RESULTS OF NON-FINANCIAL CORPORATIONS TO 2012 Q4 AND SUMMARY YEAR-END DATA

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Overview[1]

The information for 2012 sent by the firms reporting to the Central Balance Sheet Data Office's Quarterly Survey (CBQ), which is a preliminary estimate of that which will be later published on the basis of annual information, shows that last year gross value added (GVA) fell by 3.9%, steepening the contractionary course followed by this item over the previous year. The reduction in activity affected almost all the productive sectors, against a background of very sluggish domestic demand and slowing exports which, however, continue to gain weight, to the detriment of operations transacted in Spain.

Personnel costs declined by 2.4%, after posting a change of virtually 0% the previous year. The loss of momentum in this item was due both to the pace of job destruction and, to a lesser extent, to the slowdown in average compensation. By type of contract, workforce adjustment continues to be concentrated essentially on temporary contracts, with a decline of 15.3%, although permanent contracts also fell, albeit to a much lesser extent (0.7%). By sector, there were reductions in the average number of workers in nearly all sectors, proving almost always sharper than the previous year.

Despite the reduction in personnel costs, the strong contraction in productive activity meant that gross operating profit fell by 5.2%, accentuating the 2.7% decline in this same variable a year earlier. Financial revenue decreased by 6.5%, essentially due to lower dividends received. Financial costs increased by 1.5% as a result of the slight rise in debt, which grew by 1.3% and, to a lesser extent, of the increase in financial costs other than interest rates, since the latter fell (albeit very slightly). The lesser resort to new borrowing by firms is, in any event, consistent with the marked slackness in investment currently assailing the Spanish economy. Depreciation and operating provisions declined by 2.6%, compared with the 3.5% increase in this item a year earlier.

The contraction in the operating surplus, along with the adverse course of financial costs and revenue, led ordinary net profit (ONP) to decline by 11.2%, a somewhat greater fall than that recorded the previous year (10%). The negative trend in ONP translated into a reduction in profitability levels, in terms both of the return on net assets and on equity, standing at 5.4% and 7.1%, respectively, 0.3 pp and 0.4 pp below the 2011 figures. The ratio that measures the cost of debt stood at 3.5%, practically identical to that of the previous year. The decline in the return on assets prompted a further narrowing of the difference between this profitability indicator and the cost of debt to 1.9%, 0.2 pp down on the previous year's level. This figure is, moreover, the lowest to be recorded since 1997, when the distance between the two ratios narrowed to 1.1%.

Finally, the analysis of extraordinary costs and revenue shows that in 2012 these items had an adverse effect on profit for the year. That was mainly due to significant capital losses arising from share sales and substantial impairments attributable to the lower value

1 This article is based on the data provided by 770 reporting corporations that sent quarterly information to the Central Balance Sheet Data Office up to 11 March. In terms of GVA, these corporations account for 11.9% of the whole non-financial corporations sector.

PROFIT AND LOSS ACCOUNT. YEAR-ON-YEAR CHANGES AND PROFIT RATIOS
Growth rates of the same corporations on the same period a year earlier. Percentages

TABLE 1

	CBA STRUCTURE	CBA		CBQ (a)		
DATABASES	2011	2010	2011	2010 Q1-Q4/ 2009 Q1-Q4	2011 Q1-Q4/ 2010 Q1-Q4	2012 Q1-Q4/ 2011 Q1-Q4
Number of corporations		10,107	8,408	813	822	770
Total national coverage (% of GVA)		31.4	28.2	13.0	12.9	11.9
PROFIT AND LOSS ACCOUNT						
1 VALUE OF OUTPUT (including subsidies)	100.0	4.4	4.4	8.7	7.1	1.6
Of which:						
Net amount of turnover and other operating income	*146.5*	*4.3*	*4.4*	*9.3*	*9.0*	*2.6*
2 INPUTS (including taxes)	67.9	6.1	7.3	11.9	11.3	4.0
Of which:						
Net purchases	*94.6*	*8.0*	*6.7*	*17.7*	*16.4*	*5.3*
Other operating costs	*21.9*	*1.8*	*0.1*	*8.0*	*-0.2*	*0.7*
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	32.1	1.1	-1.4	3.0	-1.3	-3.9
3 Personnel costs	18.9	-0.1	0.4	-1.2	0.2	-2.4
S.2 GROSS OPERATING PROFIT [S.1 – 3]	13.1	3.1	-3.9	7.0	-2.7	-5.2
4 Financial revenue	5.4	4.8	6.1	3.3	2.4	-6.5
5 Financial costs	4.9	-2.4	11.8	1.4	10.7	1.5
6 Depreciation, impairment and operating provisions	6.6	1.5	0.3	4.9	3.5	-2.6
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	7.1	8.6	-9.6	8.7	-10.0	-11.2
7 Gains (losses) from disposals and impairment	-0.5	-	-39.0	-	-	-
7' As a percentage of GVA (7/S.1)		-0.9	-1.7	-1.0	-6.2	-16.0
8 Changes in fair value and other gains (losses)	-1.5	35.3	-70.8	38.3	-62.8	-7.1
8' As a percentage of GVA (8/S.1)		-2.6	-4.6	-4.5	-6.8	-7.7
9 Corporate income tax	0.5	35.8	-54.6	24.7	-53.2	-
S.4 NET PROFIT [S.3 + 7 – 8]	4.6	-11.7	-17.3	-11.6	-34.7	-62.3
S. 4' As a percentage of GVA (S.4/S.1)		17.6	14.3	27.1	17.0	6.6
PROFIT RATIOS	Formulas (b)					
R.1 Return on investment (before taxes)	(S.3 + 5.1)/NA	5.9	5.5	6.3	5.7	5.4
R.2 Interest on borrowed funds/interest-bearing borrowing	5.1/IBB	3.3	3.6	3.2	3.6	3.5
R.3 Ordinary return on equity (before taxes)	S.3/E	8.3	7.2	9.0	7.5	7.1
R.4 ROI – cost of debt (R.1 – R.2)	R.1 – R.2	2.6	1.8	3.1	2.1	1.9

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

a All the data in this column have been calculated as the weighted average of the quarterly data.
b NA = Net assets (net of non-interest-bearing borrowing); E = Equity; IBB = Interest-bearing-borrowing; NA = E + IBB. The financial costs in the numerators of ratios R.1 and R.2 only include the portion of financial costs that is interest on borrowed funds (5.1) and not other financial costs (5.2).

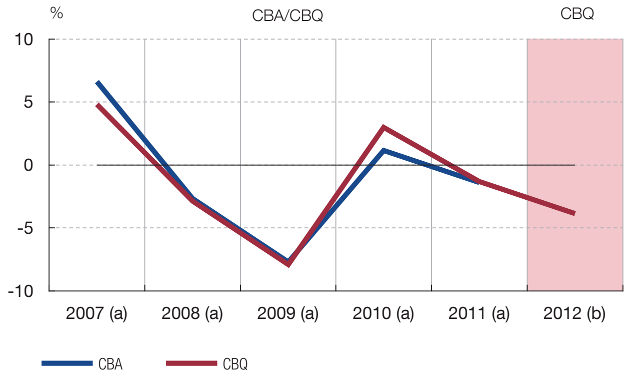
of financial assets. This negative effect was partly offset by lower redundancy costs compared with a year earlier. As a result of the foregoing, net profit decreased by 62.3%, stepping up the decline of 34.7% recorded in 2011. Profit as a percentage of GVA also fell sharply, down by more than 10 pp on the previous year, to 6.6%.

In short, in 2012 the activity of non-financial corporations decreased notably, steepening the contractionary course already recorded in the previous year. This negative performance affected nearly all the productive branches against a backdrop of weak domestic demand and less vigorous exports. In keeping with sluggish productive activity,

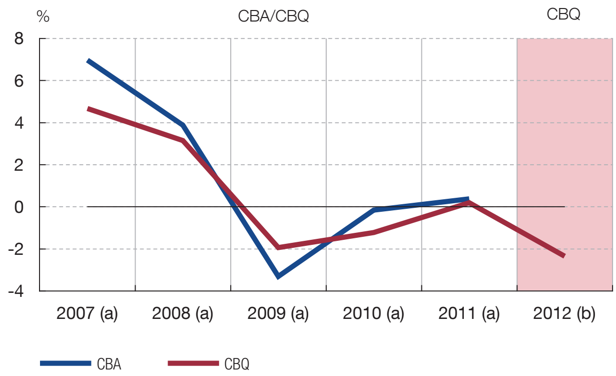
NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE

CHART 1

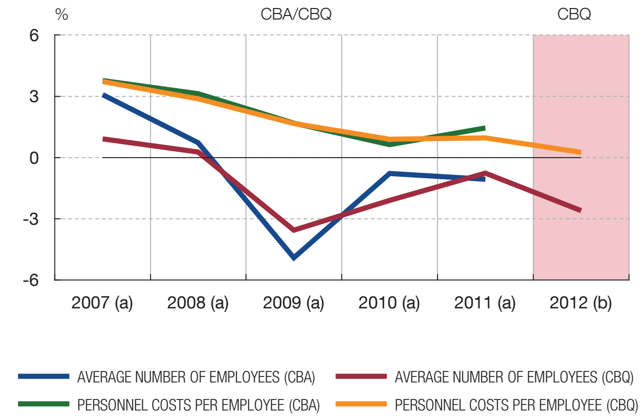
GROSS VALUE ADDED AT FACTOR COST
Rate of change



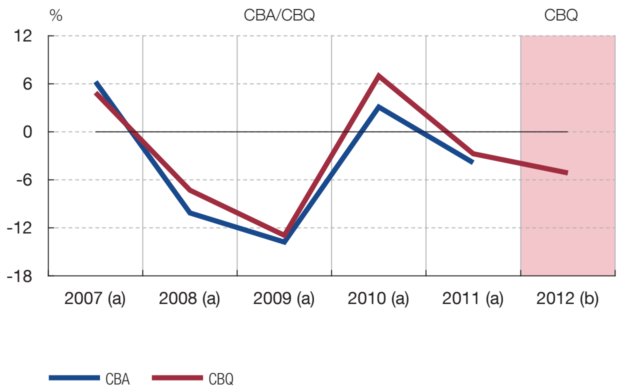
PERSONNEL COSTS
Rate of change



EMPLOYMENT AND WAGES
Rate of change



GROSS OPERATING PROFIT
Rate of change



Reporting non-financial corporations		2007	2008	2009	2010	2011	2012
Number of corporations	CBA	9,321	9,639	9,792	10,107	8,408	—
	CBQ	851	819	805	813	822	770
% of GDP of the sector non-financial corporations	CBA	33.7	31.3	30.2	31.4	28.2	—
	CBQ	14.2	12.9	12.6	13.0	12.9	11.9

SOURCE: Banco de España.

a The 2007, 2008, 2009, 2010 and 2011 data are for the corporations reporting to the annual survey (CBA) and the average data of the four quarters of each year in relation to the previous year (CBQ).
b Average of the four quarters of 2012 relative to the same period in 2011.

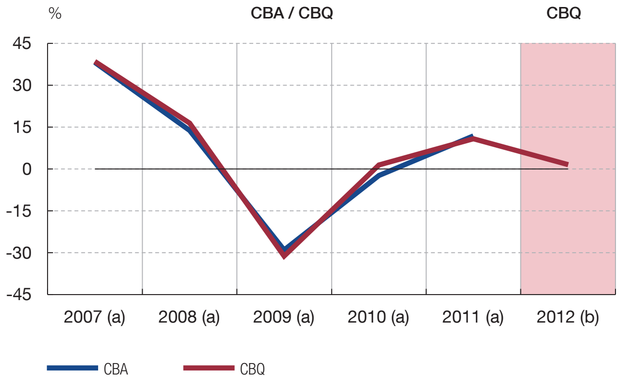
corporations continued to reduce their headcount and to step up the adjustments with respect to those recorded in 2011, while average compensation slowed. Financial revenue declined, as a result of the lower dividends received, whereas financial costs rose slightly. The foregoing resulted in a deterioration of corporations' ordinary profit and in return on investments along with a decrease in the difference between ROI and the cost of borrowing.

Activity

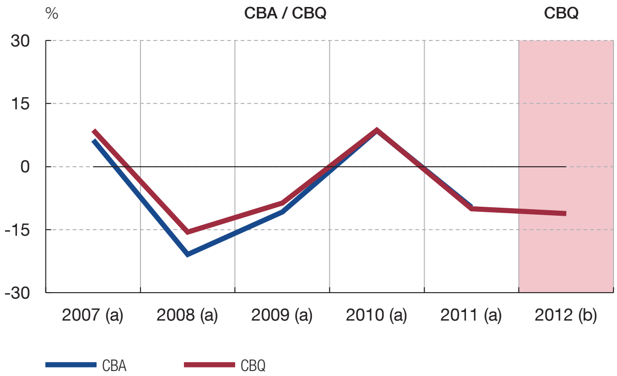
The sample of corporations reporting to the CBQ posted a reduction in GVA of 3.9% in 2012, continuing and heightening the recessionary pattern of the previous year, when the attendant decline was 1.3% (see Table 1 and Chart 1). This behaviour was largely due to

NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE (cont'd) CHART 1

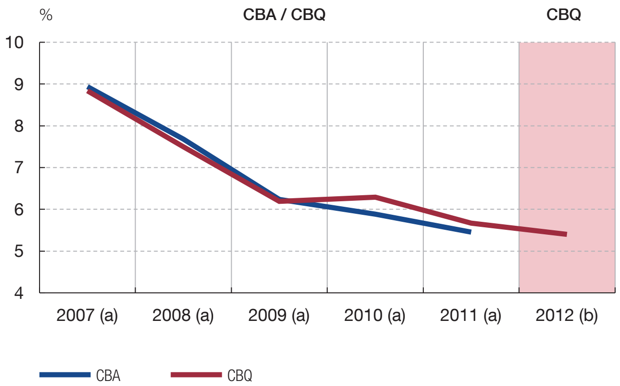
FINANCIAL COSTS
Rate of change



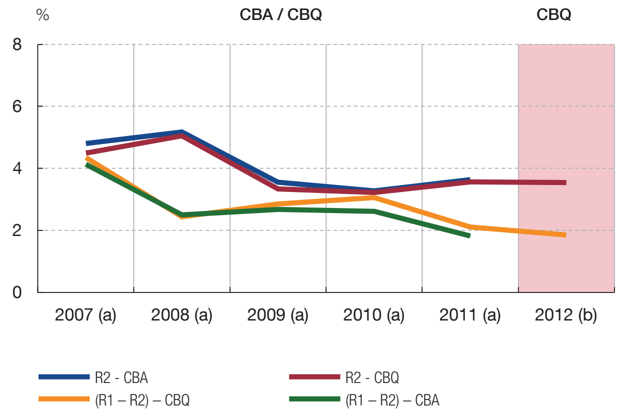
ORDINARY NET PROFIT
Rate of change



RETURN ON INVESTMENT (R.1)
Ratios



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



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SOURCE: Banco de España.

a The 2007, 2008, 2009, 2010 and 2011 data are for the corporations reporting to the annual survey (CBA) and the average for the four quarters of each year in relation to the previous year (CBQ).
b Average of the four quarters of 2012. The rates are calculated relative to the same period in 2011.

sluggish domestic demand, against a backdrop in which external activity performed more positively, although it progressively lost momentum as the year passed. Table 2 shows how the relative importance of exports increased to reach 15.4% of sales, slightly more than 1.5 pp up on 2011.

An analysis at the sector level (see Table 3), reveals that activity was less buoyant practically across the board. The sole exception was energy which showed moderate growth in GVA of 0.8%, while it had decreased by 0.6% in the previous year. This change in profile was detected in the two main subsectors of this productive branch. At oil companies GVA climbed by 1.9%, compared with a contraction of 2.5% in the previous year. The electricity, gas and water subsector showed an increase of 0.8%,

PURCHASES AND TURNOVER OF CORPORATIONS REPORTING DATA ON PURCHASING SOURCES AND SALES DESTINATIONS

TABLE 2

Structure and rate of change. Percentages

		CBA		CBQ (a)	
		2010	2011	2011 Q1-Q4	2012 Q1-Q4
Total corporations		8,408	8,408	770	770
Corporations reporting source/destination		8,408	8,408	724	724
Percentage of net purchases according to source	Spain	66.9	65.6	81.7	81.1
	Total abroad	33.1	34.4	18.3	18.9
	EU countries	15.8	15.8	13.8	13.8
	Third countries	17.4	18.6	4.6	5.1
Percentage of net turnover according to destination	Spain	83.6	82.1	86.3	84.6
	Total abroad	16.4	17.9	13.7	15.4
	EU countries	10.8	11.6	9.4	10.0
	Third countries	5.6	6.3	4.3	5.4
Change in net external demand (exports less imports), rate of change	Industry	0.0	27.9	47.5	20.9
	Other corporations	-23.7	-15.5	22.0	35.2

SOURCE: Banco de España.

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

VALUE ADDED, EMPLOYEES, PERSONNEL COSTS AND PERSONNEL COSTS PER EMPLOYEE. BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS

TABLE 3

Growth rate of the same corporations on the same period a year earlier. Percentages

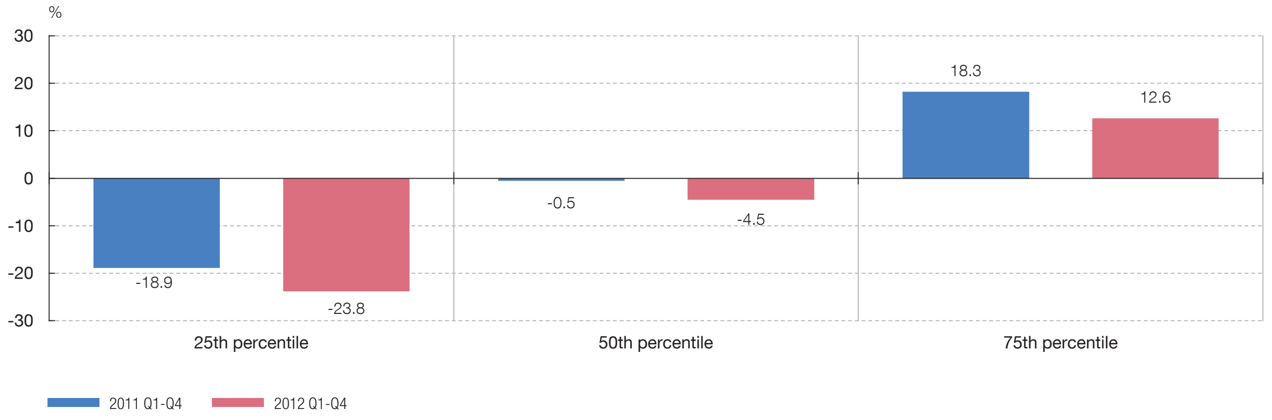
	Gross value added at factor cost				Employees (average for period)				Personnel costs				Personnel costs per employee			
	CBA		CBT (a)		CBA		CBT (a)		CBA		CBT (a)		CBA		CBT (a)	
	2010	2011	2011 Q1-Q4	2012 Q1-Q4	2010	2011	2011 Q1-Q4	2012 Q1-Q4	2010	2011	2011 Q1-Q4	2012 Q1-Q4	2010	2011	2011 Q1-Q4	2012 Q1-Q4
TOTAL	**1.1**	**-1.4**	**-1.3**	**-3.9**	**-0.8**	**-1.1**	**-0.8**	**-2.6**	**-0.1**	**0.4**	**0.2**	**-2.4**	**0.6**	**1.4**	**1.0**	**0.3**
SIZE																
Small	-3.7	-6.4	—	—	-4.2	-3.7	—	—	-3.0	-1.7	—	—	1.3	2.1	—	—
Medium	0.3	-0.9	0.1	-8.7	-1.9	-1.9	-1.8	-4.3	-0.7	0.1	-0.6	-4.5	1.2	2.1	1.2	-0.1
Large	1.4	-1.3	-1.4	-3.7	-0.5	-0.9	-0.7	-2.5	0.0	0.5	0.2	-2.2	0.5	1.4	0.9	0.3
BREAKDOWN OF ACTIVITIES																
Energy	7.2	-1.0	-0.6	0.8	-2.2	-2.0	-2.0	-1.6	0.5	0.7	0.8	-0.2	2.7	2.7	2.9	1.5
Industry	7.3	-1.6	1.0	-10.0	-2.6	-1.2	-0.4	-3.2	-0.4	0.7	1.8	-1.5	2.2	1.9	2.2	1.8
Wholesale & retail trade & accommodation & food service activities	1.9	-0.1	-1.0	-4.9	-0.3	-0.4	1.7	0.1	0.8	1.6	1.9	0.7	1.1	2.0	0.2	0.6
Information and communication	-4.5	-5.6	-4.8	-6.9	-0.7	0.6	0.3	-6.1	-0.1	1.6	2.1	-4.4	0.6	1.0	1.9	1.9
Other activities	-2.9	-0.2	-0.5	-2.5	-0.1	-1.5	-2.5	-3.6	-0.6	-0.8	-2.0	-4.1	-0.5	0.7	0.5	-0.6

SOURCE: Banco de España.

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

PERCENTILES OF DISTRIBUTION OF CORPORATIONS BY RATE OF CHANGE IN GROSS VALUE ADDED

CHART 2



SOURCE: Banco de España.

whereas in 2011 GVA had fallen by 0.3%. Noteworthy among the other branches of activity was the industrial sector since it recorded the sharpest contraction, of 10%, after posting growth of 1% in 2011. GVA declined in all the industrial subsectors without exception, although it fell most sharply in the manufacture of mineral and metal products and in the manufacture of transport equipment, by 13.2% and 11.9%, respectively. The branches of wholesale and retail trade and accommodation and food service activities, and of information and communication also saw considerable declines in this variable – steeper than those experienced in 2011 – since they were directly affected by the fall in private consumption. Thus, the former posted a decline in GVA of 4.9% compared with 1% in the previous year. In the information and communication sector the fall was greater, amounting to 6.9%, while it 2011 the decline in this variable was 4.8%. In addition to weak consumption, the backdrop of strong competition and lower margins in the telecommunications subsector also accounts for the scale of the decreases experienced. Lastly, in the other activities aggregate GVA also performed more negatively than in 2011, decreasing by 2.5%, essentially as a result of the contractionary behaviour of firms in the transport sector and of those in the construction and real estate branch.

Chart 2 shows, for the last two years, the percentiles of distribution of corporations on the basis of GVA growth. A fall can be seen in all of them with respect to the figures for 2011, there was a somewhat sharper decline in the 75th percentile (above which are 25% of the corporations with bigger increases in GVA) to 12.6%, almost 6 pp down on a year earlier. The foregoing indicates that the deterioration in activity affected all the sample firms across the board, albeit more intensely in the case of firms with higher increases in GVA.

Employment and personnel costs

Personnel costs decreased by 2.4% in 2012, compared with an increase of 0.2% in the previous year (see Table 3). The lower buoyancy of these costs is chiefly a consequence of the greater pace of job destruction and, to a lesser degree, of the slowdown in average compensation.

The rate of change in employment showed a fall of 2.6%, almost 2 pp higher than a year earlier (0.8%). The information in Table 4 reveals an increase in the percentage of companies experiencing declines in their average number of employees, which stood at 60.1%, more than 6 pp up on the previous year. Distinguishing by type of contract, the

PERSONNEL COSTS AND EMPLOYEES
Percentage of corporations in specific situations

TABLE 4

	CBA			CBQ (a)		
	2009	2010	2011	2010 Q1-Q4	2011 Q1-Q4	2012 Q1-Q4
Number of corporations	9,792	10,107	8,408	813	822	770
PERSONNEL COSTS	100	100	100	100	100	100
Falling	57.4	49.1	44.0	49.7	48.9	59.4
Constant or rising	42.6	50.9	56.0	50.3	51.1	40.6
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	54.7	47.0	43.7	56.0	53.9	60.1
Constant or rising	45.3	53.0	56.3	44.0	46.1	39.9

SOURCE: Banco de España.

a Weighted average of the relevant quarters for each column.

EMPLOYMENT

TABLE 5

		Total CBQ corporations	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations		770	340	430
NUMBER OF EMPLOYEES				
Initial situation Q1-Q4 (000s)		660	244	416
Rate 2012 Q1-Q4/Q1-Q4		-2.6	4.6	-6.8
Permanent	Initial situation Q1-Q4 (000s)	575	215	360
	Rate 2012 Q1-Q4/Q1-Q4	-0.7	5.6	-4.5
Non-permanent	Initial situation Q1-Q4 (000s)	85	29	56
	Rate 2012 Q1-Q4/Q1-Q4	-15.3	-2.7	-21.7

SOURCE: Banco de España.

bulk of the adjustment continued to be concentrated in temporary employment, which decreased by 15.3% (see Table 5), while the decline of 0.7% in the number of workers with permanent contracts was more subdued. At the sector level, the reductions affected almost all of the branches analysed. The only exception was the wholesale and retail trade, and accommodation and food service activities, which in 2012 showed a slightly positive change in their average labour force (of 0.1%), but this is a deterioration with respect to the growth of 1.7% recorded the previous year (see Table 3). The steepest decline in employment, of 6.1%, occurred in the information and communication branch. The industrial and other activities branches experienced a considerable decrease in the number jobs which was above 3% in both cases. Lastly, in the energy sector average headcounts decreased by 1.6%, following a similar pattern to that of previous years.

Average compensation grew 0.3%, which is lower than the 1% increase in 2011 (see Table 3). This slowdown was more evident in those branches which had recorded above-average wage increases last year. This applied to the energy and industrial sectors in which compensation growth eased in 2011 from 2.9% and 2.2%, respectively, to below 2% in both cases in 2012. Conversely, in those branches in which wage developments

DEBT RATIOS

CHART 3

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

	2007	2008	2009	2010	2011	2012
CBA	47.5	48.8	48.1	48.1	48.1	
CBQ	46.1	47.2	47.1	47.2	47.9	46,9

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

	2007	2008	2009	2010	2011	2012
CBA	461.7	532.6	624.0	620.3	636.1	
CBQ	535.9	588.9	687.9	678.4	682.0	680.9

INTEREST BURDEN
(Interest on borrowed funds)/(GOP + financial revenue)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CBA	14.0	12.0	12.5	15.4	19.7	24.5	21.2	20.6	24.7	
CBQ	15.2	13.3	13.0	17.0	21.4	28.2	22.7	21.4	24.4	26.1

SOURCE: Banco de España.

a Ratio calculated from final balance sheet figures. Own funds include an adjustment to current prices.
b Ratio calculated from final balance sheet figures. Interest-bearing borrowing includes an adjustment to eliminate intragroup debt (approximation of consolidated debt).

were more contained in 2011, such as the wholesale and retail trade and accommodation and food service activities and, to a lesser degree, information and communication, the increases recorded last year were similar to or slightly higher than those of the previous year. Finally, the other activities sector recorded a slightly downward trend in wage costs in 2012 (-0.6%), compared with an increase of 0.5% in 2011.

Profits, rates of return and debt

In line with the contractionary trend in activity, gross operating profit (GOP) fell notably by 5.2% in 2012. This was a larger decrease than in 2011, when it fell by 2.7%.

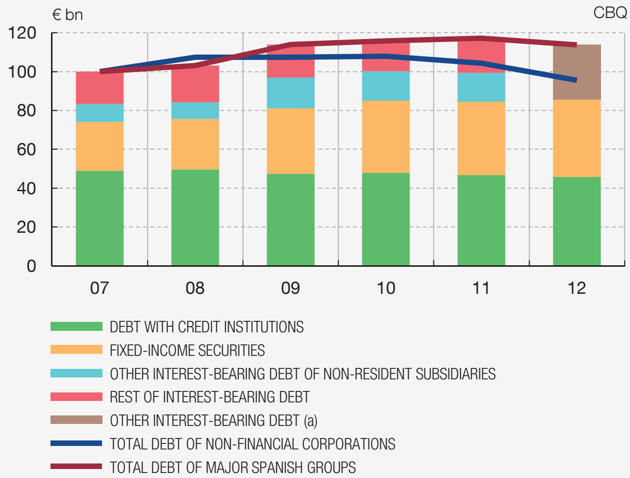
Financial revenue decreased by 6.5%, due to the impact on this item of the lower dividends received (down by 14%), which was partially offset by the growth of interest received (up by 14.7%).

The Central Balance Sheet Data Office has detailed information on the financial position of the major Spanish non-financial groups, as most of them report their data regularly to it. This box focuses on the course of these corporations' debt since the start of the crisis. More specifically, the extent to which their performance has differed from that of non-financial corporations as a whole is reviewed, the composition of their debt by instrument is studied and a distinction is drawn between groups that have increased their debt and those that have reduced it, with a breakdown by sector. To do this, 18 major groups were selected, whose interest-bearing borrowing is equivalent to approximately 20% of the Spanish corporate sector's debt, using CBA data between 2007 and 2011 (the latest available year), and CBQ data for 2012.[1] To obtain the indicators in this latter year, a link between the two databases was made, given the smaller number of corporations in the quarterly sample (despite which around 90% of the aggregate used in the CBA was covered). In any event, it should be borne in mind that the data for this latter exercise are a preliminary estimate and not final.

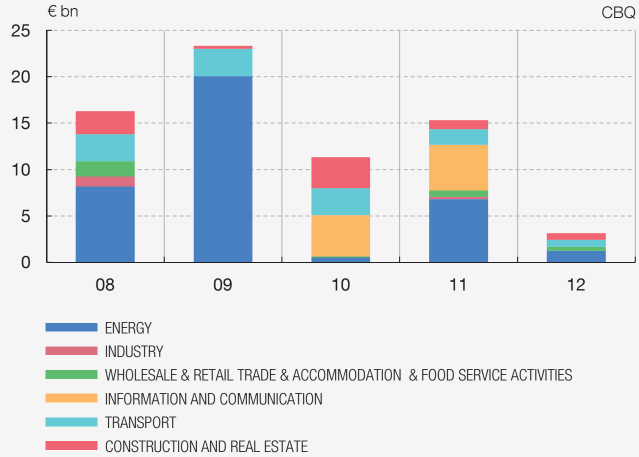
1 This box uses exclusively the debt of the groups' resident corporations. To avoid duplication, the amounts of debt between companies in the same group in Spain are netted out.

INDEBTEDNESS OF THE MAJOR SPANISH CORPORATE GROUPS

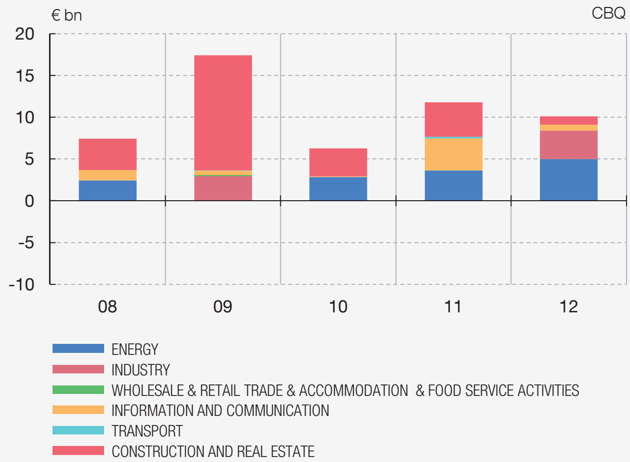
1 FINANCING BALANCES OF MAJOR GROUPS AND OF NON-FINANCIAL CORPORATIONS AS A WHOLE



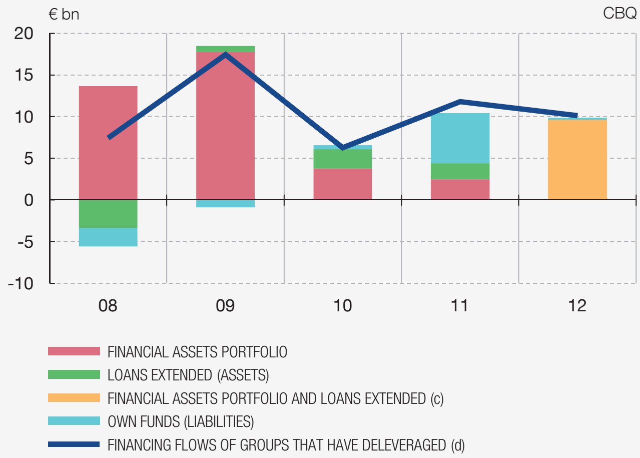
2 FINANCING FLOWS OF CORPORATE GROUPS THAT HAVE INCREASED THEIR DEBT. BREAKDOWN BY SECTOR



3 FINANCING FLOWS OF CORPORATE GROUPS (SIGN CHANGED) THAT HAVE LOWERED THEIR DEBT. BREAKDOWN BY SECTOR



4 FLOWS OF CORPORATE GROUPS THAT HAVE LOWERED THEIR DEBT (b)



SOURCE: Banco de España

a Includes other interest-bearing debt of non-resident subsidiaries and all other interest-bearing debt, as this breakdown was not available for the CBQ database.
b A positive (negative) sign for assets items denotes a decrease (increase). A positive (negative) sign for liabilities items denotes an increase (decrease).
c Includes financial assets portfolio and loans extended, as this breakdown was not available for the CBQ database.
d Sign changed.

Panel 1 shows how the debt of the major groups has, over recent years, trended much more dynamically than that of the non-financial corporations sector. While in the case of the latter debt stabilised in 2009 and 2010, and subsequently moved on to a contractionary path, that of the major groups continued increasing until 2011, showing the first signs of decline in 2012. Thus, at the end of last year, these liabilities stood at 13.7% above their 2007 level for this group of companies, compared with the decline of 4.5% for the aggregate comprised of all non-financial corporations. This more expansionary behaviour is consistent with the comparatively lesser impact of the crisis on large Spanish corporations, which have benefited from their greater geographical diversification.

Panel 1 also highlights the fact that during the period analysed there was a change in the composition of the major corporate groups' borrowed funds, with financing through fixed-income securities gaining weight at the expense of bank loans. This development is possibly in response to the fact that these companies have obtained more advantageous financing conditions by resorting directly to the markets instead of to financial intermediaries, against a background in which the market's perception of these companies' risk has worsened to a lesser extent than that of financial corporations (as can be seen, for example, in the prices of credit derivatives).

In any event, it should be taken into account that the trajectory observed for the debt of the aggregate of major corporate groups is the consequence of heterogeneous developments. To illustrate this, Panels 2 and 3 separate financing flows between the groups of companies that increased their borrowed funds and those that reduced them in each of the years of the period analysed. It can be seen how the increase in aggregate debt for most of the period under analysis was compatible with deleveraging processes at some companies. The breakdown of these flows by sector shows that, within the groups in which debt increased, the energy and, to a lesser extent, the transport and the information and communication sectors were prominent. Within the groups in which these liabilities tended to contract, the construction and real estate sector was to the fore, which is consistent with the fact that this sector has been one of the worst affected by the crisis, leading it to have a greater need to adjust its balance sheets.

Lastly, as seen in Panel 4, the main financial counterpart of the deleveraging by groups that reduced their borrowings over recent years was the sale of shares and other equity, and, only on specific occasions, the increase in own funds.

In sum, the evidence in this box shows that, overall, the indebtedness of the major Spanish corporate groups has moved more dynamically than that of the non-financial corporations sector. This development has been accompanied by debt restructuring, with bond financing gaining weight to the detriment of bank loans. However, within the major groups there was a discernible high heterogeneity, meaning this aggregate behaviour has been compatible with deleveraging processes that have particularly affected the construction and real estate sector.

Financial costs decelerated, growing by 1.5% compared with an increase of nearly 11% in 2011. The increase in this item chiefly resulted from the rise in indebtedness, up by 1.3% on average, and, to a lesser extent, from the rise in non-interest expenses, which contributed 0.4 pp to the growth of this item (see Table 6). Meanwhile, the effect of interest rates was slightly negative, since they dipped on average from 3.6% in 2011 to 3.5% in 2012. The low recourse to fresh borrowed funds is consistent with the investor sluggishness in the Spanish economy, and this is corroborated by the CBQ data on gross fixed capital formation for this sample of firms, which reveal a sharp drop of around 16.1%.

The E1 ratio, which measures interest-bearing debt at year-end as a proportion of net assets, decreased by 1 pp to 46.9% (see Chart 3). This reveals that last year the trend of corporate deleveraging spread to large firms, which have a notable weight in the CBQ. However, in recent years the behaviour of liabilities has been notably uneven in the large groups, some of which initiated the deleveraging process previously (see Box 1). The E2 ratio (which approximates the ability to repay) stabilised at values very similar to those of previous years, given that the decrease in the level of debt (numerator of the ratio) was offset by the fall in ordinary profits (denominator of the ratio). The interest burden rose, although more slowly than in the previous year, owing to the slight growth of financial costs and, more particularly, to the decline in GOP and financial revenue, which comprise the denominator of this ratio.

ANALYSIS OF DEVELOPMENTS IN FINANCIAL COSTS
Percentages

TABLE 6

	CBA	CBQ	
	2011/2010	2011 Q1-Q4/ 2010 Q1-Q4	2012 Q1-Q4/ 2011 Q1-Q4
Change in financial costs	11.8	10.7	1.5
A Interest on borrowed funds	13.1	11.7	1.1
1 Due to the cost (interest rate)	11.0	11.9	-0.2
2 Due to the amount of interest-bearing debt	2.1	-0.2	1.3
B Other finacial costs	-1.3	-1.0	0.4

SOURCE: Banco de España.

GROSS OPERATING PROFIT, ORDINARY NET PROFIT, RETURN ON INVESTMENT AND ROI-COST OF DEBT (R.1 – R.2).
BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS
Ratios and growth rates of the same corporations on the same period a year earlier. Percentages

TABLE 7

	Gross operating profit				Ordinary net profit				Return on investment (R.1)				ROI-Cost of debt (R.1-R.2)			
	CBA		CBQ (a)		CBA		CBQ (a)		CBA		CBQ (a)		CBA		CBQ (a)	
	2010	2011	2011 Q1-Q4	2012 Q1-Q4	2010	2011	2011 Q1-Q4	2012 Q1-Q4	2010	2011	2011 Q1-Q4	2012 Q1-Q4	2010	2011	2011 Q1-Q4	2012 Q1-Q4
TOTAL	**3.1**	**-3.9**	**-2.7**	**-5.2**	**8.6**	**-9.6**	**-10.0**	**-11.2**	**5.9**	**5.5**	**5.7**	**5.4**	**2.6**	**1.8**	**2.1**	**1.9**
SIZE																
Small	-6.0	-19.4	—	—	6.8	-37.3	—	—	3.6	3.0	—	—	0.0	-0.8	—	—
Medium	2.3	-2.9	1.2	-14.7	16.7	4.2	10.0	-20.2	4.6	5.5	6.6	5.8	1.3	2.0	3.2	2.5
Large	3.3	-3.7	-2.9	-4.9	8.2	-10.3	-10.6	-10.9	6.0	5.5	5.7	5.4	2.7	1.8	2.1	1.8
BREAKDOWN OF ACTIVITIES																
Energy	10.7	-1.7	-1.1	1.0	9.9	-11.8	-11.0	12.6	6.1	5.6	5.5	6.3	2.9	2.1	2.2	2.8
Industry	22.3	-5.2	-0.4	-24.2	71.3	2.0	38.3	-46.9	6.0	6.2	4.9	3.6	2.3	2.3	0.8	-0.7
Wholesale & retail trade and accommodation & food service activities	4.3	-3.3	-6.0	-16.0	7.1	-0.8	-9.9	-14.1	7.7	8.2	5.8	4.5	4.0	4.1	2.1	0.8
Information & communication	-7.0	-9.5	-7.6	-8.0	-8.0	-13.9	-11.7	-8.1	21.5	19.6	23.5	23.2	17.3	15.7	19.5	20.1
Other activities	-9.5	1.8	2.9	0.2	-9.2	-30.0	-20.9	-33.0	4.5	4.0	4.8	4.3	1.3	0.5	1.3	0.8

SOURCE: Banco de España.

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

The negative performance of operating profit, along with the unfavourable course of financial costs and revenues, led ONP to fall by 11.2% in 2012, prolonging the contractionary pattern of the previous year, in which a decline of 10% was recorded. The worsening of ordinary profits prompted a further weakening of firms' profitability levels. Thus the ratio that approximates the return on investment (ROI) decreased by 0.3 pp to 5.4% and that measuring the return on equity (ROE) showed a similar decline to stand at 7.1%, compared with 7.5% in 2011. Nearly all sectors exhibited the same downward pattern (see Table 7), except for energy, which alone showed a slight rise in these ratios. The fall in aggregate average ROI and ROE was accompanied by a shift in the distribution of this indicator towards lower levels (see Table 8). Thus in 2012, 32.1% of the firms making up the quarterly

STRUCTURE OF REPORTING CORPORATIONS' RETURN ON INVESTMENT AND ORDINARY RETURN ON EQUITY TABLE 8

		CBQ			
		Return on investment (R.1)		Ordinary return on equity (R.3)	
		2011 Q1-Q4	2012 Q1-Q4	2011 Q1-Q4	2012 Q1-Q4
Number of corporations		822	770	822	770
Percentage of corporations by profitability bracket	R <= 0	30.2	32.1	35.0	37.4
	0 < R <= 5	24.9	26.4	16.6	17.1
	5 < R <= 10	15.5	14.0	11.4	11.5
	10 < R <= 15	8.7	8.5	8.7	7.6
	15 < R	20.7	19.0	28.2	26.3
MEMORANDUM ITEM: Average return		5.7	5.4	7.5	7.1

SOURCE: Banco de España.

sample posted a negative ROI, which exceeded by nearly two percentage points the fraction of firms in this situation in the previous year. Finally, the difference between the ROI and the cost of debt narrowed by 0.2 pp to 1.9%. This value is a new low in the quarterly series since 1997, when it stood at 1.1%. The worsening in this indicator mainly affected the wholesale and retail trade and accommodation and food service activities sectors and especially the industrial sector, which took it into negative territory (-0.7%).

Lastly, the analysis of extraordinary gains and losses reveals that these negatively affected the final profit for the year. In 2012 highly negative results were recorded in the item reflecting gains (losses) from disposals as a consequence of the substantial losses on share sales. To this must be added the substantial impairments of financial assets, which represent potential losses recorded upon the valuation of different financial assets. This negative effect was partly offset by the improvement in other extraordinary results, basically due to the lesser impact from redundancies than in the previous year. The outcome of all this was that profit for the year fell by 62.3%, which, expressed as a percentage of GVA for the year, meant a decline of more than 10 pp with respect to the 2011 level, to stand at 6.6%. This percentage was the lowest value reached in the quarterly sample of firms since 2002 when this ratio reached a negative level of -1.2%.

13.3.2013.