

## RESULTS OF NON-FINANCIAL CORPORATIONS IN 2016 Q1

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*In 2016 Q1 the recovery in economic activity continued in most sectors of the sample of firms reporting to the Central Balance Sheet Data Office Quarterly Survey (CBQ), while employment rose in general in all branches of activity. In the sample as a whole, ordinary profit decreased compared with a year earlier, giving rise to a slight decline in aggregate returns, albeit compatible with an improvement in this indicator in a growing number of corporations and in most sectors. By contrast, net profit for the year, which includes extraordinary costs and revenue, grew. Finally, both the debt-to-assets ratio and the interest burden decreased slightly, while the debt to ordinary profit ratio increased a little.*

### Overview<sup>1</sup>

The CBQ data show that in 2016 Q1 the pattern of recovery in productive activity continued in most sectors. In the quarterly sample as a whole, gross value added (GVA) increased by just 0.7% in year-on-year terms, compared with 2.8% in 2015 Q1. Note, however, that this figure is highly influenced by the adverse performance of that surplus in oil refining corporations. Excluding those firms, GVA increased more sharply (by 2.1%), outstripping the increase of 0.3% in that aggregate in 2015 Q1.

Personnel costs rose by 2.2%, compared with 1.4% a year earlier. The greater momentum shown by this item in the opening months of 2016 was essentially due to the favourable performance of employment, which grew by 1.7% compared with 0.5% in 2015 Q1, while average compensation rose moderately (by 0.5%).

As a result of these developments in GVA and personnel costs, gross operating profit (GOP) fell by 0.8% compared with an increase of 4.4% a year earlier. This surplus was also highly influenced by the poor performance of the refining sector; excluding that sector, GOP grew by 2.1%. Financial revenue fell by 19.3% as a result of decreases both in dividends received and interest income. Financial costs also declined (by 10.4%), continuing in the pattern of the past two years, owing to the lower cost of borrowing and, to a lesser extent, to the decrease in interest-bearing debt.

The fall in borrowing by the firms that make up the sample in the opening months of 2016 gave rise to a further decrease in the debt to net assets ratio. By contrast, the debt to ordinary profit ratio rose slightly, since the decline in its denominator outpaced the decline in its numerator.

Lastly, the interest burden ratio (calculated as financial costs as a proportion of the sum of GOP and financial revenue) declined slightly, since the contraction in financial costs was somewhat higher than that in ordinary profit.

The performance of GOP, along with that of financial revenue and costs, and depreciation and provisions, gave rise to a decline in ordinary net profit (ONP) in 2016 Q1 of 5.9%, a rate which, as in the case of previous surpluses, was highly influenced by the poor

<sup>1</sup> This article draws on the information of the 858 corporations that reported to the CBQ up to 13 June and which, according to National Accounts data, represent 13.6% of the GVA generated by the entire sector.

performance of the refining sector; indeed, excluding that sector, although GOP was still down in year-on-year terms, the decline was much more modest (0.5%). In keeping with the poor performance of ordinary profit in the whole of the sample, aggregate returns fell slightly on a year earlier. However, a more detailed analysis shows an improvement in that indicator at a growing number of firms and in most sectors. In any event, the spread between the aggregate return on assets and the average cost of borrowing widened by 0.1 percentage point (0.1 pp) to 0.3 pp as average deposit rates fell. Extraordinary costs and revenue made a slightly negative contribution to net profit for the year in 2016 Q1, but the sharp drop in the corporate income tax expense compared with a year earlier (partly due to lower tax rates but also, more significantly, because that item was exceptionally high in 2015 on the back of extraordinary transactions) had a positive impact on the final surplus which grew by 7.6%.

Lastly, Box 1 analyses the economic and financial performance of the main Spanish business groups between 2007 and 2015. It shows how, during the crisis, their geographical diversification has allowed them to maintain higher profit levels than Spanish non-financial corporations overall. However, the difference between these two aggregates has narrowed in the most recent period, partly as a result of the stronger economic recovery in Spain.

## Activity

The data compiled by the CBQ show that the recovery in productive activity continued in most sectors in 2016 Q1. For the whole of the sample, GVA rose by just 0.7% (see Table 1 and Chart 1), although that rate of growth was highly influenced by the poor performance of the oil refining sub-sector whose GVA fell by 37% in the period, as margins contracted in that industry after the strong expansion observed a year earlier. Excluding oil refining corporations, the rate of growth year-on-year is 2.1%, above the figure recorded by this same aggregate a year earlier (0.3%).

This GVA performance was achieved in a setting in which sales abroad were the most dynamic demand component for the CBQ sample firms, posting an increase of 3.8% that allowed them to continue to grow as a proportion of total net turnover, up to 22.7% compared with 21.1% in 2015 Q1 (see Table 2).

At the sectoral level there is a high degree of heterogeneity. Thus, in the energy sector, GVA again declined (by 2.3%), but less so than a year earlier when it fell by 8.8% (see Table 3). Industry was the only branch of activity that recorded a worse performance than in 2015 Q1, contracting by 4.5% (compared with growth of 22.7% a year earlier), a figure that is very closely tied to the extraordinary decline in the refining sub-sector. Indeed, GVA rose in almost all the other industrial sub-sectors, especially in the chemical industry (by 26.5%) and in manufacture of transport equipment (by 7.8%).

The wholesale and retail trade and accommodation and food service activities continued to benefit from the recovery in consumption, giving rise to an increase in GVA of 4.1%, which was, however, slightly lower than that recorded a year earlier (5.3%). In the information and communications sector, GVA rose by 2.2%, thus breaking out of the downward pattern observed in recent years. Lastly, in the group encompassing all other activities, GVA grew by 3.5% on the back of the good performance of transport and other service sector firms.

Chart 2 shows a lower degree of dispersion in the distribution of GVA growth (proxied by the distance between the 75th and 25th percentiles) in 2016 Q1 compared with a year earlier. It also shows that the median of the distribution (which reflects the performance of a representative sample corporation) was higher than in 2015 Q1 and than the rate of

**YEAR-ON-YEAR CHANGES IN THE PROFIT AND LOSS ACCOUNT AND PROFIT RATIOS**  
Growth rates of the same corporations on the same period a year earlier, percentages

TABLE 1

DATABASES	CBI Structure	CBI		CBQ		
	2014	2013	2014	2015 Q1-Q4 / 2014 Q1-Q4 (a)	2015 Q1 / 2014 Q1	2016 Q1 / 2015 Q1
Number of corporations		626,480	596,862	957	1.006	858
Total national coverage (% of GVA)		46.7	45.6	13.8	14.6	13.6
<b>PROFIT AND LOSS ACCOUNT</b>						
1 VALUE OF OUTPUT (including subsidiaries)	100.0	-1.9	2.1	-2.5	-2.3	-5.3
<i>Of which:</i>						
<i>Net amount of turnover and other operating income</i>	150.4	-1.8	3.7	-2.4	-0.1	-6.5
2 INPUTS (including taxes)	65.3	-1.7	1.6	-5.9	-4.5	-8.1
<i>Of which:</i>						
<i>Net purchases</i>	41.9	-3.4	2.1	-8.9	-8.4	-11.2
<i>Other operating costs</i>	23.3	-0.4	1.2	1.1	2.1	-2.6
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	34.7	-2.3	3.2	5.8	2.8	0.7
3 Personnel costs	23.5	-1.5	2.4	2.2	1.4	2.2
S.2 GROSS OPERATING PROFIT [S.1 – 3]	11.2	-3.8	4.9	9.8	4.4	-0.8
4 Financial revenue	3.6	4.8	-17.7	-13.1	5.2	-19.3
5 Financial costs	3.4	-4.6	-5.7	-9.4	-11.0	-10.4
6 Depreciation, impairment and operating provisions	5.6	-6.7	-4.6	0.6	-3.4	2.5
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	5.8	9.5	4.2	13.1	25.0	-5.9
7 Gains (losses) from disposals and impairment	-0.6	22.9	78.8	–	–	-3.6
7' As a percentage of GVA (7 / S.1)		-9.0	-1.9	-10.7	13.3	12.5
8 Changes in fair value and other gains (losses)	0.2	52.9	–	–	–	–
8' As a percentage of GVA (8 / S.1)		-1.5	0.5	-4.7	0.1	-0.9
9 Corporate income tax	0.8	–	39.2	56.2	–	-55.5
S.4 NET PROFIT [S.3 + 7 + 8 – 9]	4.6	–	–	-45.0	135.7	7.6
S.4' As a percentage of GVA (S.4 / S.1)		2.6	13.2	13.9	28.4	30.9
<b>PROFIT RATIOS</b>						
	Formulas (b)					
R.1 Return on investment (before taxes)	(S.3 + 5.1) / NA	4.3	4.4	5.1	3.1	3.0
R.2 Interest on borrowed funds/interest-bearing borrowing	5.1 / IBB	3.7	3.5	3.0	2.9	2.7
R.3 Ordinary return on equity (before taxes)	S.3 / E	4.7	4.9	6.7	3.3	3.2
R.4 ROI – cost of debt (R.1 – R.2)	R.1 – R.2	0.6	0.8	2.1	0.2	0.3
<b>MEMORANDUM ITEM: TOTAL SAMPLE EXCLUDING COKE AND REFINING</b>						
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]		-1.9	3.5	2.8	0.3	2.1
S.2 GROSS OPERATING PROFIT [S.1 – 3]		-2.8	6.0	3.3	-1.0	2.1
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]		12.6	7.3	0.7	9.5	-0.5

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.

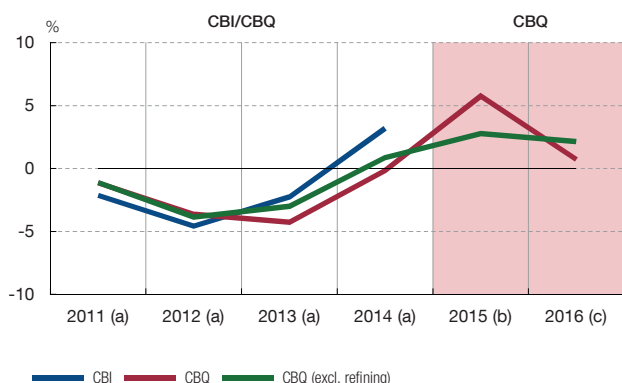
b NA = Net assets (net of non-interest-bearing borrowing); E = Equity; IBB = Interest-bearing borrowing; NA = E + IBB. The financial costs in the numerators of ratios R.1 and R.2 only include the portion of financial costs that is interest on borrowed funds (5.1) and not other financial costs (5.2).

growth calculated for the sample as a whole. This last result suggests that the aggregate figure was adversely affected by the less favourable performance of some large corporations.

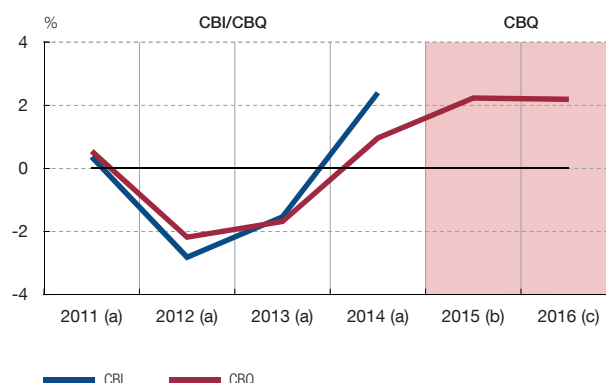
**Employment and personnel costs**

Personnel costs rose by 2.2% in 2016 Q1, compared with 1.4% in 2015 Q1 (see Table 3). The greater dynamism in this heading mainly reflects the growth in employment, against a setting in which average nominal compensation continued on a moderately upward path.

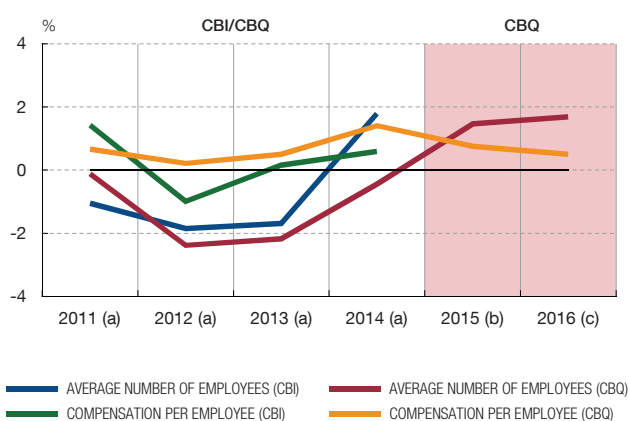
1 GROSS VALUE ADDED AT FACTOR COST  
Rate of change



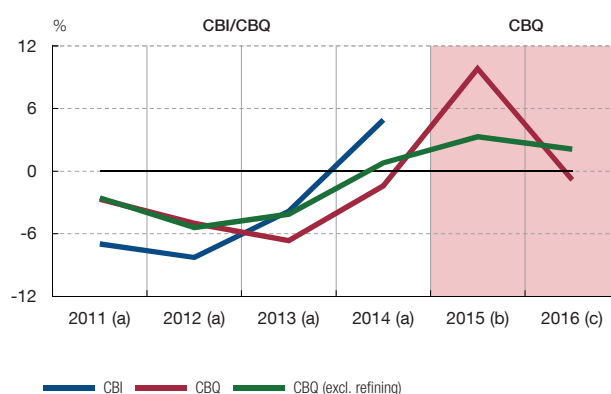
2 PERSONNEL COSTS  
Rate of change



3 EMPLOYMENT AND WAGES  
Rate of change



4 GROSS OPERATING PROFIT  
Rate of change



Reporting non-financial corporations

	2011	2012	2013	2014	2015	2016
Number of corporations	CBI	594,687	629,926	626,480	596,862	—
	CBQ	814	835	842	887	957
% of GVA of sector non-financial corporations	CBI	44.6	47.3	46.7	45.6	—
	CBQ	12.0	12.2	11.9	13.4	13.8

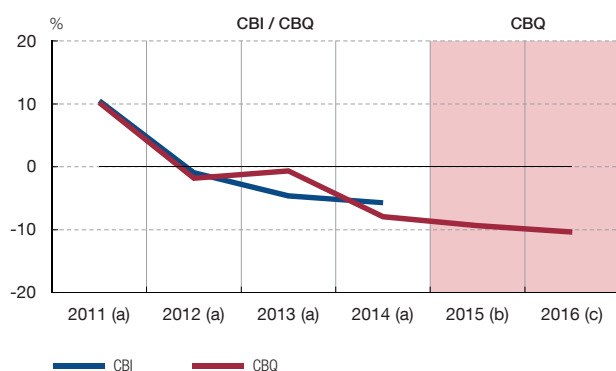
SOURCE: Banco de España.

- a The 2010, 2011, 2012, 2013 and 2014 data, for the corporations reporting to the CBI, 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 2015 relative to the same period in 2014.
- c 2016 Q1 data relative to the same period in 2015.

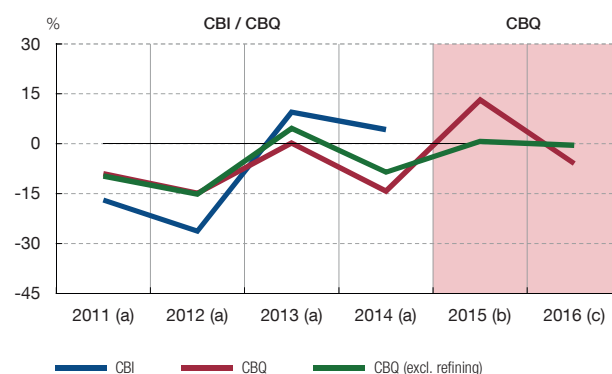
In the quarterly sample average headcount rose by 1.7%, above the increase of 0.5% recorded a year earlier. In keeping with that performance, Table 4 shows that, in 2016 Q1, the percentage of firms that did not destroy employment continued to grow, up to 62.6%, some 3 pp more than in 2015 Q1. The recovery in employment was again largely underpinned by temporary employment, which grew by 8% (see Table 5), similar to the 7.9% increase in 2015 Q1. By contrast, the change in permanent employment was more positive than a year earlier, showing a small increase (0.5%) compared with the decrease of 0.8% in 2015 Q1.

By sector of activity, employment rose across the board, with similar or higher rates of growth than a year earlier in all sectors. Industry, on the one hand, and wholesale and retail trade and

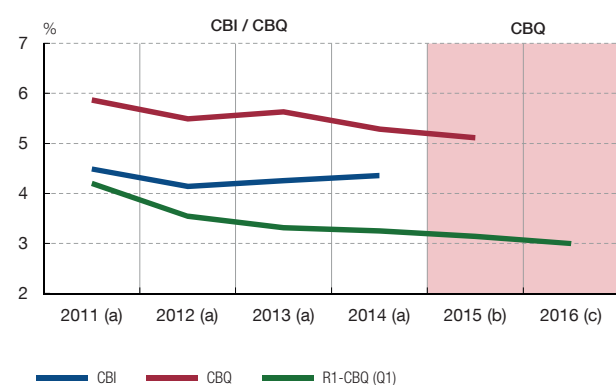
1 FINANCIAL COSTS  
Rate of change



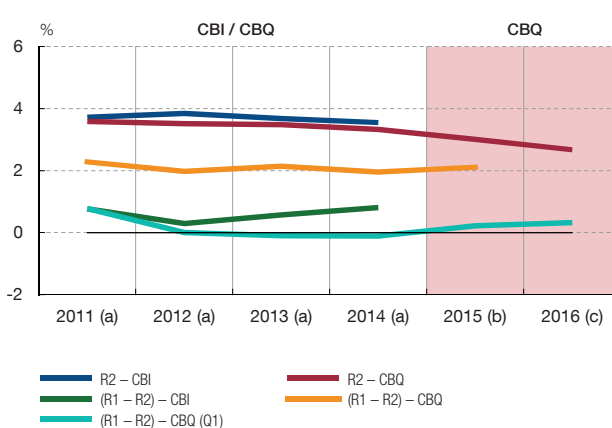
2 ORDINARY NET PROFIT  
Rate of change



3 RETURN ON INVESTMENT (R.1)  
Ratios



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



Reporting non-financial corporations		2011	2012	2013	2014	2015	2016
Number of corporations	CBI	594,687	629,926	626,480	596,862	—	—
	CBQ	814	835	842	887	957	858
% of GVA of sector non-financial corporations	CBI	44.6	47.3	46.7	45.6	0.0	—
	CBQ	12.0	12.2	11.9	13.4	13.8	13.6

SOURCE: Banco de España.

- a The 2011, 2012, 2013 and 2014 data for the corporations reporting to the CBI and the average data of the four quarters of each year (CBQ). The rates are calculated relative to the previous year.  
b The average of the four quarters of 2015. The rates are calculated relative to the same period in 2014.  
c 2016 Q1 data. The rates are calculated relative to the same period in 2015.

accommodation and food service activities, on the other, posted the highest rates of growth in average headcount (2.1% and 3%, respectively). The information and communications sector and the group encompassing all other activities posted more moderate increases (around 1%), while average headcount rose the least (by just 0.1%) in the energy sector, although this is, in any event, an improvement on a year earlier when it fell by 0.2%.

Average compensation rose by 0.5% in 2016 Q1, 0.4 pp less than in 2015 Q1 (see Table 3). Almost all branches of activity saw moderate growth, with rates of change below 1%. The exception was the industrial sector, where average wages rose by 1.6%, although compared with an increase of 2.8% a year earlier.

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

TABLE 2

		CBA		CBQ	
		2014	2015 Q1-Q4 (a)	2015 Q1	2016 Q1
Total corporations		9,423	957	858	858
Corporations reporting source/destination		9,423	891	806	806
Percentage of net purchases according to source	Spain	65.5	69.5	72.1	69.2
	Total abroad	34.5	30.5	27.9	30.8
	EU countries	16.2	23.5	20.3	22.7
	Third countries	18.3	7.0	7.7	8.1
Percentage of net turnover according to destination	Spain	78.0	77.2	78.9	77.3
	Total abroad	22.0	22.8	21.1	22.7
	EU countries	13.4	16.3	15.0	16.7
	Third countries	8.5	6.5	6.1	6.0
Change in net external demand (exports less imports), rate of change	Industry	47.1	-0.2	8.3	9.8
	Other corporations	98.0	0.7	11.0	-58.4

SOURCE: Banco de España.

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

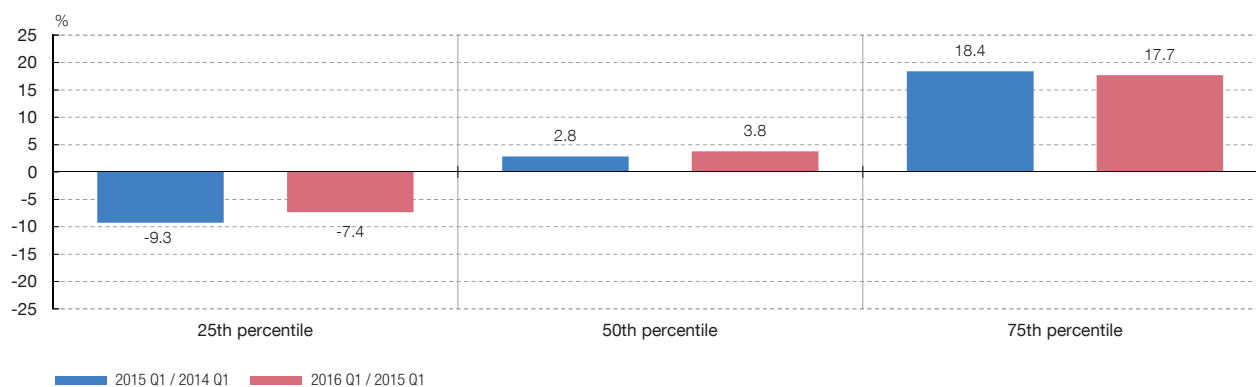
**VALUE ADDED, EMPLOYEES, PERSONNEL COSTS AND COMPENSATION PER EMPLOYEE.  
BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS**  
Rate of change of the same corporations on the same period a year earlier, percentages

TABLE 3

	Gross value added at factor cost				Employees (average for period)				Personnel costs				Compensation per employee			
	CBQ				CBQ				CBQ				CBQ			
	2014	2015 Q1-Q4 (a)	2015 Q1	2016 Q1	2014	2015 Q1-Q4 (a)	2015 Q1	2016 Q1	2014	2015 Q1-Q4 (a)	2015 Q1	2016 Q1	2014	2015 Q1-Q4 (a)	2015 Q1	2016 Q1
<b>TOTAL</b>	<b>3.2</b>	<b>5.8</b>	<b>2.8</b>	<b>0.7</b>	<b>1.8</b>	<b>1.5</b>	<b>0.5</b>	<b>1.7</b>	<b>2.4</b>	<b>2.2</b>	<b>1.4</b>	<b>2.2</b>	<b>0.6</b>	<b>0.8</b>	<b>0.9</b>	<b>0.5</b>
<b>SIZE</b>																
Small	5.6	—	—	—	3.1	—	—	—	2.8	—	—	—	-0.3	—	—	—
Medium	5.2	9.5	3.6	1.0	2.4	2.1	0.5	3.1	3.0	3.5	1.8	4.7	0.5	1.4	1.3	1.5
Large	2.1	5.7	2.8	0.7	0.8	1.5	0.5	1.7	2.1	2.2	1.4	2.2	1.3	0.8	0.9	0.5
<b>BREAKDOWN BY ACTIVITY</b>																
Energy	1.3	-2.4	-8.8	-2.3	-2.4	-0.3	-0.2	0.1	-0.9	-1.0	-2.6	0.8	1.6	-0.7	-2.4	0.7
Industry	4.8	30.7	22.7	-4.5	1.4	1.3	-0.6	2.1	2.3	2.2	2.2	3.7	0.8	1.0	2.8	1.6
Wholesale & retail trade and accommodation & food service activities	3.8	6.1	5.3	4.1	1.6	1.6	0.9	3.0	2.3	2.7	0.5	3.3	0.7	1.0	-0.4	0.3
Information and communications	-3.1	-0.9	-4.1	2.2	1.0	1.3	0.8	0.8	4.5	4.6	3.5	1.6	3.4	3.3	2.8	0.9
Other activities	4.0	2.4	3.4	3.5	2.4	1.9	0.8	1.1	2.4	2.2	2.2	1.4	0.0	0.3	1.3	0.2

SOURCE: Banco de España.

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



SOURCE: Banco de España.

**PERSONNEL COSTS AND EMPLOYEES**  
Percentage of corporations in specific situations

TABLE 4

	CBI		CBQ			
	2013	2014	2014 Q1 - Q4 (a)	2015 Q1 - Q4 (a)	2015 Q1	2016 Q1
Number of corporations	626,480	596,862	887	957	1,006	858
<b>PERSONNEL COSTS</b>	100	100	100	100	100	100
Falling	36.6	30.1	41.5	35.8	37.2	35.2
Constant or rising	63.4	69.9	58.5	64.2	62.8	64.8
<b>AVERAGE NUMBER OF EMPLOYEES</b>	100	100	100	100	100	100
Falling	23.7	13.1	48.0	37.9	40.5	37.4
Constant or rising	76.3	86.9	52.0	62.1	59.5	62.6

SOURCE: Banco de España.

a Weighted average of the relevant quarters for each column.

**EMPLOYMENT**

TABLE 5

		Total CBQ corporations 2016 Q1	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations		858	537	321
<b>NUMBER OF EMPLOYEES</b>				
Initial situation 2015 Q1 (000s)		887	562	325
Rate 2016 Q1 / 2015 Q1		1.7	5.1	-4.2
Permanent	Initial situation 2015 Q1 (000s)	745	466	279
	Rate 2016 Q1 / 2015 Q1	0.5	2.9	-3.5
Non-permanent	Initial situation 2015 Q1 (000s)	142	96	46
	Rate 2016 Q1 / 2015 Q1	8.0	15.8	-7.9

SOURCE: Banco de España.

**FINANCIAL COSTS**  
Percentages

TABLE 6

	CBI		CBQ	
	2013/2014	2015 Q1-Q4/ 2014 Q1	2016 Q1/ 2015 Q1	
<b>Change in financial costs</b>	<b>-5.7</b>	<b>-9.4</b>	<b>-10.4</b>	
A Interest on borrowed funds	-5.3	-8.1	-10.3	
1 Due to the cost (interest rate)	-3.5	-8.5	-7.5	
2 Due to the amount of interest-bearing debt	-1.8	0.4	-2.8	
B Other financial costs	-0.4	-1.3	-0.1	

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**

TABLE 7

Ratios and rates of change of the same corporations on the same period a year earlier, percentages

	Gross operating profit				Ordinary net profit				Return on investment (R.1)				ROI-cost of debt (R.1-R.2)			
	CBI		CBQ		CBI		CBQ		CBI		CBQ		CBI		CBQ	
	2014	2015 Q1-Q4 (a)	2015 Q1	2016 Q1	2014	2015 Q1-Q4 (a)	2015 Q1	2016 Q1	2014	2015 Q1-Q4 (a)	2015 Q1	2016 Q1	2014	2015 Q1-Q4 (a)	2015 Q1	2016 Q1
<b>TOTAL</b>	<b>4.9</b>	<b>9.8</b>	<b>4.4</b>	<b>-0.8</b>	<b>4.2</b>	<b>13.1</b>	<b>25.0</b>	<b>-5.9</b>	<b>4.4</b>	<b>5.1</b>	<b>3.1</b>	<b>3.0</b>	<b>0.8</b>	<b>2.1</b>	<b>0.2</b>	<b>0.3</b>
<b>SIZE</b>																
Small	17.9	—	—	—	107.7	—	—	—	2.0	—	—	—	-1.4	—	—	—
Medium	12.0	23.0	8.1	-6.2	28.3	43.4	41.3	-17.8	5.3	6.5	5.2	4.6	1.5	4.4	3.1	3.0
Large	2.0	9.7	4.4	-0.8	-3.1	13.0	24.9	-5.9	5.0	5.1	3.1	3.0	1.4	2.1	0.2	0.3
<b>BREAKDOWN BY ACTIVITY</b>																
Energy	2.3	-2.9	-10.8	-3.4	-17.0	0.3	-18.6	0.7	4.1	4.8	3.2	3.4	0.5	1.5	-0.1	0.3
Industry	10.3	104.2	64.8	-14.0	19.8	160.0	172.5	-26.3	6.1	8.0	7.6	6.2	2.5	5.5	5.2	3.8
Wholesale & retail trade and accommodation & food service activities	8.4	12.2	13.6	5.3	17.6	17.9	20.9	3.7	6.1	11.9	9.0	9.4	2.3	9.0	5.9	7.2
Information and communications	-10.7	-4.2	-8.7	2.6	-20.3	-9.4	-16.4	0.6	10.0	15.9	14.3	14.1	6.7	13.6	12.1	11.9
Other activities	9.1	3.0	6.7	9.1	14.4	-9.9	—	-94.5	3.4	3.6	1.2	1.1	-0.2	0.6	-1.6	-1.5

SOURCE: Banco de España.

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

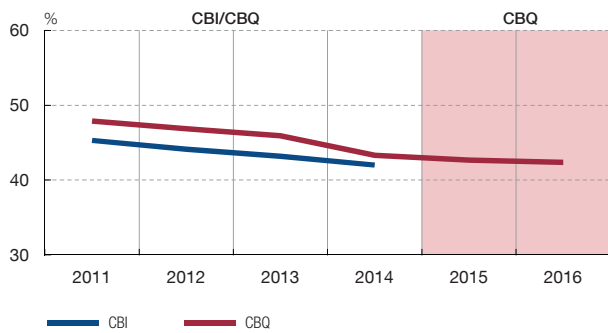
**Profits, rates of return and debt**

In 2016 Q1 GOP fell by 0.8%, compared with the increase of 4.4% recorded in 2015 Q1. As indicated above, this rate of growth was highly influenced by the poor performance of the refining sector, where GOP fell sharply (by 48.5%). Excluding refining sector firms, GOP rose by 2.1%. Financial revenue fell by 19.3%, as both dividends received and interest income contracted (by 23.8% and 11.7%, respectively). Dividends received, which are mainly from foreign subsidiaries, have declined since 2013, in keeping with the poor earnings performance of the large Spanish groups (see Box 1). Financial costs also fell in 2016 Q1 (by 10.4%), owing to the decline in the average cost of borrowing and, to a lesser extent, to interest-bearing debt which was slightly lower than the average levels recorded a year earlier (see Table 6).

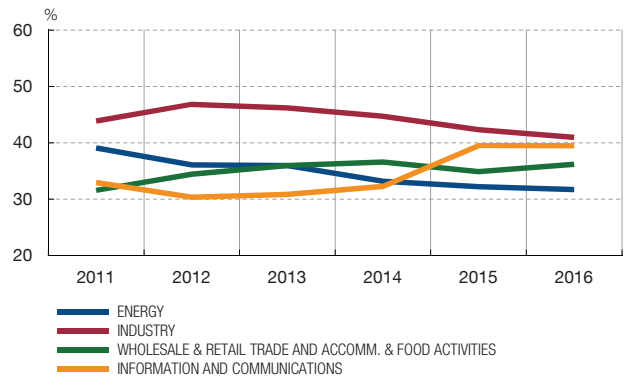
Compared with the end-2015 levels, interest-bearing debt declined moderately in the opening months of 2016, giving rise to a drop of 0.3 pp in the E1 debt ratio (calculated as



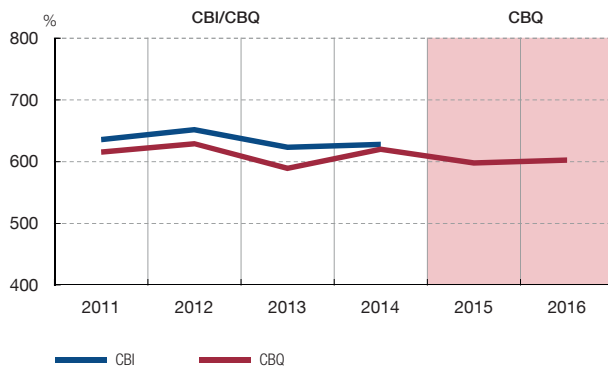
1 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)  
TOTAL CORPORATIONS



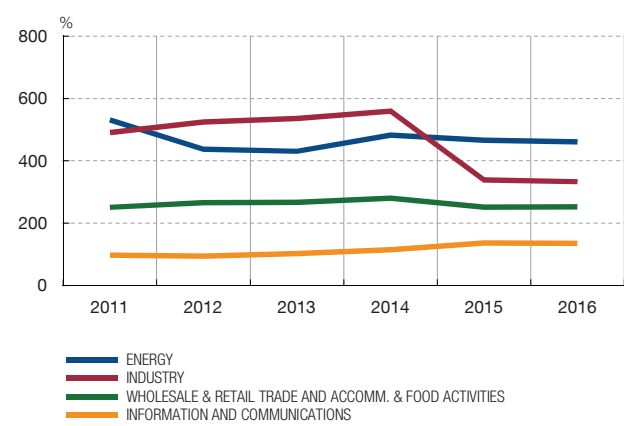
2 E1. INTEREST-BEARING BORROWING / NET ASSETS (a)  
BREAKDOWN BY SECTOR. CBQ



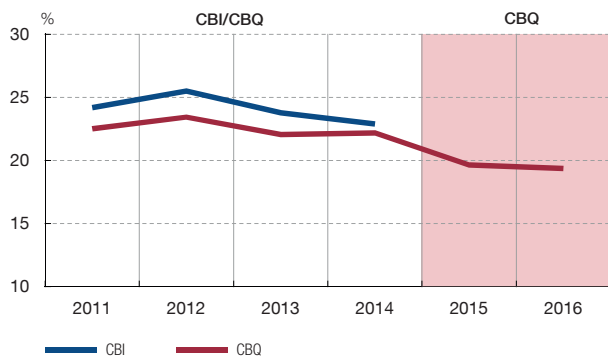
3 E2. INTEREST-BEARING BORROWING / (GOP + FR) (b)  
TOTAL CORPORATIONS  
Ratios



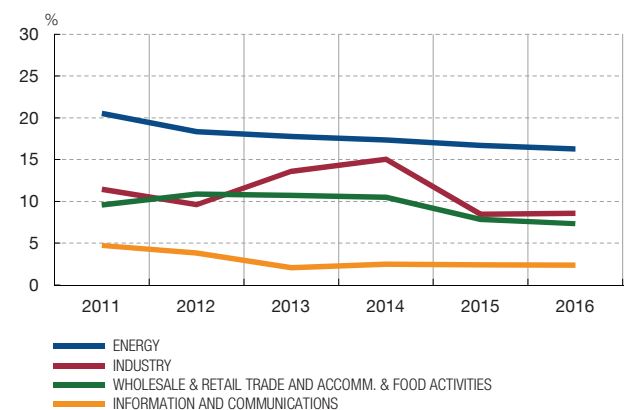
4 E2. INTEREST-BEARING BORROWING / (GOP + FR) (b)  
BREAKDOWN BY SECTOR. CBQ  
Ratios



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



6 INTEREST BURDEN  
BREAKDOWN BY SECTOR. CBQ  
(Interest on borrowed funds) / (GOP + FR)



SOURCE: Banco de España.

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

		CBQ			
		Return on investment (R.1)		Ordinary return on equity (R.3)	
		2015 Q1	2016 Q1	2015 Q1	2016 Q1
Number of corporations		1,006	858	1,006	858
Percentage of corporations by profitability bracket	R <= 0%	28.4	26.1	33.9	30.7
	0% < R <= 5%	27.4	26.2	17.6	16.3
	5% < R <= 10%	14.3	16.8	11.8	14.2
	10% < R <= 15%	8.1	8.5	6.6	8.5
	15% < R	21.9	22.4	30.0	30.3
MEMORANDUM ITEM: Median return		3.7	4.2	4.5	5.9

SOURCE: Banco de España.

interest-bearing debt as a proportion of net assets), down to 42.4% (see Chart 3). By sector, there were moderate declines in energy and industry and a minor increase in wholesale and retail trade and accommodation and food service activities, while information and communications was practically unchanged. The E2 ratio (defined as interest-bearing debt as a proportion of GOP plus financial revenue) rose somewhat, since the decline in debt was offset by the decline in surpluses, while the interest burden ratio (which is calculated with the same denominator) fell slightly owing to the greater contraction in financial costs. The breakdown by branch of activity shows that the changes in both ratios, although of a different sign, were generally not very significant.

Ordinary net profit (ONP) decreased by 5.9%; however, excluding refining sector corporations, where ONP contracted severely (by 57.3%), it fell by 0.5%. In keeping with this ordinary profit performance, aggregate return ratios were marginally lower, with the return on investment at 3% and the return on equity at 3.2%, in both cases 0.1 pp below the 2015 Q1 figure. However, this small deterioration in aggregate return was compatible with a shift in the distribution of firms' returns from low to higher levels. Thus, the data in Table 8 show that in 2016 Q1 the percentage of corporations with low (below 5%) or negative rates of return fell, to the benefit of the segments with rates of return of 5% or over. The table also depicts the increase in the median return on investment (and on equity), from 3.7% to 4.2%. As in the case of GVA, this suggests that the aggregate rate of return data were adversely affected by the less favourable performance of some large corporations.

The breakdown by sector of activity reveals that rates of return were similar to or higher than the 2015 figures (see Table 7) in all sectors, with the exception of the industrial sector (which includes the refining corporations). Excluding the effect of the refining sub-sector, rates of return also rose in the industrial sector, showing that this indicator improved in almost all the other industrial sub-sectors.

The average cost of borrowing fell by 0.2 pp in 2016 Q1, down to 2.7%. As a result of the change in the return on investment and the decline in financial costs, the spread between the two ratios widened somewhat, to 0.3 pp, which is 0.1 pp more than a year earlier. By branch of activity, there was a notable improvement in wholesale and retail trade and accommodation and food service activities, where the spread widened by more than 1 pp to 7.2 pp.

Lastly, extraordinary costs and revenue made a slightly negative contribution to growth in net profit in 2016 Q1. By contrast, the recognition of a lower corporate income tax expense than a year earlier, owing to the lower tax rate and also, in particular, to the exceptionally high tax expense recognised in 2015 connected with extraordinary transactions,<sup>2</sup> had a favourable impact. As a consequence of all the above, net profit rose by 7.6%. Expressed as a percentage of GVA, net profit stood at 30.9%, 2.5 pp higher than a year earlier.

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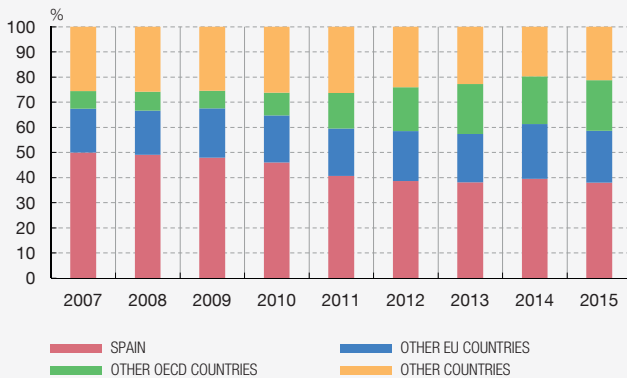
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<sup>2</sup> The corporate income tax expense was very high in 2015 Q1 as a result of the tax effect of the large capital gains obtained on sales of financial assets.

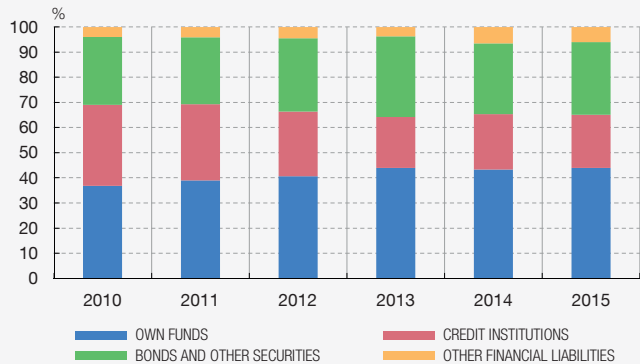
In the 1990s a number of large Spanish firms began to expand into new markets with high growth potential, their aim being to harness the synergies derived from the experience gained in their areas of business (essentially, energy, construction and telecommunications). In consequence, these corporations became multinationals, with a

network of subsidiaries throughout the world. This box analyses the economic and financial performance between 2007 and 2015 of 21 of these large groups, whose domestic activity accounts for some 6% of the GVA of the total non-financial corporations sector in Spain and for which consolidated information covering the whole

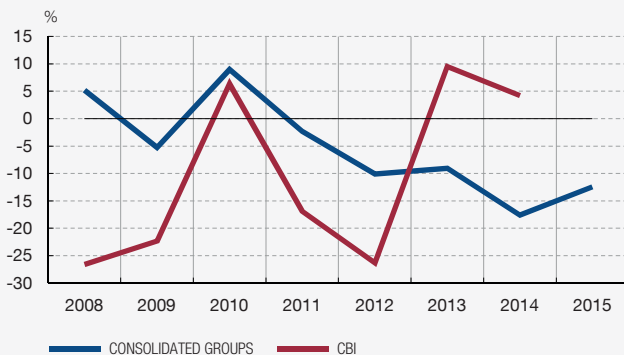
1 DISTRIBUTION OF TOTAL NET TURNOVER BY GEOGRAPHICAL AREA. CONSOLIDATED GROUPS



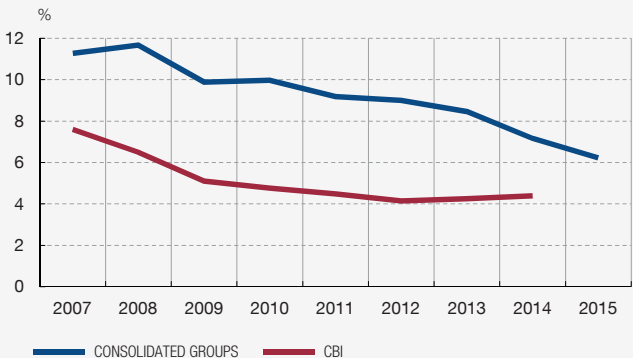
2 RELATIVE WEIGHT OF FINANCING SOURCES. CONSOLIDATED GROUPS



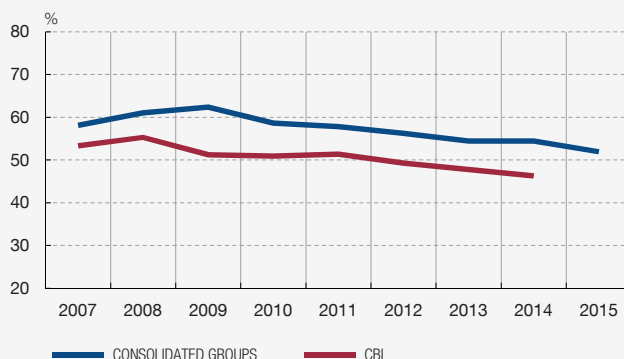
3 ORDINARY NET PROFIT



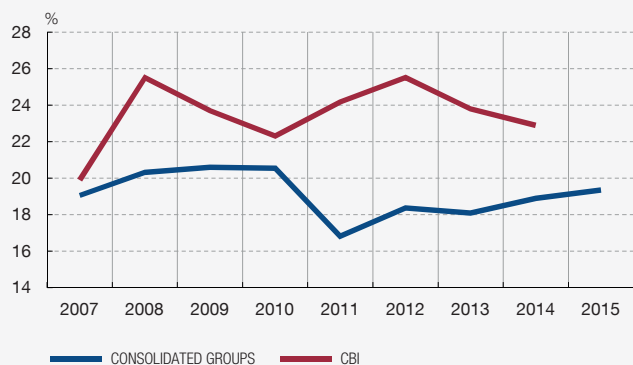
4 RETURN ON INVESTMENT (a)



5 DEBT (b)



6 INTEREST BURDEN (c)



SOURCE: Banco de España and CNMV.

a Ratio calculated as (Ordinary net profit + Financial costs) / Net assets.

b Ratio calculated as Interest-bearing debt / Net assets.

c Ratio calculated as Interest on borrowed funds / (Gross operating profit + Financial revenue).

of the period is available.<sup>1</sup> The consolidated financial statements allow each group to be analysed as if it were a single firm, eliminating intra-group transactions, whether commercial or financial. This facilitates the analysis of such highly complex business organisations, by providing a clearer view of their economic and financial situation.

Between 2007 and 2012, in a setting in which the Spanish economy performed relatively less well than other countries, the share of income coming from foreign markets increased substantially at the large multinational groups (by more than 11 pp), reaching nearly 62% of their total net turnover, a proportion that has scarcely changed in subsequent years (see Chart 1) and that is much higher than that of the Spanish non-financial corporations sector as a whole, which is below 25%.<sup>2</sup> Throughout the period analysed, the strongest growth was in the volume of transactions with non-EU OECD countries, which accounted for 20% of total sales in 2015, 13 pp more than in 2007. By contrast, the relative weight of sales to non-OECD economies declined in the period by more than 4 pp to 21%.

Another distinguishing feature of these large groups is the greater diversification of their liabilities compared with Spanish non-financial corporations on average, since their larger size allows them readier access to non-bank sources of finance. Thus, in 2015 debt securities accounted for nearly 30% of their liabilities and were their second most important source of financing, only exceeded by own funds (44%) and ahead of bank loans which accounted for slightly more than 20% (see Chart 2).<sup>3</sup> Debt securities issued by these 21 groups constitute a very high proportion of the outstanding credit raised from this financing source by the Spanish business sector and its resident and non-resident subsidiaries (nearly 70%).

The particular idiosyncrasy of these consolidated groups is also reflected in their profit performance in recent years. Thus, between 2008 and 2012, the ordinary net profit (ONP) of this set of corporations performed less unfavourably than that of the set of firms comprising the Integrated Central Balance Sheet Data Office Survey (CBI by its Spanish abbreviation),<sup>4</sup> in keeping with the higher relative negative impact of the crisis in Spain compared

with other countries and the lower weight of domestic revenue in these multinationals (see Chart 3). By contrast, since 2013, against a backdrop of stronger economic recovery in Spain than in other European countries, the ONP of the consolidated groups analysed has performed less favourably than that of the set of CBI firms, with continual declines in ONP. More recently, the deterioration in the activity of certain emerging markets where some of these large groups have significant commercial interests has also been a contributing factor. In any event, this set of firms is fairly heterogeneous and, in particular, the fall in ordinary profit in this period affected less than half of the consolidated groups analysed, being concentrated particularly in the energy sector. In consequence, the differences in profitability between the two sets of firms have narrowed in recent years, although profitability has continued to be higher at the large conglomerates (see Chart 4).

As regards the financial position of the groups analysed, their debt-to-assets ratio was higher than that of the CBI firms throughout the period studied, reaching its peak in 2009 when it stood at 62%, compared with 51% for the sample of CBI firms in that year (see Chart 5). Since then it has gradually decreased in both sets of firms, the difference between them narrowing somewhat, down to 8 pp in 2014. Despite the higher debt of the large business groups, their interest burden has been below that of the CBI firms throughout the period analysed (see Chart 6), basically as a result of their greater ability to generate profits. As in the case of profitability, and in keeping with the performance of business income, the start of the recent economic recovery has given rise to a certain degree of convergence between the levels of the interest burden indicator at the two sets of firms, since it has fallen in the sample of CBI firms and increased in that of the consolidated groups.

In conclusion, the geographical diversification of the large business groups enabled their ordinary profits to perform less unfavourably during the crisis than those of the Spanish non-financial corporations sector as a whole and their levels of profitability to remain higher than those of the latter. However, the recent economic recovery, stronger in Spain than in other European economies, along with the unfavourable performance of some external markets in the more recent period (particularly in some emerging countries), have contributed to reducing the differences in the profitability levels of the two sets of firms. Further, despite the higher level of debt of the main business groups, which have highly diversified sources of financing, their greater ability to generate income means that their interest burden is lower than that of Spanish non-financial corporations as a whole.

1 The information on the consolidated groups is drawn from the accounting statements that these corporations submit half-yearly to the Spanish National Securities Market Commission (CNMV).

2 Analysis of the CBI and balance of payments data for 2013 indicates that, in that year, 25% of the sales of this sample were exports. However, this sample is characterised by under-representation of SMEs, which are, on average, less likely to export than larger firms, so this figure should be taken as an upper limit on the relative weight of sales to the rest of the world in the total net turnover of Spanish non-financial corporations as a whole.

3 Information on the sources of financing of these business groups with the level of detail shown is only available from 2010.

4 The Integrated Central Balance Sheet Data Office Survey (CBI) database is obtained by merging the Central Balance Sheet Data Office Annual

Survey (CBA) with the information submitted by corporations to mercantile registers. The database contains more than 600,000 firms, on average, per year, with a level of representation of more than 40% of the total GVA of non-financial corporations. Most are small firms operating almost entirely in Spain. Information on this set of firms is not yet available for 2015.

