fund flows in the first half of 2006 and Morgan Stanley's BRICs index up 26.6% versus 11.7% of that of emerging countries in general[3].

- Market deregulation. Following the successive crises that hit Latin America in the 1980s, the Washington consensus (1989) recommended free market economic reforms such as the liberalization of inward FDI and the deregulation of a large number of economic activities in the Region, including oil and gas, utilities, telecommunications and the financial sector. The application of those reforms led to a wave of privatizations of large State enterprises, which attracted foreign bidders, and many of the M&A transactions in the late 90's had governments as sellers.

- Earnings Growth. The price transparency and the cost reduction driven by the European Monetary Union increased competition, putting companies' margins under pressure. In the banking sector, while the margin over average total assets decreased from 4% at the beginning of the 1990s to less than 2% at the end of the decade, the operating earnings followed a similar pattern from 2% to 0.89% in 1999 [4]. Due to the lower development of the Region in the use of banking services, mobile phones, etc., the Spanish firms saw in Latin America a unique opportunity to grow revenue and profits. In particular, the financial sector with a long experience in increasing the use of services in the domestic market, devised the possibility to replicate the model in L.A., a path followed by utilities and telecom services, which also took profit of the underdevelopment of certain areas. As an example, the consumption of electricity per person in the ten year period 1992-2002 increased by 186% in Chile, 84% in Peru and 71% in Argentina.[5]

The result was that EU FDI flows to the area multiplied by more than nine in the 1990s, from $ 9,200 Million in 1990 to $ 86,467 Million in 1999, and for the first time in the Region's history, in 1999 and 2000 Spain was the largest investor ahead of the US. Although the Spanish investment decreased compared to the previous five years, the overall FDI inward in L.A continued their expansion in the period 2001-2005, with the only exception of 2002 when it went down 9.5% versus 2001.

3 John Auters. BRICs. Financial Times. August 18, 2006.
4 Rodríguez Inciarte, 2004. Universia Business Review. Tercer Trimestre 2004.
5 Pizarro M., 2004. Universia Business Review. Mayo-Junio 2004

Due to its recent development, there is not much literature regarding the factors that contributed to the European expansion of the outward FDI in the last five years. Based on different statements collected from the companies involved, we summarize them as follows

- Earnings stabilization. The 1999-2002 Argentine crisis tested the volatility of Spain's investments in LA. Several companies, particularly the banks, were forced to make significant provisions in their balance sheets in order to cope with the default and the devaluation of their investments. Some studies[6] quantify the impact of the crisis in 0.8% of Spain's GDP and estimate a capital loss for Spanish companies due to the Peso devaluation of $14 to $15B. The IBEX-35 index of the Madrid stock exchange (where most of the companies affected were quoted), lost 48,1% in the 3-year period, a bigger fall then other European indexes such as the FTSE-100 or the CAC-40, also affected by the political instability that followed 9/11 and by the high prices paid by their telecom operators for the 3-G licenses in Europe.

The impact on profitability and the lack of predictability over future earnings, as a consequence of the crisis, made the Spanish companies turn their eyes to Europe in order to counterbalance risks. The European movements culminated with the acquisition of Abbey National Bank by Santander in 2004 and the purchase of the mobile operator O2 by Telefónica in 2005, the largest transactions involving Spanish companies in Europe so far.

- Single currency

The implementation of the Euro was supposed to bring a wave of European cross-border mergers that to a large extent have not occurred so far. On one hand the culture clash between companies from different countries, and on the other the increasing protectionism of some governments have made difficult cross-border transactions. Fearing from a foreign takeover, the Spanish companies (mainly banks and utilities) gained size with domestic mergers, and once the process was completed, they looked for opportunities in Europe. In spite of the difficulties in the M&A arena, other modes of FDI, specifically greenfield investment, have increased significantly in the last five years.

- Diversification of construction and real estate companies.

The boom of the construction companies at the end of the 90's, with public bid growing at more than 7% in the triennium 1998-2000, together with the surge in profits of the real estate companies provided both type of companies with sufficient cash to invest. On the other hand, the move of the EU aid from the Southern countries to the new EU entrants, with the subsequent expected fall on public construction works in Spain for the next decade, made evident the need to diversify. In this context, most of them chose Public Services such as Airport Maintenance, Highway concessions, etc. as the best way for diversification. This is for example the case of Ferrovial with more than 60% of revenues coming from services in the first half of 2006, a figure that will increase to 85% once the BAA acquisition is integrated.

- New EU entrants

In January 2005, 10 new countries, most of them from the former Soviet Union orbit, joined the EU providing a framework of stability in their economies and thus an opportunity for foreign investment. The cheaper salaries of the workforce made these countries very attractive for the outsourcing of production and services from Western Europe, attracting a large part of FDI in this area. In the case of Spain, the FDI flows to theses countries was not specially significant, However in 2005 it totalled € 5.9 Billion, or 23% of the total European investment, a figure higher than the sum of all Spanish FDI to the area in previous years.

6 Bláquez J. and Sebastián, M., 2004. El impacto de la crisis argentina sobre la economía española. Real Instituto Elcano

As a final remark, it should be noted the large amount of FDI directed to countries such as the Netherlands or Luxembourg, considered "tax friendly" in terms of capital gains, with a lot of investment vehicle companies in its territory. Both countries together absorbed more than 50% of the total FDI in Europe in the period 1999-2003. From this perspective, it is very likely that the final destination of this investment is not Europe but a different area.

2.3 Spain's 0utward FDI by Sector of Activity

In the 60's, 70's and 80's, most of the Spain outbound FDI corresponded to construction and manufacturing companies. The decrease in the domestic construction activity following the oil crisis of the 70's, made some companies look for public works, mainly in Latin America and some Arab countries. On the other hand, manufacturers created subsidiaries in low wage countries in order to produce at cheaper prices (maquilas) and re export to Spain.

However, due to the aforementioned factors, the outward FDI in the 1990s followed a different pattern, and in this case were firms in the services sector the stars in the foreign investment area. In the first half of the decade (996-2000) utilities, telecommunications and the finance sector accounted for more than 50% of the Outward FDI, a percentage that raises to more than 65% if we add the oil sector, strongly influenced by the Repsol acquisition of YPF (See Table 5)

Table 4. Percentage of Spain Outward FDI by Sector of Activity (1996-2005)

	1996-2000	2001-05
Oil Production and Distribution	10,8%	2,8%
Gas & Utilities	8,3%	4,6%
Food, Beverages & Tobacco	3,3%	4,4%
Manufacturing	10,8%	28,6%
Construction and Real Estate	1,1%	4,5%
Telecommunications	22,2%	18,2%
Bank & Insurance	24,9%	20,8%
Other	18,7%	16,0%
TOTAL	100,0%	100,0%

Source: Secretaría de Estado de Comercio. Registro de Inversiones Exteriores

The geographical change in outward FDI in the second half of the decade also involved a shift in sectors of activity and, while telecoms and banks remained strong investors, utilities and oil retreated to give entrance to other sectors such as manufacturing and construction. In the case of manufacturing, the increase is related to the investment vehicles already mentioned, which may indicate that the final destination of this investment are subsidiaries in low wage countries for outsourcing production.

3. CROSS-BORDER M&As OF THE SPANISH COMPANIES

3.1. FDI versus Cross-Border M&A

The FDI definition from both the IMF and the OCDE refers to taking "long term stake" in a company outside the acquirer's country[7]. To this extent, it is commonly accepted that the minimum threshold for the investment to be accounted as FDI is a 10% ownership of the foreign company. However, since it is up to each country to compute FDI according to their own statistic criteria (Durán, 2004), in many cases the FDI amounts between countries or modes of investment (Greenfield, Joint Venture or M&A) are not strictly comparable (Globerman, Shapiro, 2004). The concern about reliable statistics in international trade exists, due to "asymmetry problems where the analysis of international economic inter-linkages is hampered by the fact that, for all pairs of countries, bilateral transaction statistics do not mirror each other"[8]

7 OCDE Benchmark definition (1983), revised (1995)
8 Trichet, JC. ECB conference on statistics (May 2006)

In the case of Spain, the Dirección General de Comercio e Inversiones computes as foreign investment any outflows falling into these categories:

- Flows into non-quoted foreign companies
- Flows into quoted companies outside Spain, provided that the acquirer takes at least 10% stake
- Foreign subsidiaries funding
- Other investments in account contracts, foundations, cooperatives and other institutions. The requirement is that the funds transferred exceed 1.5 Million Euro and that the recipient organization is based in a territory considered a “fiscal paradise”.

Specifically, the following are not computed as FDI:
- Financing foreign related parties.
- Foreign investments from Spaniards non-resident in Spain or from foreign citizens residing in Spain.

From this definition, the three major FDI modes are:

- Direct Investment also called “Greenfield investment”
- Alliances and Joint Ventures
- Mergers and Acquisitions

Greenfield Investment

Greenfield ventures involve establishing wholly owned subsidiaries in new geographic markets. As such, they provide the highest form of control over internal resources and knowledge but are also likely to have the highest costs (Hennart and Park, 1994). Costs involve both establishing the physical facilities and also building the relationships and networks with suppliers, distributors, and government units necessary to operate effectively in the new environment (Anderson et al, 1997). In the case of Spanish companies this mode has been largely used by some sectors such as tourism (Ramón and Hidalgo, 2002) and the expansion of the Majorca hoteliers in the Caribbean has been largely based on this mode. Retailers such as Inditex, Mango or El Corte Inglés have also been greenfield investors, opening stores in foreign countries without the need of M&As. Finally, public bids for construction works, mining concessions, oil exploration, etc., in a foreign country usually involve the need of greenfield investment by the winner company. However, attracting greenfield investment is considered more difficult than any other mode of FDI[9] and in many cases it is done in combination with other forms of FDI such as joint ventures or acquisitions. For example, Repsol undertook a big program of expansion and direct investment in L.A. after the acquisition of YPF.

Alliances and Joint Ventures (JV)

International alliances provide access to important resources, along with the opportunity to share the costs and risks of entering new foreign markets. Therefore, when forming an alliance, the costs and risks to the firm are moderate relative to the other equity-based mode of entry. However, alliances offer lower control to the participating firms and require substantial transaction costs (cooperation and coordination) to realize their benefits (Shimizu et al, 2004).

García Canal and Menguzzato (2005) reviewed the previous literature on alliances involving Spanish companies. Previously, Vidal (199) analyzed 87 global alliances for internationalization formed by Spanish companies in the period 1987-1997 and found that the financial sector was the one using more international alliances for expansion (Banco Popular, BBVA). In addition, they concluded that those alliances involving cross-capital sharing were more successful than the rest. Finally, López Duarte and García Canal (2003) found that joint ventures were the mode of international expansion that generated the highest abnormal returns (average of 1%).

9 CEPAL Report, 2002

In the targeted period, there are several examples of JV or alliances of Spanish companies. One of the most significant examples is the Telefonica JV with Portugal Telecom in Brazil to create Brasilcel, the largest mobile operator in the country. In some emerging countries, particularly in China, joint ventures with locals are almost a prerequisite in order to be present in the country. This is the reason for the increasing weighting of JV in the global FDI, not that significant in the case of Spain due to its lower focus on Asian markets.

Mergers and Acquisitions

Extent research suggests that the choice of a cross-border M&A as a mode of entry into a foreign market is often influenced by three type of factors (Shimizu et al, 2004):

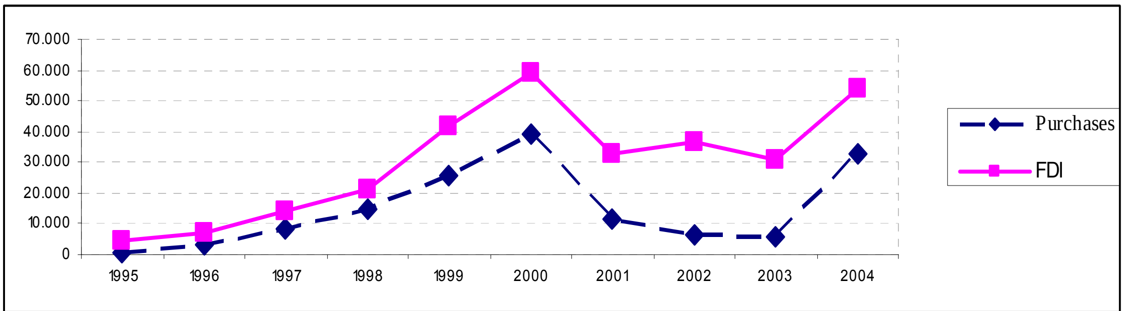
- Firm-level factors, such as multinational or local experience, product diversity and/or international strategy.
- Industry-level factors such as technological intensity, advertising and sales force intensity.
- Country-level factors such as market growth in the host country, cultural idiosyncrasies

In the first case, the multinational (Harzing 2002) and local experience of the company (Barkema and Vermeulen, 1998), the degree of product diversification and the relative investment size (Brouthers and Brouthers, 2000) have been found to be positively associated with acquisitions into foreign markets. In the case of country and industry factors, high and low market growth (Hennart and Reddy, 1997), low cultural distance between home and host countries, and low economic uncertainty in the home country (Kogut andSingh, 1998) increase the likelihood of entry via acquisitions. Nonetheless, the reported results of these searches are mixed. While some authors (Barkena andVermeulen, 1988; Brouthers and Brouthers 2000) found that product diversification was positively associated with greenfield start-ups rather than with acquisitions, others (Kought and Singh, 1988) found that those same factors had no effects on the entry mode choice.

In terms of volume, although there are discrepancies regarding the share of M&A in the worldwide FDI, it is assumed that the majority of the foreign investment is done in this mode (Kangand Johansson, 2000; Letto-Gillies, Meschi and Simonetti; 2001; Chadn and Findlay 2002). Kang and Johansson (2001) reported that, for developed countries the share of M&A in inward FDI increased almost continually from around 62% in 1991 to virtually 100% in 1997. For the entire period, 1991-97, this share averaged around 84%. In the case of developing countries the percentage decreased to 70%. On the other hand, Globerman and Fraser (2004) reduced these percentages substantially, in part because, as they recognized, their analysis was performed at the country level, giving the same weighting to all countries.

In the case of Spain, according to the 2005 United Nations Conference on Trade and Development (UNCTAD) report, the share of foreign acquisitions in the total outward FDI averaged 49.5% for the period 1996-2005. At the same time, this percentage is the result of a 64.1% share in the first half of the decade and a 36.1% in the second half (See Chart 4).

Chart 4. Spain Cross-Border Acquisitions vs. Outward FDI (Figures in US $ Million)



Source: UNCTAD (2005 Report)

Although later on in this document we review the key drivers of Spain's cross-border acquisitions, the major reasons for the shortfall in M&A compared to the total FDI in the period 2001-2004, as we envision them, are: (1) the need for consolidation and integration of the companies acquired in L.A. in the previous five years (Cepal, 2002); (2) the economic recession and political instability following the 9/11 attacks; (3) the negative impact of the Argentina default in business results and (4) the larger greenfield investments in Europe, specially in what we could call "tax friendly countries", particularly Luxembourg and the Netherlands, used as bases for other foreign investments. In summary, while the pressure on margins, the threat of being acquired and the privatization opportunities in LA were the primary drivers of acquisitions in the first half of the decade (1996-2000), the political events in 2001and the Argentine crisis forced them to take a more cautious approach, bringing down the full outward FDI investment and the M&A activity to a larger extent.

Finally, we should remark the difficulty in computing the different modes of FDI, given the complexity of some operations. As an example, the BBVA takeover of Bancomer started in 2000 with the acquisition of 36.6% stake in the open market. Then it merged with BBV Probursa. In 2001, acquired an additional 11.2% from the Bank of Montreal (recorded as M&A) and finally in 2004 completed the acquisition of Bancomer (97.84%) Likewise the minority shareholding of La Caixa in Banco Itaú (3rd Brazilian biggest) or Santander in RBS, although not reaching the 10% threshold required for being considered FDI, in the future could be reclassified into M&A activity depending on their development. This could well be one of the many reasons for the discrepancies in terms of the M&A share in FDI.

3.2. Key Drivers of the cross-borders acquisitions made by Spanish Companies

General to the economy

- Globalization

Although "the pace of global economy change in recent decades has been breathtaking indeed, and the full implications of these developments for all aspects of our lives will not be known in many years" (Benarke, 2006)[10], it is largely assumed that the opening of the capital markets and the IT advances in the early 1990s brought globalization. The need for global players in each area of activity made M&A activity to reach $2.2 Trillion in 2005. At the pick of the activity (1998-2000), deals totalled nearly $ 4 Trillion, more than in the preceding 30 years combined.

- Political and Economical Stability.

The 10 year-period following the fall of the Berlin wall (1989) and the First War Gulf (1991) were characterized by political stability and economic growth of the world economy, circumstances that created the appropriate atmosphere for cross-border M&A. The quick reaction of the Federal Reserve to the crisis in Mexico (1994) and in the Asian countries (1997) provided further confidence to investors. Investment on developing countries took off and M&As in Latin America, for example grew at an annual rate of 13% in the period (1995-2004), much faster than the overall GDP.

- Low cost of debt.

In the second half of the decade (2001-2005) world interest rates were at historical lows. In some countries such as Spain, the higher inflation made real interest rates negative. This circumstance, together with its favourable impact in the Weighted Average Cost of Capital used for valuations, increased the appetite for debt. It has contributed to the higher leverage ratios that the Spanish multinationals show in their balance sheets compared to those companies operating in the domestic market (Durán et al, 2005).

10 . Benarke B. Annual Central Bankers Conference, Jackson Hole, Wyoming, August 2006

Specific to Spain

In addition to the above, there were specific reasons linked to the environment of the Spanish economy and the singularity of the acquirer firms:

- Relative low size of Spanish companies

The lower size of Spanish companies compared to US and European peers at the time, posed a threat of takeover by the later. It already occurred in the 10-year period following the EU entry, when a large number of Spain medium-size companies were acquired by EU companies, and some sectors such as pharma, textile or manufacturing fell almost entirely in foreign hands. In this context, an acquisition strategy was a safe shortcut in order to gain critical mass and avoid the threat of takeover by the bigger European competitors.

- Government initiatives to promote consolidation and to create "national champions" in key sectors.

Following the privatization of public companies at the end of the 1990s, the government indirectly promoted a process of consolidation of domestic players aimed at creating national leaders able to compete with their European counterparts. The process accelerated with the forthcoming implementation of the single currency in such a way that the current concentration levels experienced in some sectors of the Spanish economy (banking or utilities) are amongst the highest in Europe.

- Favourable Tax Environment

Gutiérrez Lousa and Rodríguez Ondarza (2005) reviewed the major fiscal changes introduced in the country legal environment in an effort to accommodate the tax regime to the increasing internationalization of companies. The present set of rules governing taxation of international operations is contained in the so called TRLIS (Texto Refundido de la Ley del Impuesto sobre Sociedades). In terms of cross-border M&A the law is widely considered tax friendly for two reasons: (1) the tax exemption of dividends and capital gains from the sale of shares held in foreign companies and (2) the fact of making goodwill (the difference between the value paid and the book value of the firm acquired) from non-domestic acquisitions tax deductible. While for domestic acquisitions severe restrictions apply, however for foreign acquisitions goodwill can be deducted up to a limit of 5% per year with the only restriction of having a 5% minimum ownership of the company for at least one year prior to the tax closing date. Investments in fiscal paradises are explicitly excluded from the tax benefit.

The law, clearly favourable when compared with similar European tax regimes, has contributed positively to the cross-border acquisition activity of Spanish companies, though at the same time has raised complains from other European companies, as Deutsche Telecom did in the bid for the UK mobile operator O2, finally acquired by Telefónica[11]

- End of European aid, affecting construction companies

As already mentioned, the significant reduction of the European aid to Spain (from an annual 1% of GDP to practically zero in 2013, when the country is expected to be a net contributor) reduced the prospects for public construction bids. This fact made construction companies to look for diversification in order to reduce dependency of domestic construction work and gain size. The M&A and other investments following this strategy achieved the two objectives: diversification and size, and by the end of 2005, five out of the seven major construction companies in Europe were Spanish.

11 Buck, T. Tax breaks fuel Spain's conquest of Europe. Financial Times, July 24, 2004

4 – HOW TO MEASURE LONG-RUN WEALTH CREATION OF CROSS-BORDER ACQUISITIONS

4.1. Short review to previous literature.

There is a long standing controversy in the financial literature regarding M&A impact on wealth creation for shareholders. Mulherin and Boone (2000) grouped the different theories into two broad set of models, synergistic and non-synergistic. The non-synergistic theory embraces those models based on management entrenchment, empire building, and managerial hubris (e.g. Jensen, 1986, Roll 1986, Shleifer and Vishny, 1989). These theories generally predict an asymmetric relation between the wealth effects of acquisitions and divestitures. Divestitures create wealth by increasing specialization, while acquisitions lower wealth by protecting management from market forces and by lessening corporate focus. Opposite, the synergistic models predict that both acquisitions and divestitures create wealth.

In the case of cross-border M&A, the theoretical foundation for positive returns is based on the assumption that firms enter foreign markets to exploit their specific resources in order to take advantage of imperfections in the markets (Morck and Yeurng, 1992; Wilson 1989). In general, market reactions to cross-border M&As are very different from those regarding domestic M&As, which often are reported to reduce the acquirer's shareholder value while only improving the target's shareholder value (Kaplan and Weisbach, 1992). Wealth creation effects of cross-border transactions were observed in several cases of U.S. acquirers purchasing non-US firms (Markides and Itner, 1994) and vice versa (Kang, 1993). This author examined 119 Japanese firms that bid on 102 US firms on 102 between 1975 and 1988 and found that Japanese acquisitions of US firms created wealth for both acquired and target firm shareholders. On the contrary, Datta and Puia (1995) reported opposite results using a different sampling time frame (1978-1990) and they concluded that cross-border M&As on average do not create value for the acquiring firm shareholders, when compared with those of domestic M&As. Cross.-border M&As characterized by high cultural distance were accompanied by lower wealth effects for acquiring firm shareholders. In a middle ground, Seth et al (2002) analyzed factors that create or destroy value in cross-border M&A activity andthey suggested that a possible explanation for he conflicting results in the previous research might be a failure to account for the different motives of each acquisition. They found the the value creating deals originated from synergy oriented M&As, in which the two firms intended to combine their complementary assets. On the other hand, they found that the value-destroying deals originated from managerialism, or hubris-based M&As, in which managers pursued their personal interest or made mistakes in the target evaluation process.

Other interesting stream of investigation in cross-border M&As refers to the legal and shareholder protection regimes. Rossi and Volpin (2003) suggest that cross-border acquisitions may be facilitated by the legal regime and degree of investor protection in both home and host countries. Similarly, LaPorta et al (1997; 2000) found that strong shareholder protection is associated with more developed stock markets, higher valuation and lower capital costs. These developments are likely to facilitate M&A activity in general, including both inward and outward cross-border protection. Finally, Bris and Cabolis (2004) document that an international takeover of a company characterized by weak investor protection by a firm characterized by strong investor protection leads to an increased market value for the acquired firm, with no decrease in market value for the acquiring firm. However, detractors of the Washington Consensus and of the sale of Latin American States assets argue that the large privatization processes have produced a net transfer of wealth to foreign investors. In any case, as Child et al (2001) noted, the increasing globalization of business makes practically irrelevant the distinction between domestic and cross-border acquisitions practically irrelevant since most large M&As considered domestic (HP/Compaq or Sanofi/Aventis, for example) usually involve managing operations in many different countries, and therefore they have a big cross-border component.

3.2. Short-term versus Long-term wealth measurement

Most of the short-term analysis performed relies on the measurement of Cumulative Abnormal Returns (CARs) during a window period that usually varies from ±1 to ±30 days before/after the acquisition or divestiture announcement. The results of these studies are mixed, though the gains for the target firm shareholders are significantly higher than for the bidding firms. A summary of some of the recent studies is shown in Table 5.

Table 5. Summary of recent studies on Short-Term wealth measurement

Study	Time period	# Deals	Window	Target (%)	Bidder (%)	Combined
Servaes (1991)	1972-1987	704	(-1, resolve)	+ 23,64%	-1,07%	+ 3,66%
Kaplan et Weisbach (1992)	1971-1982	209	(-5, +5 last bid)	+ 26,60%	-1,49%	+ 3,74%
Mulhrein et Boone (2000)	1990-1999	1305	(-1+1)	+ 20,20%	-0,37%	+ 3,56%
Andrade et al. (2001)	1973-1998	3688	(-1,+1)	+ 16,00%	-0,70%	+ 1,80%
Aktas et al. (2003)	1990-2000	443	(-5,+5)	+ 10,15%	-0,15%	+ 1,51%

Measuring long-run performance involves a number of methodological choices such as time frameworks (event-time or calendar-time), abnormal return metrics, benchmark and weighting procedures. Despite the existing general agreement on the poor long-term performance of acquiring firms, the results of the different analysis vary significantly. André et al (2004) performed an analysis for 267 Canadian M&As between 1980-2000 and their results suggested that Canadian acquirers significantly underperformed over three-year post-event period. They also found that cross-border deals performed poorly in the long run. However, Mitchell and Stafford (2000) analyzed 2,068 transactions announced between 1961 and 1993 and report negative mean abnormal monthly returns over three years of just -0.04% and -0.03% for equal-weighted and value-weighted M&A portfolios respectively, using calendar-time abnormal returns based on the Fama-French three factor model[12]. Regarding cross-border acquisitions, Kang (1993) showed that in acquisitions conducted by Japanese companies in the UnitedStaes, there were significant benefits for the companies of both companies, while Black et al (2001) found significant negative returns to US bidders during three to five years following cross-border mergers. Finally, Gugler et al, (2003) found that cross-border acquisitions resulted in a significant decrease in the market value of the acquiring firm over the five post-acquisition years.

4.2. Non-CAR methodologies for measuring long-term wealth creation for shareholders

Several authors have examined post-acquisition performance using measures other than abnormal stock returns, in many cases comparing the performance of cross-border M&As with the performance of other entry mode choices (joint ventures and Greenfield investments). Nitsch et al (1996) examined the performance of 300 Japanese subsidiaries in Europe and found that the ones initiated by acquisitions performed much worse than those that were created by greenfield investments or joint ventures.

Consultancy firms have also tracked performance from acquisitions through benchmarking. In 2004 Bain & Company published an analysis of 1,693 companies comprising 11,049 deals during the period 1986-2001[13]. They found that the most successful companies in creating shareholder long-term value tend to be frequent steady acquirers that maintain a constant program of transactions. Companies that completed 30 or more deals in the period outperformed by more than 50% those firms making less than 5 acquisitions. The comparative size between purchaser and target also influenced the future performance, being small acquisitions made by big companies the most successful ones.

12 Fama (1998) specifically recommends the construction of monthly portfolios in calendar time for measuring the average abnormal long-run performance.

13 A simple M&A model for all seasons. Bain & Company. Strategy and Leadership. 08/01/04

Other attempts to measure shareholders long-term return included the use of established ratios. This is the case of the Economic Value Added, EVA® (Stern &Stewart, 1991), which benchmarks the Weighted Average Cost of Capital (WACC) from the Capital Asset Pricing Model theory (CAPM) (Sharpe W., Lintner, J. and Treynor J.), against the Return on Invested Capital (ROIC), a ratio that in the basis compares Net Operating Profit After Taxes (NOPAT) with the total Capital Invested (Equity plus Debt). McKinsey & Co. called Economic Profit to a similar ratio and other consulting companies have used the terms CFROI (Cash Flow Return on Investment) and others, based on a similar line of thinking.

However, the comparison between the Cost of Equity (based on market capitalization) and ROIC (based on accounting value) for measuring wealth creation for shareholders is arguable (Fernández, P. 2005). The main objection is that, although book value can indirectly influence share price, it is not directly related to shareholders wealth, which in most cases depends on the increase in share price and the dividends received. According to this theory (Fernández, P. 2005) the wealth increase of shareholders between two points in time can be calculated as follows:

Δ Shareholders Wealth $_{(t,t-1)}$ = Δ Market Cap $_{(t,t-1)}$ + Dividends + Share buybacks + Other Payments – Cash for capital increases – Convertibles converted

Obviously, wealth increase does not mean wealth creation. The wealth creation for shareholders according to this methodology would be the wealth increase (as calculated in the previous formula) minus the Cost of Equity (K_e), which is the return required for shareholders when they invest in a particular security.

Wealth Creation $_{(t,t-1)}$ = Δ Shareholders Wealth $_{(t,t-1)}$ - Ke

However, the use of K_e as the hurdle rate for shareholders return can also be arguable since "shareholders expectations" at a certain point in time, apart from being subjective, can be distorted by the assumptions used in the calculation of the Ke, mainly the risk premium factor and the beta.[14] For example, a strict calculation of K_e at the time of the stock market bubble (1999-2000) could have led to unrealistic expectations in term of returns, as the stock markets themselves have proved.

4.2. Application of long-term wealth creation measurement to cross-border acquisitions

In the case of cross-border acquisitions, we see two major problems for measurement wealth creation, (1) the isolation of the cross-border operations once the integration into the acquiring firm has occurred and (2) how to estimate the return on investment required by shareholders at the time of the acquisition.

In many cases, once the operations are integrated into the business unit of a global organization with a big chunk of expenses centralized, the isolation of the cross-border business financial results is difficult. Furthermore, the internal transfer prices and service cost allocation between units and countries could distort the comparison. However, in the case of the cross-border acquisitions made by Spanish companies, the financial results from international operations are less difficult to isolate due to (1) the size of the subsidiaries in the country previous to the acquisition was almost irrelevant, therefore the international operations can practically all be attributable to the FDI in the period and (2) the lower degree of integration into the international structure. Therefore, in the specific case of Spain, the financial results of foreign operations could be attributed to the outward FDI without a significant risk of error.

14 Financial Times. The Lex Column. "Counting the Cost" . March 24, 2003

From this standpoint, the current shareholders wealth due to the foreign purchases will be the current value of those business that can be attributable to M&A plus all dividends received in the period due to the foreign business plus any other compensation to shareholders derived from the cross-border acquisitions (share buybacks to counterbalance the dilution produced by equity payments made for an acquisition).

<u>Current Wealth from Cross-border Acquisitions = Present market value of cross-border business due to M&A + Dividends received in each period attributable to cross-border business + Share buybacks to compensate dilution from cross-border acquisitions</u>

The wealth creation will be determined by the difference between the current wealth and the present value of the investment required at the time to generate such increase. In our case, it will be the cost of the acquisition plus any other costs (capital increases, etc.) incurred during the life of the acquired company, which, after a brief analysis, we concluded are close to zero. Consequently, in order to complete the calculation we should determine the price paid for the acquisition and the discount rate to be used to obtain the present value.

With regard to the price paid, several approaches can be made. The first (and more simple) is to determine the dollar or euro price at the time of the acquisition. However, since a large number of acquisitions made were paid with equity, the previous approach could not be exactly right because part of the pricing risk has been assumed by the target's shareholders when they accepted the acquiring firm' stock as payment for the company. Therefore, a second approach is to calculate cash payments at the time they were made and equity payments at current prices.

In terms of the discount rate used for the calculation of the Net Present Value of the acquisition costs, several approaches can be taken. As remarked, a pure K_e approach, although used for valuations of companies based on forward looking inflows, it does not look appropriate once we know the performance of the market (i.e. we cannot use "a posteriori" a market return of 8.2% for the IBEX-35 investors in 1999, when we know that the market return in the period 2000-2005 has been practically zero). Therefore, we will take two different approaches regarding the discount rate: (1) to consider the risk-free rate as the cost of opportunity for the shareholder (2) to consider the real returns obtained by the average European markets in the period. Based on the above we will have 4 scenarios for the calculation of the acquisition cost:

(1) Cost of the acquisition at purchase price (regardless of the payment being done in cash or equity), using the risk-free rate of each year as discount rate. This scenario assumes the acquiring firm shareholder would have sold the shares just before the transaction is completed and invested the cash at the risk-free rate.

(2) Cost of the acquisition at purchase price (same as 1), using as discount rate the average return of the major European stock markets for each year until 2005. This scenario also assumes that the acquiring firm shareholder would have sold the shares just before the transaction is completed but invested the cash in the European stock market.

(3) Cost of the acquisition valuing the equity payments at current prices but cash payments as they were made, using the risk-free rate for their net present value calculation. It assumes that the acquiring firm shareholders would only reinvest the cash paid for the acquisitions, at the risk-free rate in this case.

(4) Cost of the acquisition valuing the equity payments at current prices and cash payments at each year price using average European stock market returns for the calculation of their net present value. It assumes that the acquiring firm shareholders would only reinvest the cash paid for the acquisitions, at the average European stock market rate of return in this case.

5 –WEALTH CREATION OF CROSS-BORDER ACQUISITIONS MADE BY SPANISH COMPANIES

5.1. Sample. Map of cross-border acquisitions.

We obtain our data sets of Spanish Cross-Border M&As from Thomson Financial and the Capital & Corporate Yearbooks for the period (1996-2005). We double check our data with CEPAL and the companies annual reports.

Our data meets the following criteria:

1) Deals are completed
2) Deal value > € 100 Million.
3) Acquirer is a Spanish company and target is a non-Spanish company outside Spain.
4) Deals are mergers, exchange offers or acquisitions of “controlling interest”.

We specifically exclude from the list:

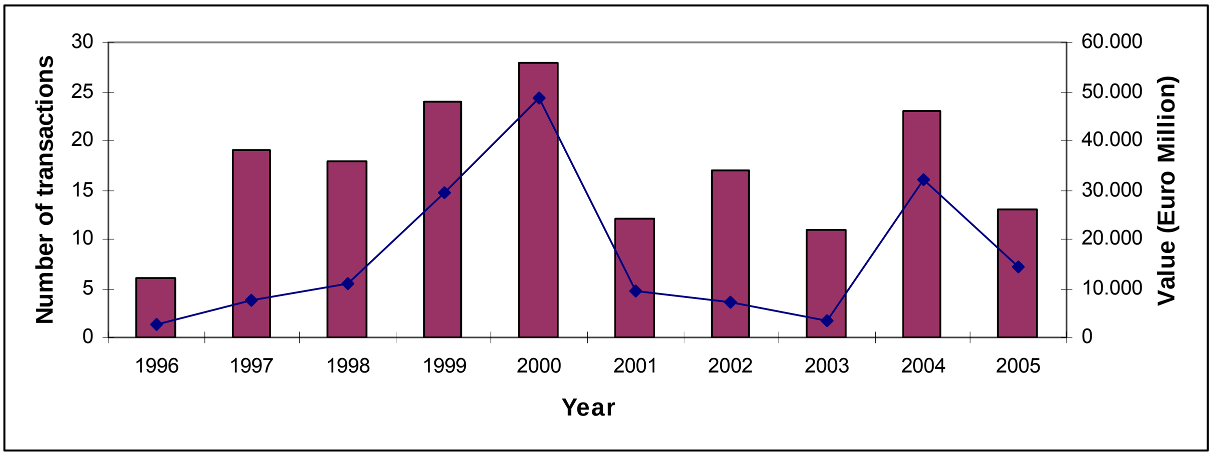
5) Acquisitions of minority interest where the acquirer failed to take a controlling interest later on (i.e. BBVA stake in BNL, Santander in San Paolo or Telefonica 5% in China Network Mobile).
6) Transactions of foreign companies, in which seller and acquirer are both Spanish (i.e. Iberdrola’s sale of shares in Brazilian telephone companies to Telefónica).
7) Capital increases of foreign related parties fulfilled by the parent company in Spain.
8) Disinvestments made following the acquisition (i.e. Santander sale of 24.5% of Serfin to BoA)

We exclude the acquisitions made by Arcelor (based in Luxembourg), but we add the acquisitions made by controlled foreign subsidiaries of Spanish companies (i.e. Enersis acquisitions in Brazil are assigned to Endesa).

The deals are listed in Appendix 1.

In total we record 171 deals for an amount of € 164.0 Billion, at an average of almost €1 Billion each. As a first indicator, we compare this volume with the total cross-border purchases recorded by UNCTAD for Spain in the period (€ 190 Billion), and confirm that our sample contains a volume of deals equivalent to 86%UNCTAD official figure. Table 6 shows the number and value of the acquisitions per year.

Chart 5. Number and Value of Purchases made by the selected acquiring firms



From the analysis of the sample, we immediately notice the large concentration that exists in both number of acquirers and geographical location of the targets, in line with the FDI breakdown in Section 2. As Table 6 shows, the 171 transactions recorded correspond to just 41 companies that acquired 159 targets in 30 countries.

Another relevant conclusion is that most cross-border purchases made by Spanish companies in the period were big size (> € 100 Million) deals. The small 14% difference between our sample and the UNCTAD reporting means that the cross-border M&A activity below the $ 100 m threshold was not very significant at least in volume. The fact that for some years, the UNCTAD report is lower than our figure can be due to information not strictly comparable (UNCTAD versus Thomson Financial and Capital & Corporate) or to calendar issues (a deal recorded in a different period). A similar problem was found in previous studies (Globerman, S. and Fraser, S. 2004). However, our conclusion is corroborated by our analysis of the cross-border operations left out of our sample, which, in volume, turn to be very small.

Table 6. Cross-border acquisitions > € 100 M made by Spanish companies (1996-2005)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	TOTAL
Num. of Transactions	6	19	18	24	28	12	17	11	23	13	171
Deal Value (€ Mill)	2.667	7.520	11.126	29.398	48.598	9.464	7.188	3.370	32.057	12.631	164.019
% of Unctad Reported	*86%*	*100%*	*82%*	*123%*	*114%*	*75%*	*108%*	*69%*	*123%*	*n/a*	
Avg Deal Value (€ Mill)	445	396	618	1.225	1.736	789	423	306	1.394	972	959
Num. of Bidders	4	7	9	15	10	9	13	9	12	12	41
Num. of Targets	6	17	18	22	28	12	16	10	11	12	159
Num. of Countries	5	8	8	10	9	9	11	8	11	10	30

Source: Thomson Financial and Capital & Corpora te Annual Books

In terms of geography, once again Latin America (in particular, Brzail, Argentina, Mexico and Chile), the EU-15 and the US, by this order, absorbed the vast majority of the acquisitions. Only nine out of the thirty countries where the targets are located, account for more than 80% of the Euro volume. Table 7 and Chart 6.

Table 7. Breakdown of cross-border acquisitions > € 100 M by Spanish companies (1996-2005)

By Country	Brazil	Argentina	Mexico	Chile	UK	France	Holland	Portugal	USA	Others	TOTAL
Value of Transactions	32.959	28.037	12.506	8.984	15.433	10.307	8.399	6.862	12.691	27.841	164.019
By Acquirer	**Telefónica**	**Santander**	**Repsol YPF**	**Endesa**	**BBVA**	**Altadis**	**Metrvcesa**	**Iberdrola**	**Ferrovial**	**Others**	**TOTAL**
Value of Transactions	55.668	33.147	21.075	12.967	10.140	5.896	3.804	4.206	3.040	14.076	164.019

Source: Thomson Financial and Capital & Corporate Annual Books

A further refinement of our analysis allows us to limit the scope of our research, since only 9 companies out of the 41 acquirers in the sample account for 91% of the total acquisitions made. Therefore, we will focus our analysis in the 9 major acquirers (the selected acquiring companies), with the certainty that we are taking 91% of all acquisition activity over €100 M developed by Spanish companies in the period, as reported by both Thomson Financial and Capital & Corporate.

Chart 6. Geographical Distribution of Acquisitions

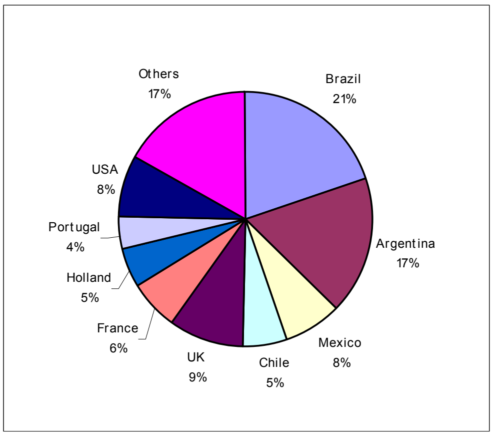
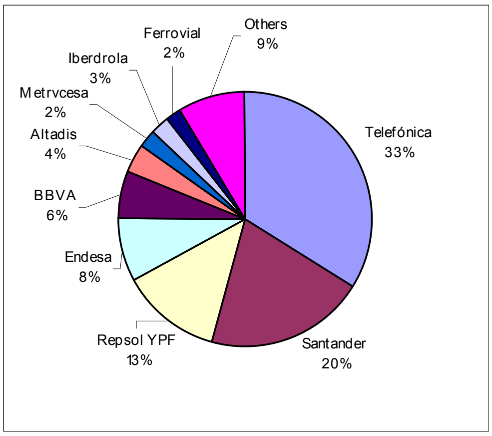


Chart 7. Acquiring firms share of total acquisitions



Source: Thomson Financial and Capital & Corporate Annual Books

Finally, as a reference, in Table 8 we extracted the 10 major deals in the period, led by Repsol acquisition of YPF in 1999.

Table 8. Major cross-border acquisitions made by Spanish companies (1996-2005)

Repsol	YPF	Argentina	100,0%	15.901	1999
Santander	Abbey National	UK	100,0%	13.682	2004
Telefónica	Sao Paulo Telecommun.	Brazil	61,8%	8.086	2000
Telefónica	Lycos	USA	100,0%	5.600	2000
Telefónica	Endemol	Netherlands	100,0%	5.500	2000
Metrovacesa	Gecina	France	68,5%	3.804	2005
Telefónica	Bell South LA	Latin America	100,0%	4.731	2004
Telefónica	Telesp	Brazil		4.467	1998
Endesa	Elettrogen	Italy	100,0%	3.680	2001
Telefónica	Telefonica Argentina	Argentina	44,0%	3.554	2000

Source: Thomson Financial and Capital & Corporate Annual Books

5.2. Financial results of the acquirer companies

In 1995, the revenue and profit of the largest Spanish companies coming from operations outside Spain were almost negligible. As a result, the size of the big players compared with their European or American competitors highly internationalized was much smaller even in relative terms to the weighting of Spain in the worldwide economy. Only one company, Telefónica, was part of the 500 largest companies by market capitalization. But the landscape changed dramatically during the period, and by the end of 2005, eight Spanish companies (six of them in our sample) ranked among the 500 companies by market value (Table 9). Furthermore, four companies (all in the selected acquiring companies' sample) were among the 50 major non-financial companies in Latin America by revenue size, while BBVA and Santander were the two major banks in the area measured by Average Total Assets (Table 10).

Table 9. Spanish companies in the FT500 Ranking

Global Rank 1995	Global Rank 2005	Company	Market Value ($B)
-	49	Santander	91,2
350	64	Telefónica	77,1
-	78	BBVA	70,7
-	192	Repsol YPF	34,6
-	199	Endesa	34,1
-	235	Iberdrola	29,1
-	305	Inditex	24,0
-	429	Banco Popular	17,9

Source: FT 500

Table 10. Largest companies in Latin America

Global Rank 1995	Global Rank 2005	Company	Sales ($B)
-	2	Telefónica	17,1
-	7	Endesa	9,7
-	12	Repsol YPF	6,7
-	29	Iberdrola	3,0

Source: CEPAL (2005)

There is no question that the bigger size of the Spanish companies today is due to their internationalization, as it demonstrates the fact that in 2005 approximately 45% of the financial results of the firms in our sample came from operations abroad. This share of the total results would have not been possible without the foreign investment effort made in the last ten years.

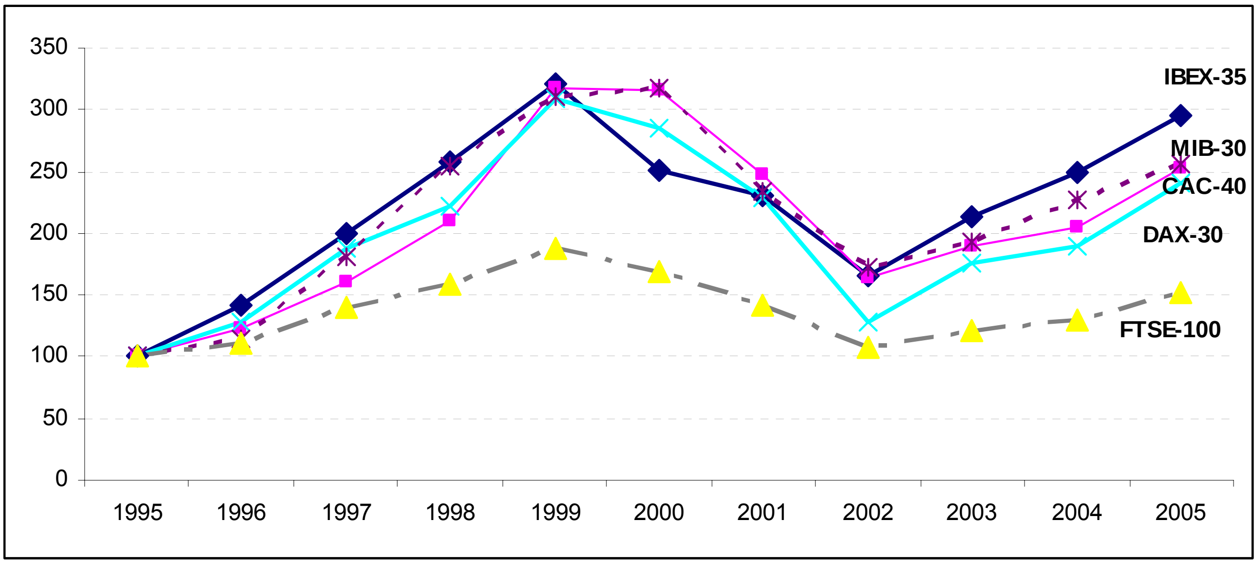
In addition, there was a substantial increase in the weighting of the L.A. revenues and profits. While in 1995, L.A. was almost negligible in the accounts of the major companies, in 2004, 45% of Telefonica's sales or 24% of those from Iberdrola came from the Region. In the case of the banks, 23% of BBVA assets were in L.A. while 39% of Santander's net income was generated in the Region (Casilda, 2005).

5.3. The impact of foreign companies acquisitions in the Stock Market

A first idea of the increase in wealth for shareholders during the period can be done through the analysis of the IBEX-35 index of the Madrid Stock Market. Due to the relative high weighting of the largest companies in the index, its performance will be clearly related to the companies in our sample. In fact, the total weighting of the selected acquiring firms of our sample (Telefonica, Santander, BBVA, Repsol YPF, Endesa, Iberdrola, Altadis, Metrovacesa and Ferrovial) in the Ibex-35 as of December 31, 2005 closing, was approximately 65%, almost 2/3 of the market cap.

Once we do a similar benchmarking as we did for the FDI with the largest European economies: France, Germany, UK and Italy, we see a better performance of the Ibex-35 versus the major indexes of those countries. In fact, during the ten-year period the IBEX has returned a 196% compared to 152% of France's CAC-40, , 140% of Germany's DAX-30, 156% of Italy's MIB-30, and just 52% of UK's FTSE-100. In terms of average annual returns, the Spanish index grew an annual 11.45%, while the France, Germany and Italy indexes moved at 9,69%, 9,15% and 9,87%, respectively. The annual return of the UK stock market, measured by the FTSE-100 was significantly lower at 4.30%.

Chart 8. Performance of the major European Stock Markets (1996-2005)



Source: Yahoo Finance

Therefore, the differential in annual returns between the Spanish index and the ones of the neighbour countries (excluding the UK) exceeds two percentage points, which is a first indication that the increase in shareholders wealth in Spain has been more substantial than in the neighbour countries. At the same time, in Section 1 we have analyzed the outward FDI investment of Spain compared to the same countries and found that due to the openness process of the Spanish economy, led the FDI to increase up to an average 5 % of GDP, while Italy and Germany only achieved 1.1% and 2.1% respectively, and France was at a similar rate of Spain (4.9%) but strongly influenced by the corporate movements in the years of the technology bubble, when its FDI skyrocketed to 8.8% (1999) and 13.6% (2000) of the GDP.

5.4. Wealth from the acquisition of foreign companies

The table on page 20 shows the calculation of increase in wealth due to the acquisition of foreign companies.

First, we collect the financial results of the acquirer companies and the split of those results between domestic and produced by business units outside Spain. In the cases where headquarters expenses are not fully allocated to operations, we broke them down between domestic and foreign operations based on revenue. Afterwards, we compared the overall results with the total market capitalization of each company and obtained the following valuation ratios based on Enterprise Value (EV): EV/Sales; EV/EBITDA; EV/EBIT; plus the Price/earnings ratio (P/E) for the year ended December 31, 2005. Although some authors (Mascareñas, 2004; Lie and Lie, 2002) consider that the Price/Book Value is a more consistent ratio, however the lack of information regarding the asset allocation among different locations made impossible the analysis from this perspective.

Secondly, we estimate the value of the foreign operations of each company, using the same ratios used for their overall business. Although it can be arguable due to the different environment (countries), some of these operations would have higher or lower ratios than the one used for the full company, however the benefits of the higher detailed analysis are certainly questionable, given the room for manoeuvre that companies have to allocate profits through internal transfer prices, even with the fiscal and legal limitations in place. Therefore, the application of a set of ratios to similar operations although in different locations, when they pertain to the same corporation, makes sense from a business perspective.

Thirdly, we obtain the total market cap of the international operations of the companies. Given the practically inexistent outside activities of these companies at the beginning of the targeted period, we consider this market capitalization exclusively generated by the FDI of these companies. As a reasonable hypothesis, we consider that the different modes of FDI (Greenfield investment, Joint Venture or M&A) are neutral in terms of wealth increase; therefore, each of them has a fair share in the increase of market capitalization obtained due to the global FDI. In the case of Acquisitions we apply the 49,5% reported by UNCTAD as the percentage of the purchase value of cross-border acquisitions versus the total FDI in the entire period.

Finally, using the same free-float adjustments as the IBEX-35 for the companies of our sample (only Ferrovial is affected) we estimate how much is the capitalization of the international operations of the companies as percentage of the index. According to our calculations, the firms' international operations are worth €69,1B, which in a comparable basis represent 1,818 points out of the 10,734 points of the index as of December 31, 2005 closing. Therefore, based on our methodology we can state that 17% of the Ibex-35 is due to the cross-border acquisition activity of the nine major acquirers, apart from the additional value that the international operations of the remaining 26 Ibex companies not included in the sample may have.

Should the companies in our sample avoided any cross-border activity, their results would have been limited to the domestic performance and their theoretical market cap reduced accordingly. The theoretical value of the Ibex-35 would be 8,916 points (10,734 minus 1,818), and the average annual return for the period 9.4%, very much in line with the stock market returns of Germany, France and Italy.

Market Cap of International Operations from Selected Companies

Figures in Million Euro
(except for number of shares, share price, ratios and IBEX points)

	Telefónica[1]	Santander[2]	Repsol	Endesa	BBVA[2]	Altadis[4]	Mtrovacsa[3]	Iberdrola	Ferrovial Cintra[5]	TOTAL
Revenue	37.882	NM	51.045	18.229	NM	12.708	1.628	11.738	8.989	142.219
EBITDA	15.276	8.213	9.139	6.020	6.041	1.248	777	3.378	1.301	51.394
EBIT	8.559	7.192	6.161	4.244	5.592	1.053	686	2.262	871	36.621
Net Income	4.446	5.212	3.120	3.182	3.806	577	382	1.382	340	22.446
From International Operations:										
Revenue	18.390	NM	19.565	8.952	NM	9.555	298	2.031	3.890	62.680
% of Total	48,5%		38,3%	49,1%		75,2%	18,3%	17,3%	43,3%	44,1%
EBITDA	6.201	4.567	6.196	2.765	2.828	900		556	617	24.631
% of Total	40,6%	55,6%	67,8%	45,9%	46,8%	72,1%	0,0%	16,5%	47,5%	47,9%
EBIT	3.393	4.062	3.848	1.994	2.602	750	83	371	404	17.507
%of Total	39,6%	56,5%	62,5%	47,0%	46,5%	71,2%	12,1%	16,4%	46,3%	47,8%
Share Price (€)	12,71	11,15	24,67	22,22	15,08	38,32	50,45	23,09	58,50	
Num. Of Shares (Million)	5.393,3	6.254,3	1.220,9	1.058,8	3.390,9	269,2	101,8	901,5	222,3	
Market Cap as of 12/31/2005	68.549	69.735	30.119	23.525	51.134	10.317	5.135	20.817	13.003	292.334
Net Debt	30.067	NM	7.998	18.281	NM	565	8.272	12.211	8.996	86.390
Enterprise Value	98.616	NM	38.117	41.806	NM	10.882	13.408	33.028	21.999	257.855
(1) EV/Sales	2,60	NM	0,75	2,29	NM	0,86	8,24	2,81	2,45	
(2) EV/EBITDA	6,46	8,49	4,17	6,94	8,46	8,72	17,25	9,78	16,91	
(3) EV/EBIT	11,52	9,70	6,19	9,85	9,14	10,33	19,54	14,60	25,25	
PER	15,4	13,4	9,7	7,4	13,4	17,9	13,4	15,1	38,2	
From International Operations:										
Market Cap. (1)	33.276	NM	11.544	11.553	NM	7.756	NM	3.602	5.627	
Market Cap (2)	27.827	38.778	20.421	10.805	23.937	7.438	NM	3.425	6.170	138.801
Market Cap (3)	27.171	39.386	18.811	11.053	23.792	7.345	NM	3.418	6.026	137.003
Market Cap Simple Average	**29.425**	**39.082**	**16.925**	**11.137**	**23.865**	**7.513**	**3.804**	**3.482**	**5.941**	**141.174**
% of Total Market Cap	42,9%	56,0%	56,2%	47,3%	46,7%	72,8%	74,1%	16,7%	45,7%	48,3%
Market Cap after Free Float Adjustment	*29.425*	*39.082*	*16.925*	*11.137*	*23.865*	*7.513*	*3.804*	*3.482*	*4.315*	**139.548**
Attributable to Foreign Purchases (49.5% of Total)										**69.076**

IBEX-35 Capitalization as of 12/31/2005	**407.797**
% of IBEX-35 Capitalization due to Cross-border acquisitions	**16,9%**
IBEX-35 at closing 12/31/2005 (Points)	**10.734**
Points attributable to Cross-border Acquisitions	**1.818**

Notes:

1- Market Cap includes Telefónica, Móviles and TPI. Share Price of Telefónica. Number of shares adjusted to match Market Cap

2- EBIT assimilated to Earnings Before Taxes (EBT). EBITDA has been calculated adding depretiation of fixed assets to EBT

3 - Due to the short time since the acquisition of Gecina (April-2005) the market capitalization of international operations has been adjusted to match the purchase price of Gecina

4- EBITDA and EBIT estimated based on company's information

5- Market Cap includes Ferrovial and Cintra. Share Price of Ferrovial. Number of shares adjusted to match Market Cap. Free float adjustment made according to IBEX-35 constituents

NM = Not Meaningful

5.5 Cost and wealth creation for the acquiring firms' shareholders.

As we explained in Section 4.2, wealth increase does not necessarily mean wealth creation. Wealth creation is the difference between wealth increase and the cost of opportunity for the acquiring firm shareholder..

In the previous Section we have obtained the wealth increase derived from the international M&A activity during the last ten-years, and we concluded that it represented a big portion of the stock market current market capitalization. Now we have to calculate the investment that it was required to obtain those results.

The table on page 22 summarizes the payments made every year by the selected acquiring firms in exchange for their foreign operations. We apply the methodology set in Section 4.2 and we obtain the results in terms of Net Present Value for the 4 scenarios designed.

The first scenario takes the full purchase price minus the dividends paid in each period and calculates the Net Present Value using the risk-free rate. The valuation of the investments is €192.6B.

The second scenario takes the same Euro amounts and calculates the NPV using the average return of the European stock markets for each year of the period. The valuation is € 169.6 B.

The third scenario considers the payments in cash as they are, while the equity payments made for the acquisitions are calculated at current (December 31, 2005) prices. The expected return in this case is the risk-free rat. The valuation is € 146.8 B.

Finally, the fourth scenario uses the same assumptions but using the average European stock market return instead of the risk-free rate. The valuation of the total investment is € 139.5 B.

Therefore, the NPV of the investments made minus the dividends received is in the range of €139.5 B to € 192.6 B. This amount is clearly in contrast with the valuation of the international operations of these companies, which come to 141.2 B, from which $ 69.9 B (49.5% of total) can be attributed to M&A.

In light of these figures we can conclude that the present value of the net investments made is significantly higher than the market capitalization of the piece of business that can be attributed to those investments. Even in the case that we increased the share of M&A to 70-80% of FDI, a percentage more in line with the research of some scholars, the market capitalization of the international operations would not exceed the € 113 B, still 19% below the lower investment cost scenario.

Some of the reasons for the value destruction for shareholders that these figures show are in the table on page 22, overall derived from the time of the acquisitions at the pick of the stock market bubble (1999-2000), which could have led to overpricing. The second reason is that the majority of acquisitions were paid using cash rather than in equity, which implies that all risks were on the side of the purchaser. IN fact, many companies went to a capital increase in order to raise funds for the acquisitions (the case of Repsol with YPF), which in the end impacted negatively in shareholders wealth. The situation obviously worsens when the acquisition is followed by a period of depressed stock markets as it was the case for the years 2001 to 2003.

COST OF CROSS-BORDER ACQUISITIONS FOR SHAREHOLDERS

Figures in Million Euro

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	SUM	NPV @ Risk-Free		NPV @ Stock M Return	
Purchase Price of Acquisitions															
Telefónica	525	1.380	7.345	2.179	32.253	904	1.760	404	6.172	2.746	55.668				
Santander	1.095	574	201	691	10.709	1.496	1.844	280	14.257	2.000	33.147				
Repsol	508	422		17.638	541	1.100	-	-	675	191	21.075				
Endesa	-	2.078	810	3.268	1.834	4.040	-	-	937	-	12.967				
BBVA	788	427	1.369	717	832	608	623	246	4.177	353	10.140				
Altadis	-	250	337	3.304	-	-	-	1.292	713	-	5.896				
Metrovacesa	-	-	-	-	-	-	-	-	-	3.804	3.804				
Iberdrola	-	2.389	469	173	1.016	-	159	-	-	-	4.206				
Ferrovial	-	-	-	-	380	-	128	117	1.563	852	3.040				
TOTAL	**2.916**	**7.520**	**10.531**	**27.970**	**47.565**	**8.148**	**4.514**	**2.339**	**28.494**	**9.946**	**149.943**	**197.794**	**(1)**	**152.451**	**(5)**
Cash Payments for Acquisitions															
Telefónica	525	1.380	7.345	2.179	653	326	1.516	404	6.172	2.746	23.245				
Santander	1.095	574	201	691	8.844	1.496	1.844	280	973	2.000	17.998				
Repsol	508	422		17.453	-26	1.100	-	-	675	191	20.323				
Endesa	-	2.078	810	3.268	1.834	4.040	-	-	937	-	12.967				
BBVA	788	427	1.193	72	832	608	623	246	4.177	353	9.319				
Altadis	-	250	337	1.109	-	-	-	1.292	713	-	3.701				
Metrovacesa	-	-	-	-	-	-	-	-	-	3.804	3.804				
Iberdrola	-	2.389	469	173	1.016	-	159	-	-	-	4.206				
Ferrovial	-	-	-	-	380	-	128	117	1.563	852	3.040				
TOTAL	**2.916**	**7.520**	**10.355**	**24.944**	**13.533**	**7.570**	**4.270**	**2.339**	**15.210**	**9.946**	**98.602**	**134.697**	**(2)**	**105.085**	**(6)**
Equity Payments for Acquisitions															
Telefónica	-	-	-	-	31.601	578	245	-	-	-	32.423				
Santander	-	-	-	-	1.865	-	-	-	13.284	-	15.149				
Repsol	-	-	-	186	567	-	-	-	-	-	752				
BBVA	-	-	176	645	-	-	-	-	-	-	821				
Altadis	-	-	-	2.195	-	-	-	-	-	-	2.195				
TOTAL	**-**	**-**	**176**	**3.026**	**34.032**	**578**	**245**	**-**	**13.284**	**-**	**51.341**				
Current Value of Equity Payments															
Telefónica	-	-	-	-	13.828	691	434	-	-	-	14.953				
Santander	-	-	-	-	1.834	-	-	-	16.568	-	18.402				
Repsol	-	-	-	201	599	-	-	-	-	-	800				
BBVA	-	-	156	504	-	-	-	-	-	-	660				
Altadis	-	-	-	5.252	-	-	-	-	-	-	5.252				
TOTAL	**-**	**-**	**156**	**5.957**	**16.261**	**691**	**434**	**-**	**16.568**	**-**	**40.067**	**40.067**	**(3)**	**40.067**	**(7)**
Dividends due to Cross-Border Acquisitions					**105**	**345**	**502**	**693**	**1.209**	**2.018**	**4.873**	**5.154**	**(4)**	**5.663**	**(8)**
TOTAL COST OF ACQUISITIONS AT PURCHASE PRICE (1)-(4) or (5)-(8)												**192.640**		**146.788**	
TOTAL COST OF ACQUISITIONS AT CASH AND EQUITY PAYMENTS (2)+(3)-(4) or (6)+(7)-(8)												**169.610**		**139.489**	
Spain T-Bond 10-Year Return	**11,9%**	**9,7%**	**6,9%**	**5,6%**	**5,2%**	**5,1%**	**4,3%**	**4,3%**	**3,8%**	**3,4%**					
Avg Eur. Stock Market Return	**21,9%**	**44,5%**	**30,1%**	**36,6%**	**-2,1%**	**-22,8%**	**-34,5%**	**20,3%**	**10,7%**	**20,8%**					

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6 – SUMMARY AND CONCLUDING COMMENTS

Using a sample of 171 deals over €100 Million completed between 1996 and 2005 we investigate the wealth increase and the wealth creation for the acquiring firms shareholders. We focus on a sub sample of 9 companies accounting for 86% of the total deal value and we analyze the current market capitalization of their international operations at current valuation ratios. We assume that all FDI modes create similar value and apply the cross-border M&A share of FDI (49.5% in the case of Spain) to the valuation. We then determine the current market capitalization of the international operations attributable to cross-border M&A. The € 69.9 B market cap from M&A represents 1,818 points out of the 10,734 points of the IBEX-35 index at the end of 2005. We consider this amount as the total shareholder wealth increase for the period due to cross-border M&A.

Separately, we calculate the cost of the investment as the difference between payments for the acquisitions minus the payout attributable to those acquisitions. We calculate the Net Present Value using both the risk-free rate and the average return of the European stock markets in the period. The resulting figures from the different scenarios are all significantly higher than the € 69.9 B current market cap of the acquisitions, which implies value destruction for shareholders.
In other words, if the acquiring firm shareholders would have sold the shares prior to the acquisition and invested the money either in the 10-year T-bond or in the average European stock market their wealth would be significantly higher.

There are some questions remaining from this study and further analysis is recommendable regarding the relationship between Outward FDI and cross-border acquisitions. A revision of the share of M&A in the FDI as reported by UNCTAD could change some conclusions of our analysis. Likewise, a path for further research is the mode of payment, which in our case seems to have a large impact due to the higher portion of deals paid in cash at the expenses of capital increases paid by the acquiring firm shareholders.

APPENDIX 1 - SAMPLE

Acquirer	Target	Country	% Stake Acquired	Amount (€ Million)	Year
Santander	Santander Chile	Chile		1.095	1996
Telefónica	Celular CRT	Brazil		525	1996
Repsol	Astra	Argentina		361	1996
BBVA	Banco Francés	Argentina		280	1996
BBVA	Banco Ganadero	Colombia		259	1996
Repsol	Relapasa	Perú		147	1996
				2.667	
Iberdrola	Cia Electricidade Sao Paulo	Brazil		1.489	1997
Endesa	Codensa	Colombia		1.097	1997
Telefónica	Avantel	Mexico		921	1997
Iberdrola	Cosem	Brazil		606	1997
Santander	InverMexico	México		300	1997
Iberdrola	Eléctrica Colbun	Chile		294	1997
Repsol	Pluspetrol Energy	Argentina		275	1997
Santander	Banco de Venezuela	Venezuela		274	1997
Altadis	Havatampa Cigars	USA		250	1997
Telefónica	Portugal Telecom	Portugal		248	1997
BBVA	Banco Provincial	Venezuela		242	1997
Endesa	Cia Inversiones Luz	Chile		226	1997
Endesa	Chispa Dos Inversiones	Chile		226	1997
Endesa	Almendros Inversiones	Chile		216	1997
Telefónica	Cointel	Argentina		211	1997
Endesa	Chispa Uno Inversiones	Chile		196	1997
BBVA	Banco Frances	Argentina		185	1997
Repsol	Astra	Argentina		147	1997
Endesa	Luz Cia Inversiones	Chile		117	1997
				7.520	
Telefónica	Telesp	Brazil	19,30%	4.467	1998
Telefónica	Telesudeste Celular	Brazil		1.051	1998
Telefónica	Celular CRT Participacoes	Brazil		922	1998
Endesa	Coelce	Brazil		810	1998
BBVA	Banco Excel	Brazil		797	1998
Iberdrola	Eléctrica de Guatemala	Guatemala		469	1998
Altadis	Tabacalera San Cristóbal	Honduras		337	1998
Telefónica	Tele Leste Celular	Brazil		331	1998
BBVA	Siembra	Argentina		260	1998
Valenciana Cem	Corbin Cemex	Colombia		238	1998
Telefónica	Citicorp Equity Holdings	Argentina		231	1998
Telefónica	Avantel	Mexico		227	1998
CAF	Flumitrens	Brazil		218	1998
Santander	Santander Argentina	Argentina		201	1998
BBVA	Banco Ganadero	Colombia		160	1998
BBVA	PonceBank	Mexico		152	1998
Uniland	Société des Ciments	Tunisia		139	1998
Telefónica	Who, where?	USA		116	1998
				11.126	

Acquirer	Target	Country	% Stake Acquired	Amount (€ Million)	Year
Repsol	YPF	Argentina		15.901	1999
Altadis	Seita	France		2.834	1999
Endesa	Endesa Chile	Chile		1.969	1999
Telefónica	Telesp Participacoes	Brazil		1.904	1999
Repsol	YPF	Argentina		1.737	1999
Endesa	Enersis	Chile		1.299	1999
Santander	O'Higgings	Chile		566	1999
Altadis	Corp Habanos	Cuba		470	1999
Portland	Giant Cement Holdings	USA		323	1999
BBVA	Banco Hipotecario Fomento	Chile		317	1999
ACS	Grupo Aeroportuario Pacífico	Mexico		252	1999
BBVA	Group Pensiones Chile	Chile		249	1999
Iberdrola	Electricidade Bahia	Brazil		173	1999
Telefónica	Telerj Celular	Brazil		163	1999
BBVA	Consolidar AF Seguros	Argentina		151	1999
Petresa	Detergente do Nordeste	Brazil		149	1999
Roca	Keramik Holding	Switzerland		149	1999
Mapfre	AFP Union Vida	Peru		127	1999
Santander	Banco del Sur de Peru	Peru		125	1999
Roca	Keramik Holding	Switzerland		114	1999
Telefónica	Centrais Telefonicas	Brazil		112	1999
Agbar	Metropolitana de Aguas	Chile		110	1999
Unión Fenosa	Meralco	Philippines		104	1999
Picking Pack	Wagon Holdings	USA		100	1999
				29.398	
Telefonica	Telesp	Brazil	61,8%	8.086	2000
Telefonica	Lycos	USA	100,0%	5.600	2000
Telefonica	Endemol	Netherlands	100,0%	5.500	2000
Telefonica	Telefonica Argentina	Argentina	44,0%	3.554	2000
Santander	Banespa	Brazil	30,0%	3.550	2000
Telefonica	Tele Sudeste Celular	Brazil	68,6%	2.003	2000
Telefonica	Telefonica de Peru	Peru	64,5%	1.904	2000
Telefonica	Movitel, Cedetel	Mexico	100,0%	1.799	2000
Santander	Mondial Confianca	Portugal	51,8%	1.704	2000
Telefónica	Media Ways	Germany	100,0%	1.680	2000
Santander	Totta e Azores	Portugal	100,0%	1.656	2000
Telefonica	CEI Citicorp Holdings	Argentina	80,9%	1.600	2000
Santander	Banco Serfin	Mexico	100,0%	1.560	2000
Endesa	Regionale Energi Utrech	Netherlands	100,0%	1.248	2000
Iberdrola	Energetica de Pernambuco	Brazil	100,0%	1.016	2000
Santander	Grupo Meridional	Brazil	97,0%	1.000	2000
Santander	Banco Rio de la Plata	Argentina	26,5%	711	2000
BBVA	Seguros Bancomer	Mexico	49,0%	700	2000
Repsol	Astra de Petroleo	Argentina	31,5%	541	2000
Santander	Patagon	USA	70,0%	528	2000
Telefonica	Atlantida Comunicaciones	Argentina	67,9%	527	2000
NH Hoteles	Kranapolsky	Netherlands	100,0%	495	2000
Endesa	Rejio Eindhoven	Netherlands	100,0%	400	2000
Occidental	West Brook Partners	USA	100,0%	400	2000
Ferrovial	Bristol International Airport	UK	100,0%	380	2000
Endesa	Cia Electricidade Rio	Brazil	100,0%	186	2000
Abertis	Concesionario Oeste	Argentina	48,6%	138	2000
BBVA	Bancomer	Mexico	2,2%	132	2000
				48.598	

APPENDIX 1 - Page 2 of 2

Acquirer	Target	Country	% Stake Acquired	Amount (€ Million)	Year
Endesa	Elettrogen	Italy	100,0%	3.680	2001
Santander	Banespa	Brazil	63,7%	1.280	2001
Repsol	Alberto Pasqulini	Brazil	30,0%	1.100	2001
Air Comet	Aerolineas Argentinas	Argentina	92,1%	676	2001
Telefónica	Telefónica de Perú	Peru	35,5%	673	2001
BBVA	Bancomer	Mexico	9,0%	608	2001
Endesa	Snet	France	30,0%	360	2001
Prosegur	Juncadella	Brazil	100,0%	247	2001
Acerinox	Columbus	South Africa	64,0%	232	2001
Telefónica	Itaú Telecom	Brazil	100,0%	231	2001
Santander	PT Multimedia	Portugal	16,0%	216	2001
Probitas Pharma	SeraCare	USA	100,0%	161	2001
				9.464	
Telefonica	Pegaso	Mexico	65,0%	1.560	2002
Santander	AKB Group	Germany	100,0%	1.100	2002
ACS	HBG	Northerlands	100,0%	756	2002
Santander	Banco de Santiago	Chile	35,5%	744	2002
Barceló	Crestine Capital Corp	USA	100,0%	635	2002
Abertis	Brisa Autostradas	Portugal	10,0%	309	2002
Fagor	Groupe Brandt	France	100,0%	250	2002
CEPSA	CMS Energy Exploration	Colombia	100,0%	237	2002
BBVA	Bancomer	Mexico	2,7%	230	2002
BBVA	Banco Francés	Argentina	11,4%	210	2002
Uralita	Pfleiderer (Division)	Germany	100,0%	203	2002
Telefonica	Telesp Participacoes	Brazil	14,7%	200	2002
BBVA	Bancomer	Mexico	2,5%	183	2002
Iberdrola	Gas Natural Mexico	Mexico	13,3%	159	2002
Gas Natural	CEG	Brazil	<50%	154	2002
NH Hoteles	Astron Hotels & Resorts	Germany	80,0%	130	2002
Ferrovial	Highway 407 Int'l	Canada	5,8%	128	2002
				7.188	
Altadis	Regie des Tabacs	Maroc	80,0%	1.292	2003
Telefonica	Tele Centro Oeste	Portugal	61,1%	404	2003
Banco Popular	BNC Inmobiliario	Portugal	75,1%	390	2003
BBVA	Bancomer	Mexico	3,8%	246	2003
Agbar	Aguas Andinas	Chile	9,6%	180	2003
Sacyr	Soamague	Portugal	61,2%	164	2003
Gas Natural	Ecoelectrica	Puerto Rico	47,5%	155	2003
Banco Popular	BNC Immobiliario	Portugal	24,8%	142	2003
Santander	Finconsumo	Italy	50,0%	140	2003
Santander	Origenes AFJP	Argentina	20,0%	140	2003
Ferrovial	Amey	UK	88,6%	117	2003
				3.370	

Acquirer	Target	Country	% Stake Acquired	Amount (€ Million)	Year
Santander	Abbey National	UK	100,0%	13.682	2004
Telefonica	Bell South LA	Latin America	100,0%	4.731	2004
BBVA	Bancomer	Mexico	40,6%	3.169	2004
Colonial	Societe Fonciere Lyonaise	France	95,1%	2.510	2004
Ferrovial	Chicago Skyway	USA	100,0%	1.563	2004
Telefonica	Telefonica Movil	Chile	100,0%	1.041	2004
Endesa	Elettrogen	Italy	34,3%	817	2004
BBVA	Laredo National	USA	100,0%	700	2004
Altadis	Etinera	Italy	96,0%	566	2004
Telefonica	Portugal Telecom	Portugal	3,5%	400	2004
Santander	Elcon Finans	Norway	100,0%	400	2004
Repsol	Shell Portugal	Portugal	100,0%	375	2004
Ebro Puleva	Riviana Foods	USA	100,0%	315	2004
BBVA	Hipotecaria Nacional	Mexico	100,0%	308	2004
Gas Natural	Depa	Greece	35,0%	300	2004
Repsol	Borealis Polimeros	Portugal	100,0%	200	2004
Santander	Modelo Continente	Portugal	11,4%	175	2004
Gestamp Auto	SSAB	Sweden	100,0%	158	2004
Altadis	Balkan Star	Russia	80,8%	147	2004
Gas Natural	Nettis	Italy	100,0%	140	2004
Agbar	IAM	Chile	30,1%	139	2004
Endesa	Snet	France	35,0%	120	2004
Repsol	Shell Portugal	Portugal	100,0%	100	2004
				32.057	
Metrovacesa	Gecina	France	68,5%	3.804	2005
Telefonica	Cesky Telecom	Czeck Republic	51,1%	2.746	2005
Santander	Sovereign Corp	USA	19,8%	2.000	2005
Abertis	TBI	UK	89,0%	1.048	2005
Ferrovial	Swissport	Switzerland	100,0%	646	2005
Ebro Puleva	Panzani	Italy	100,0%	639	2005
Prasa	Lusotur Inmobiliaria	Portugal	100,0%	380	2005
BBVA	Granahorrar	Colombia	98,8%	353	2005
FCC	Asa Abfall Service	France		229	2005
Ferrovial	Tube Line	UK	33,0%	206	2005
Fadesa	Rive Gauche	France	70,0%	200	2005
Repsol	BP Exploration	Trinidad & Tobago		191	2005
Prisa	Vertix	Brazil	100,0%	189	2005
				12.631	
		TOTAL		**164.018**	

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