

Accounting analysis, financial analysis,
market evolution and positioning of the
competition.

REPSOL SA

The Spanish national leader
and a potential competitor
in the refining sector

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1. SUMMARY

The purpose of this paper is to analyze meticulously the annual accounts belonging to the company REPSOL, S.A. In particular, the transactions carried out during the last 5 years, between 2012 and 2016, with the main goal of explaining the positioning of this company in the national refining market, as well as its current situation at the global level.

In order to develop this work, a specific methodology will be used. First of all, it will analyze both the horizontal and the vertical evolution of the company in question. Secondly, it will present a detailed study regarding its annual accounts which will be followed by a study of ratios. Furthermore, it will expound a data comparison about the economic-financial information of this company and the four main competitors in this field, at the national and international level. These competitors are CEPSA, CLH, TOTAL and BP.

Finally, to sum up, it presents the conclusions reached in this economic-financial study about the company REPSOL, S.A.

REPSOL SA

The Spanish national leader and a potential competitor
in the refining sector

2. INTRODUCTION

To develop this study in an efficient way, it will be divided into different parts. It will begin by focusing on the individualized data of the company and it will finalize by comparing it with competitors and drawing conclusions.

In the first place, it is necessary to do a detailed analysis about the REPSOL S.A annual accounts in order to discover its current situation. This analysis will evaluate both vertically (for each tax year) and horizontally (for all the progression during the period of study).

After knowing the REPSOL S.A. situation, it is possible to analyze other aspects. Thus, in the second place, the evolution of the most relevant economic-financial ratios of this company will be explained in detail, by specifying, in every case, all the particularities, variations and causes that could appear during the period of study.

Thirdly, there will be a section dedicated to mention and analyze the Brent oil price evolution which will serve as a more precise indicator in order to evaluate the situation in the refining market. Likewise, it will be talked about how this price fluctuation is causing an impact on the shares prices of each company.

In the fourth place, a comparative analysis will be developed with the purpose of discovering the REPSOL positioning in the refining market. Therefore, it will compare REPSOL with its direct competitors both in the national and international field.

Finally, the last part will show the conclusions drawn from this study, regarding the market positioning of REPSOL. Furthermore, it will expound some possible economic-financial solutions that should be applied by the company if they want to compete, globally, with the leaders in the hydrocarbon market.

3. PRESENTATION OF THE COMPANY

REPSOL, S.A. is the controlling company of a group of Spanish companies that works in the hydrocarbon sector and it is named *Grupo Repsol*. This entity started its operations in 1987 and it was registered on the Madrid business register with the following hour number: M-65289. Likewise, it was provided with a tax identification number: A-78384825, and the Standard Industrial Classification number: 7010. Its registered office is located in the street Méndez Álvaro, number 44, in Madrid.

The companies belonging to *Grupo Repsol* carry out all their activities within the hydrocarbon sector, such as the exploration, development and production of crude oil and natural gas, the transport of oil-bearing products, liquefied petroleum gas (LPG) and natural gas, as well as the production of a wide range of oil-bearing products and its commercialization, petroleum derivatives, petrochemical products, LPG, natural gas and liquefied natural gas (LNG) commercialization.

In order to develop a more precise and detailed analysis, it will be focused on the activities concerning the distribution and commercialization of the oil-bearing products. In this way, when analyzing the refining market niche, there will be easier to determine who the direct competitors are, and then it could be possible to compare them.

The target company is listed in markets and, as a consequence, it is subjected and regulated, among others, by the Spanish Capital Firms Law, whose Consolidated Text was approved by the Royal Legislative Decree 1/2010, of the 2nd July, and the other regulation applicable to the anonymous listed companies. The REPSOL shares are represented by account entries and they are admitted to trade on the continuous market of the Spanish Stock Exchanges (Madrid, Barcelona, Bilbao and Valencia) and the Buenos Aires Stock Exchange (Buenos Aires). Furthermore, it has at its disposal a program of American Depositary Shares (ADS), which, since 9th March 2011, is listed in the OTCQX market that is a platform inside the Over-the-counter markets (OTC) in the United States. This platform stands out those financial institutes which have the best market information policies and the strongest business activities.

To conclude the presentation of the company, and given that, in this study, only the petroleum sector will be taken into account, it is necessary to talk about the products that this company offers by using its refining, in this market segment. REPSOL opts constantly for innovation and technological development in all its products, for this reason, it has four different types of fuel: Diesel e+, Gasoline 98, Gasoline 95 and Gasoline 90.

4. WORK OBJECTIVES

The economic-financial analysis of REPSOL aims to demonstrate its market leadership in the Spanish refining sector, by studying the company's solvency, liquidity and efficiency. It also will show which items makes of REPSOL a strong competitor. With the purpose of delimiting the analysis, it will take into consideration the annual account data of the last periods, the most current ones (from 2012 to 2016), as well as its ratios and profitability. Therefore, this internal analysis of the company will demonstrate why REPSOL S.A is the leader in the Spanish oil market.

After considering its financial situation, REPSOL will be compared with different competitors. The object of study in this comparative section will be focused on providing solutions in order to convert the negative factors that RESPSOL possesses in chances and/or power, with regard to its competitors. These solutions will be expounded in order to establish RESPSOL as the leader of the refining sector in the future, reliably and globally.

Finally, from the student point of view, the most beneficial conclusions for the company will be summarized. Furthermore, it will show the results obtained in this study as well as the most outstanding events, in order to explain the REPSOL positioning in the refining market both nationally and internationally.

5. ACCOUNTING ANALYSIS

On the basis of the consolidated annual accounts over the last 5 years, it is the moment to analyze the financial data and the most noteworthy accounting items of each period. However, it is necessary to specify firstly some particularities of the company.

On the one hand, due to the fact that REPSOL operates globally, it requires a constant monitoring of exchange rates and fluctuations throughout the periods because it could change significantly, depending on the surroundings where the activity is developed.

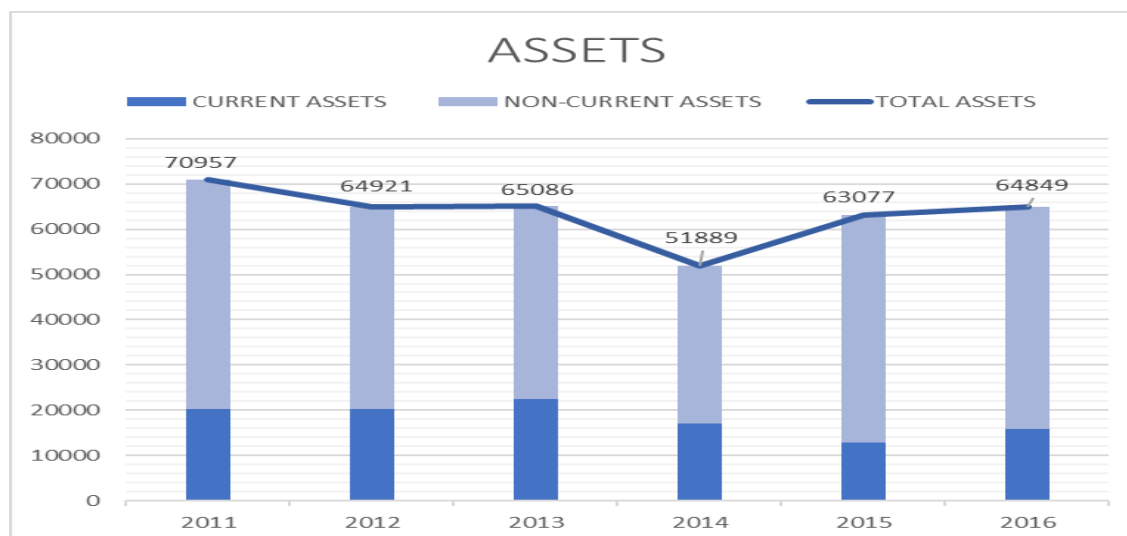
On the other hand, the accountancy of CO2 emissions rights is considered highly important because these are valued depending on their acquisition price. Given its amortization, it supposes a provision whose amount is based on the number of CO2 tons emitted at the end of the tax year.

At this point of the study, the main particularities of the entity's annual accounts have been stood out, by considering that the other items, which not have been named, are standard or in accordance with regulations. Having in mind these particularities, we can move on explaining and mentioning the changes of each general account and item of REPSOL S.A, according to its management report emitted in the Spanish Stock Market Commission.

5.1 Assets

The assets of REPSOL have suffered an irregular and decreasing evolution as it can be observed in the figure 1 "Assets". For this reason, it is important to analyze meticulously the most relevant accounts of the REPSOL balance sheet.

Figure 1 "Assets"



Source: Own elaboration based on data from the annual accounts of REPSOL S.A.

INTANGIBLE ASSETS

Intangible assets are determined, practically in their entirety, by the goodwill of the company. Its evolution is mainly decreasing, even though it has experienced an average growth of 79.63%. From 2011 to 2014, the goodwill has decreased gradually, year by year. That is due to the fact that they made the necessary modifications regarding the consolidated annual accounts, corresponding to the last tax year, and in relation with the application of the NIIF11¹ rules. That affected directly the goodwill value and, as a consequence, it reduced its value in billions of euros.

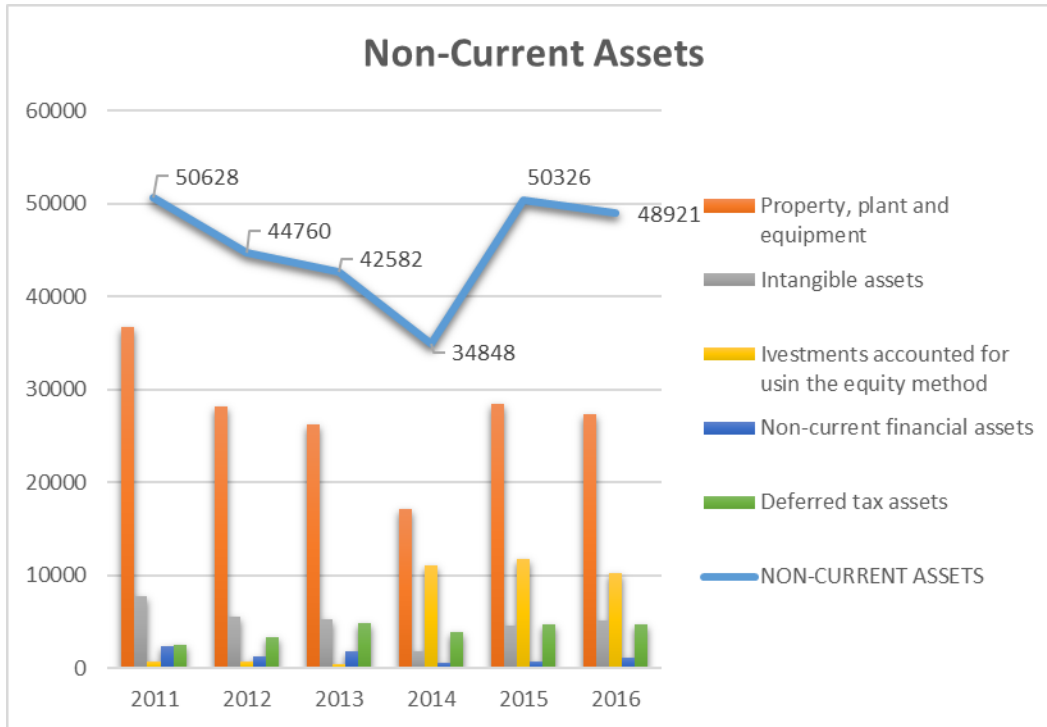
On the other hand, during the both years, 2015 and 2016, the goodwill increased significantly. In 2015, this value growth was due to the fact that they acquired, in 8 May, the Talisman Energy Inc., whose value was about 2,579 million of euros. In 2016, they also acquired 100% of the shares of its Canadian subsidiary ROGCI, and it was integrated according to the accounting criteria of the company. As a consequence and from that point, there is again another increase of value.

By analyzing the account vertically, it can be observed that the item of property, plant and equipment have decreased gradually in relation to the total assets, as we can

¹ The application of this regulation supposes significant changes in the financial statements of the group, because until 2013 they were applying the proportional integration method in the entity's shares of attached control, under other criteria different to the ones established in this new regulation applied by the EU.

see in the figure 2 “Non-current assets”. In 2011, property, plant and equipment represented 10.97% of the assets and they obtained its lowest percentage in 2014, with 3.58%. However, after acquiring the Canadian subsidiary, this percentage was stabilized with 8%, approximately, during the last two years

Figure 2 “Non-current assets”



Source: Own elaboration based on data from the annual accounts of REPSOL S.A.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment represent the most significant part of the REPSOL assets, by standing at 43% almost every year. Nevertheless, it has decreased significantly after some years because, in 2011, this item represented more than 50% of all the assets belonging to the company. This continuous reduction of assets reached the lowest point in 2014, when property, plant and equipment dropped by up to 60%, in comparison with 2011, as it can be observed in the figure 3, named “Non-current assets”.

Figure 3 “Non-current assets”

(expressed in millions of euros)

	2011	2012	2013	2014	2015	2016
NON-CURRENT ASSETS	50628	44760	42582	34848	50326	48921
Intangible assets	7783	5514	5325	1859	4522	5109
Goodwill	4645	2678	2648	498	3099	3115
Other intangible assets	3138	2836	2677	1361	1423	1994
Property, plant and equipment	36759	28227	26244	17141	28437	27297
Property investments	24	25	24	23	26	66
Investments accounted for using the equity method	699	737	412	11110	11758	10176
Non-current assets held for sale subject to expropriation		5392	3625			
Non-current financial assets	2450	1313	1802	593	715	1204
Deferred tax assets	2569	3310	4897	3967	4689	4746
Other non-current assets	344	242	253	155	179	323

Source: Own elaboration based on the annual accounts of REPSOL S.A.

Investments in fixed assets are distributed between Spain, EEUU, South America, Angola, Russia, Central America, Canada and Norway. However, these assets have deteriorated year by year, at an average rate of 1%. This percentage could have been higher but, when REPSOL acquired, in 2015, by leasing to own, gas pipelines and other assets to transport gas in North America and Canada, it supposed an amount of more than 2,200 million of euros. For this reason, the property, plant and equipment value increased again thereafter, in 2015.

According to the practice of activities, REPSOL assures its operations and assets at the global level, in order to protect them from possible risks which are inherent in this business. Through this coverage and after acquiring the Canadian subsidiary, the company obtains the amortization of those productive assets incorporated in the Talisman Energy business. Furthermore, it achieves a higher amortization of bonds and exploratory surveys, mainly from Angola, United States and Norway.

RECORDED PROPERTY INVESTMENT

Regarding the recorded investments and by applying the equity method, it is worth emphasizing that there is a tremendous increase in its transactions during 2014, as it can be observed in the graph 2. This phenomenon was because of the necessary modifications of the consolidated annual accounts, corresponding to the last tax year and according to the application of NIIF11*, about collaborative agreements.

Another explanatory point of this line item is the participation of REPSOL S.A. in different companies belonging to the electricity market. The most striking effect of this involvement is about the acquisition of a new Chilean company named *Compañía General de Electricidad S.A.*, by the *Gas Natural Fenosa*. REPSOL S.A. takes part with 30% of the *Gas Natural* capital. So, this effect was transmitted to the REPSOL

accounts by increasing eminently the recorded investments by applying the equity method.

NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE

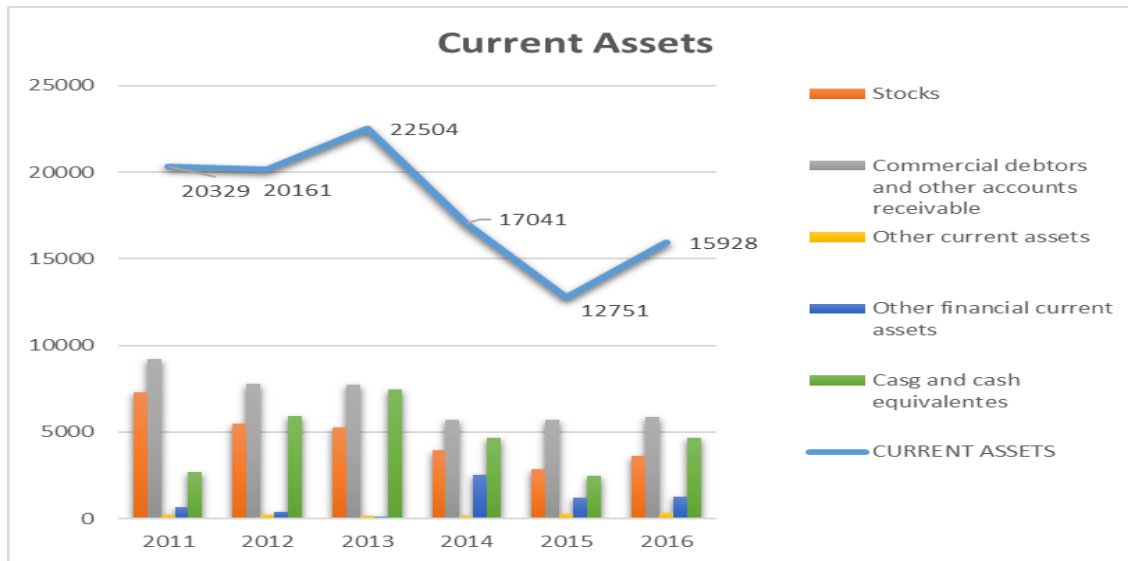
At the end of 2013, RESPOL agreed a sales contract of assets and business which belonged to Liquefied Natural Gas (LNG) to Shell. However, this contract was never carried out during this period. Therefore, RESPOL had to execute a reassessment of “the non-current assets held for the sale” and “the liabilities connected to non-current assets held for sale”, for an amount of 3,000 million euros, approximately. This sale process was not completed until they obtained the necessary permissions and after fulfilling all the selling conditions.

Finally, this sale of assets was carried out during 2014, when they sold principally methane carriers that were acquired on a leased basis. For this reason, since 2014, REPSOL has not showed any significant value regarding this item.

STOCK

Stock item has decreased an average of 11%. Nevertheless, it has always decreased at the same time that its assets, as a consequence, stocks are always 8% of all the assets (see the figure 4, “Current assets”). The most significant decrease is especially during 2014, because of the sale of Shell assets. This is reflected in the balance as a considerable decline of crude oil and natural gas which were used when selling assets.

Figure 4 "Current Assets"



Source: own elaboration based on data from the annual accounts of REPSOL S.A.

TRADE DEBTORS AND TRADE RECEIVABLES

In this item there is a continuous decrease, along the period, which is approximately of 8%. Regarding the total of assets, trade debtors and trade receivables have always been around 11% of the assets. However, if you observe its evolution, there is an incessant and significant decrease, and that is due to the fact that they started by owning 13% in 2012 and, in 2016, they ended with 9%. That was because the modification of applying accounting criteria through NIIF11 reduced its value around 1,000 million of euros.

5.2 Net worth

The net worth belonging to REPSOL S.A has increased progressively, as it can be observed in the figure 5. This growth was in spite of the variations, previously explained, that assets suffered and the constant decline in sales, which will be explained afterwards.

Figure 5 “Equity”

(expressed in millions of euros)

	2011	2012	2013	2014	2015	2016
EQUITY	27043	27472	27920	28154	28689	31111
Capital and reserves	24068	27053	27733	27502	26789	28487
Capital	1221	1282	1324	1375	1442	1496
Share premium account	6428	6428	6428	6428	6428	6428
Reserves	247	247	259	259	259	259
Shares and equity investments	-2572	-1245	-26	-127	-248	-1
Profit or loss brought forward and other reserves	17186	18465	19785	19524	19346	17644
Earnings attributed to the parent company	2193	2060	195	1612	-1227	1736
Dividends and remunerations	-635	-184	-232	-1569	-228	-99
Other equity instruments					1017	1024
ADJUSTMENTS FOR CHANGES IN VALUE	-530	-351	-526	435	1672	2380
Financial assets available for sale	-4	42	488	-5	3	6
Other financial instruments		15				
Hedging operations	-181	-210	-60	-163	-227	-171
Exchange differences	-345	-198	-954	603	1896	2545
EQUITY ATTRIBUTED AT THE PARENT COMPANY	23538	26702	27207	27937	28461	30867
MINORITY INTERESTS	3505	770	713	217	228	244

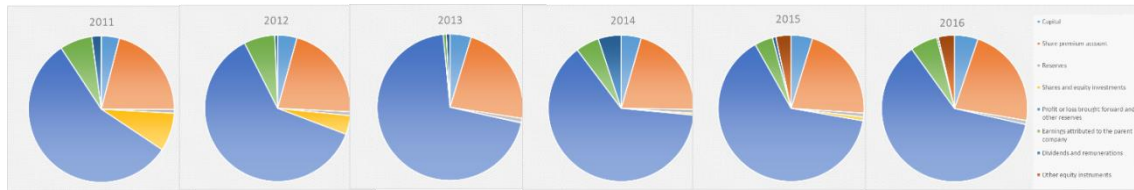
Source: Own elaboration based on data from the annual accounts of REPSOL S.A.

First of all, capital has increased its value gradually, year by year, until achieving an average annual growth of 4.15%. Therefore, from 2011 (1,221 million of euros) to 2016 (1,496 million of euros), the social capital of the company increased more than 200 million of euros, during 5 years. In other words, 20% in relation to the first year of the studied period, that can be observed in the figure 6.

Secondly, and to the shareholder interest, the share premium has remained fairly constant during the period mentioned, by stabilizing its value in 6,428 million of euros. This stability has also remained steady, in relation to liabilities, because the share premium is a part of the total liabilities, concretely 10%.

In the third place and regarding reserves, REPSOL S.A. has opted to maintain the reserves according to the minimum established by the law, which has to be always over 1% of the total liabilities. During 2013, it can be observed that there is a slight increase of 12 million of euros, in relation to 2012. Given the above, it is known why more of 50% of the net worth comes to the reserves created during the last tax years, as it can be observed in the graph 5 “Capital and reserves”. And at the same time that losses are generated, this item is reduced. But the situation is reversed when earnings are positives or they can deal with the legal requirements and shareholders compensations.

Figure 6 “Capital and Reserves”



Source: Own elaboration based on data from the annual accounts of REPSOL S.A.

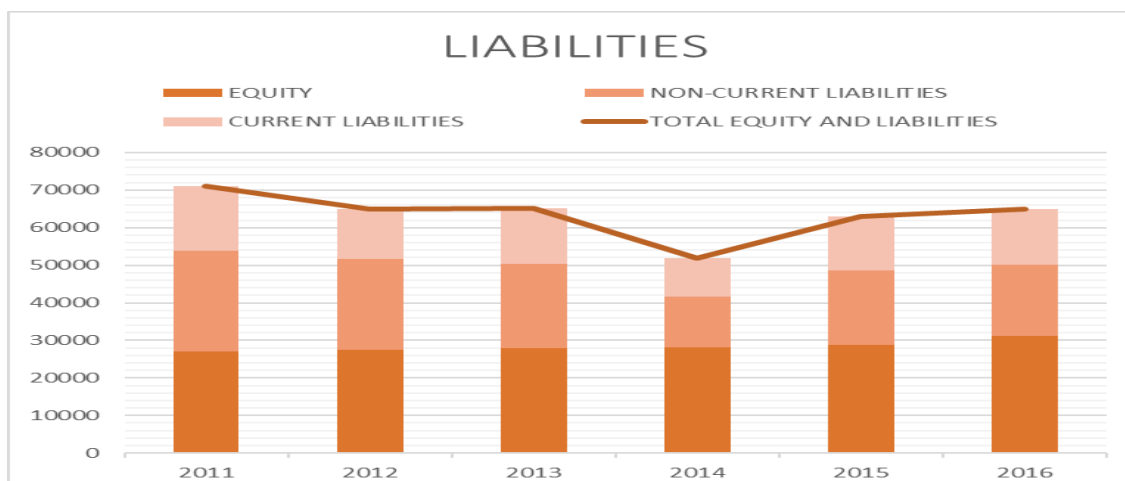
In the fourth place, with regard to the issuance of assets, REPSOL has increased it during the studied period (1,256/ 1,302/ 1,350/ 1,400 and 1,466 million of euros, respectively) but it has never exceeded 0.5% of the total liabilities. This fact, associated with the decrease and given the earnings of each tax year, implied a reduction of the profits for each asset. This decrease was only interrupted when, in 2014, there was a growth which meant more payments through dividends; because earning per shares increased satisfyingly (from 0.15€/share in 2013 to 1.17€/share in that year).

Finally, minority interests represent 1% of the total liabilities for each tax year. These suffered several changes between 2013 and 2014 (713 and 217 million of euros, respectively). This phenomenon can be explained by the sale of the *Grupo Gas Natural Fenosa*, in 2013. REPSOL had over 500 million of euros of social capital of that group. After selling it, the capital stopped having retributive effects and, for this reason, the minority interest that REPSOL acquired was decreasing considerably.

5.3 Liabilities

Usually, the liabilities accounts of REPSOL have developed negatively during the studied period, by showing an average decrease of 3% annually. This phenomenon can be observed in the figure below, the number 7 named “Liabilities”, where the tendency is always decreasing, with the exception of 2015, when it seeks to be financed by credit institutions and suppliers, in order to improve its liquidity.

Figure 7 “Liabilities”



Source: Own elaboration based on data from the annual accounts of REPSOL S.A.

PROVISIONS

The provisions of REPSOL S.A. are steady during the first period studied (from 2011 to 2014), by appearing the maximum provisioning in 3,826 million of euros and the minimum in 2.258. Nevertheless, during 2015, this item increased 144.22% regarding the non-current provisions, and 473.75% the current provisions. This growth so overwhelming was caused in 2015, when the company had 5,312 million of euros concerning provisions for dismantling oil fields and other aspects.

In the first case, provisions for dismantling those systems and fields which are dedicated to explore and produce hydrocarbons, are caused due to the dismantling of wells, ducts and other complexes in North America and Southeast Asia, and in offshore platforms in the North Sea, with a value of 2,042 million of euros.

In the second case, the other provisions are formed in order to deal with fiscal and legal exposures as well as pension obligations and other provisions valued at 1,115 millions of euros. These provisions are provided, fundamentally, to confront all the obligations derived from tax claims, law suits and legal arbitrations, environmental risks, consumption of Co2 emission rights, pension liabilities, employment incentives, insurances and those provisions corresponding to its participation in other societies.

LIABILITIES LINKED TO NON-CURRENT ASSETS HELD FOR SALE

Within the period of study, this account does not have a relevant impact on the financial states of the company because they represent 0.5% of the total assets.

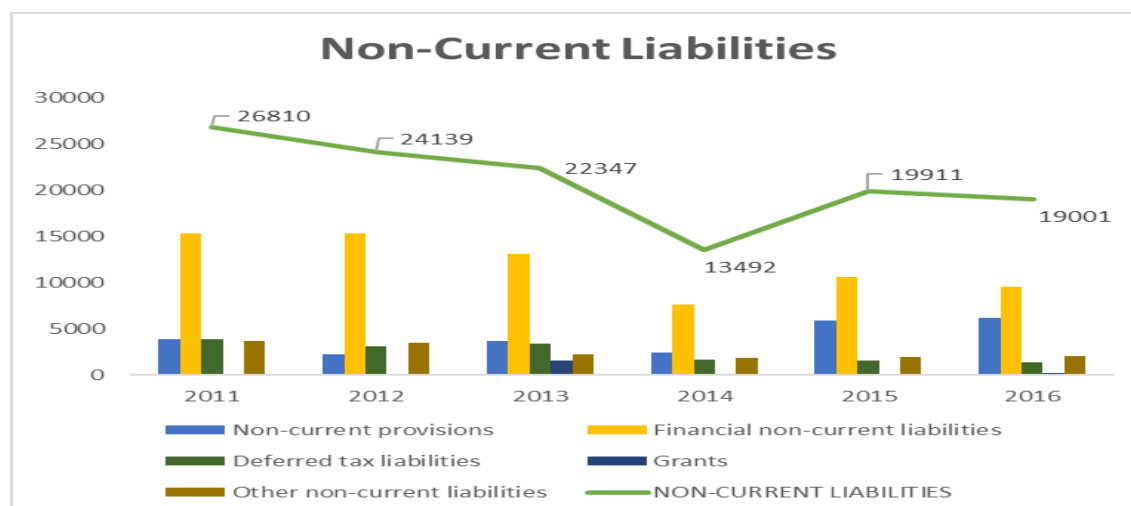
However, during 2013, there is an essential change of this item because its value increases 5577.78%, in relation to the last one (it moves from an amount of 27 million of euros in 2012, to 1,533 million of euros in 2013). This excessive increase is caused by the sale of an important part of liquefied natural gas (LNG) assets and business, which formed the Shell's sale process, previously mentioned.

FINANCIAL LIABILITIES

In this section, REPSOL S.A. is focused on three different accounts: debts with credit institutions, duties and other negotiable values and financial liabilities. Generally, REPSOL analyzes this item in detail because it represents 30% of the total assets (18.57% of the non-current assets and 8.26% of the current ones).

Along the period of study, the financial liabilities of this company have decreased. The current liabilities have been reducing from 2012 to 2014, with 20% in relation with the beginning (from 4,986 million of euros in 2011, to 4,086 million of euros in 2014). Regarding the non-current liabilities, its reduction was more pronounced because the variation of this period represented 20% less, as it can be seen in the figure 8 “Non-current liabilities”.

Figure 8 “Non-current liabilities”



Source: Own elaboration based on data from the annual accounts of REPSOL S.A.

This fact can be observed later, in the graph about the financial debt of REPSOL S.A., whose value has decreased, year by year, until 2015, when the company had to find solutions to these concerns. Thus, these solutions were

represented principally by the issuance of backed bonds as well as the loans given by societies belonging to the Group, integrated by the equity method.

These bonds issuances increased drastically the financial liabilities value during 2015 and 2016, which, in relation to the last period, increased 39% in non-current financial liabilities and 73.10% in current financial liabilities, as it can be seen in figures number 8 and 9.

On the one hand, during 2015, REPSOL S.A. admitted bonds for a value of 6,604 million of euros. Under this heading, the issuance, repurchase or refund of certain financial assets has to be highlighted:

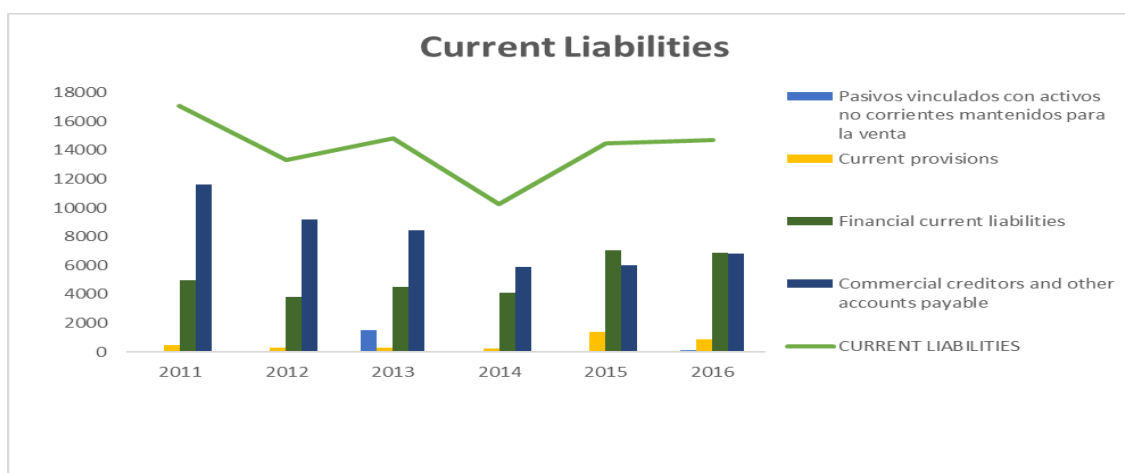
- Issuance of a subordinated and granted bond by REPSOL S.A., for a nominal value of 1,000 million of euros and an expiration date in 2075, for the REPSOL international Finance B.V (RIF) part.
- Bond maturity issued by Talisman Energy Inc, for an amount of 334 million of dollars and a coupon of 5.125\$.
- Repurchase of five bonds by Talisman Energy Inc, for a nominal value of 1,572 million of dollars and a discount of 14.5%.
- The RIF society, by sheltering into two programs, the Euro Commercial Paper (ECP) and the Euro Medium Term Note Program (EMTN), has issued senior bonds for a global value of 2,600 million of euros. As well as Talisman Energy Inc, with the U.S Commercial Paper (USCP) plan, for an amount of 1,000 million of dollars.

On the other hand, there is another variable that has provoked this evident increase in the financial liabilities item. That is the acquisition of loans granted by societies belonging to the Group. These amounts have grown year by year, until 2015 when they placed the values in 2,930 million of euros and 3,193 million of euros in 2016.

COMERCIAL CREDITORS

In this section, there are two different evolutions along the period, as it can be observed in the figure 9 “Current liabilities”. One of them goes from 2011 to 2014, with a liability decrease, and the other one goes from 2015 to 2016, with an increase of it.

Figure 9 “Current liabilities”



Source: Own elaboration based on data from the annual accounts of REPSOL S.A.

On the one side, from 2011 to 2014, the item regarding commercial creditors has been reduced gradually, by moving from 11,635 million of euros in 2011, to 5,917 million of euros in 2014. In practice, this account has decreased its value 50% during 4 years, and whereas, it has caused a visible reduction in the average maturity period of those items that have to be paid.

On the other side, in 2015 and 2016, the value of this item has increased 14%, by moving from 5,917 million of euros in 2014, to 6,810 million of euros in 2016.

This item affects greatly the value changes of the total liabilities because it constitutes 12.5% of the total liabilities of the company, approximately. For this reason, the average impact that this item creates in the total liabilities, during the period of study, is about 8.83% in relation to the data of the first referent year.

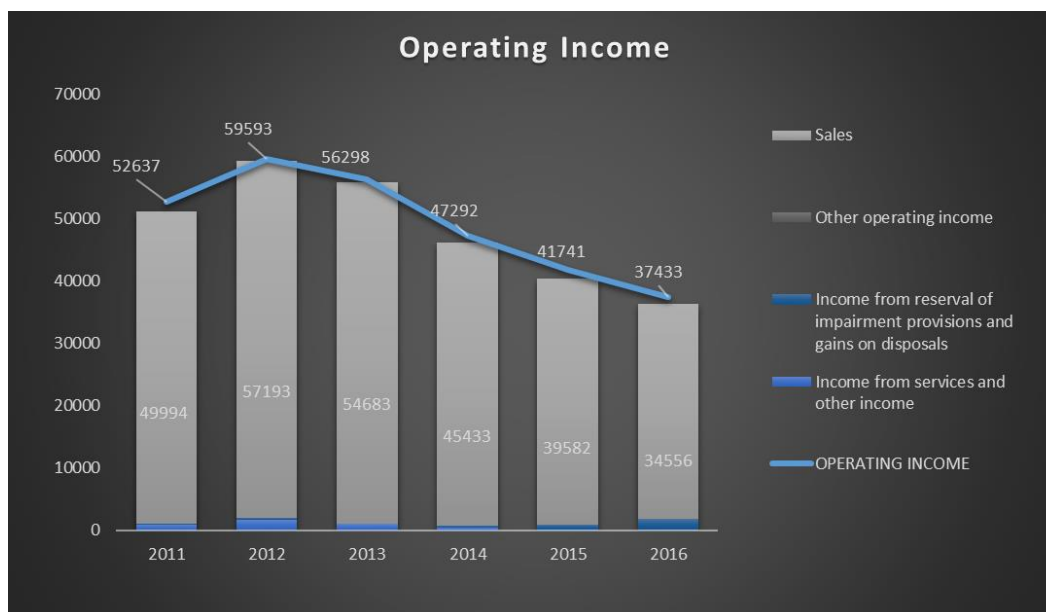
5.4 Profits and losses

REPSOL S.A. has been affected, drastically and in a negative way, by the current and unstable financial situation of the global economy. In this section, there will be a demonstration of how its benefits are affected directly by the continuous changes and fluctuations that the prices of the Brent barrel are suffering, as well as how it costs to treat and transform it.

5.4.1 Operating income

By looking across the progression of operating incomes, it is clear that there is a constant reduction of the figure regarding revenues from the beginning of the period. They have decreased in 40% with regard to 2012, by moving from 59,593 million of euros to 37,433 million of euros, as it can be observed in the figure number 10 “Operating income”.

Figure 10 “Operating income”



Source: Own elaboration based on data from the annual accounts of REPSOL S.A.

REPSOL S.A. operates in four geographical areas delimited individually, which are the next ones: Spain, European Union, OECD member countries and the rest of the countries. Sales and incomes regarding service performance have decreased year by year within the four areas. But there are other aspects linked to this sale’s decrease and these are the excise taxes related to manufacturing and selling hydrocarbon. These taxes, as opposite to the sales, have increased gradually along the period and the current figure which belongs to 2016 is of 6,249 million of euros.

On the positive side, by applying the new European criteria, the company has yielded good incomes due to reversals of impairment losses, especially during the last two years. In 2015, these benefits were not enough satisfying in order to prevent losses because the reversion incomes increased to 659 million of euros and their expenses were 6 times higher. Nevertheless, in the last tax year, the impact was opposite due to the fact that they won 1,625 million of euros regarding reversions and their expenses

were less. In this way, the company obtained benefits, once again, at the end of the year, as will be observed later in this paper.

5.4.2 Operating expenses

REPSOL has accompanied its constant decline in sales with different cuts in outlays in order to reduce the final impact of each tax year. Every item regarding operating expenses has risen gradually along the period of study.

However, provisions, which are the main expense of the company, have suffered a considerable drop. Provisions represent 75% of the sales and they have undergone an annual decrease of 9%, from the beginning to the end of the period, by moving from 44,471 million of euros in 2012 of provision expenses, to 23,615 million of euros in 2016. Statistically, this account has reduced its price by approximately 40%, in relation the beginning, as it can be seen in the figure 11 “Operating expenses”.

Figure 11 “Operating expenses”



Source: Own elaboration based on data from the annual accounts of REPSOL S.A.

It has to be emphasized, particularly, that the impairment losses item presents a drastic increase. Furthermore, since the new European regulations were applied, it has multiplied its value until reaching its maximum value, 3,691 million of euros during 2015.

5.4.3 Earnings before interests and taxes

Earnings before interests and taxes have followed a decreasing evolution during the studied period. This situation has caused losses to REPSOL during its activity in 2015, for a value of 2,440 million of losses. These losses have been incurred, principally, by the high amount of expenses regarding impairment losses and losses on disposals, as it can be observed in the figure 12 “Earnings before interests and taxes”.

Figure 12 “Earnings before interests and taxes”

CONTINUING OPERATIONS (expressed in millions of euros)	2011	2012	2013	2014	2015	2016
Sales	49994	57193	54683	45433	39582	34556
Income from services and other income	909	1731	1063	409	155	133
Change in stocks of finished products and in process of manufacture products	711	-389	-228	-224	-524	129
Income from reversal of impairment provisions and gains on disposals of property	206	273	23	290	659	1625
Imputation of non-financial fixed assets grants and other	17	13	13	1		
Other operating income	800	772	744	1383	1869	990
OPERATING INCOME	52637	59593	56298	47292	41741	37433
Supplies	-39607	-44471	-43170	-38254	-28833	-23615
Personal expenses	-1809	-1977	-2039	-1729	-2129	-2501
Other operating expenses	-5421	-6128	-5796	-4847	-6540	-5930
Amortization of property, plant and equipment	-2069	-2587	-2559	-1796	-2988	-2529
Expenses from provisions for impairment and losses on disposals of property	-182	-144	-163	-588	-3691	-947
OPERATING EXPENSES	-49088	-55307	-53727	-47214	-44181	-35522
EARNINGS BEFORE INTEREST AND TAXES	3549	4286	2571	78	-2440	1911

Source: Own elaboration based on data from the annual accounts of REPSOL S.A.

In regards to the evolution, it has to be noted that REPSOL has developed a negative annual increase of 70%, in relation to the last tax year, by obtaining negative values in the period corresponding to 2015, as it has been mentioned previously. In 2012, REPSOL S.A. generated positive earnings of 4,286 million of euros, but it was decreasing annually, year by year, until generating negative values in 2015.

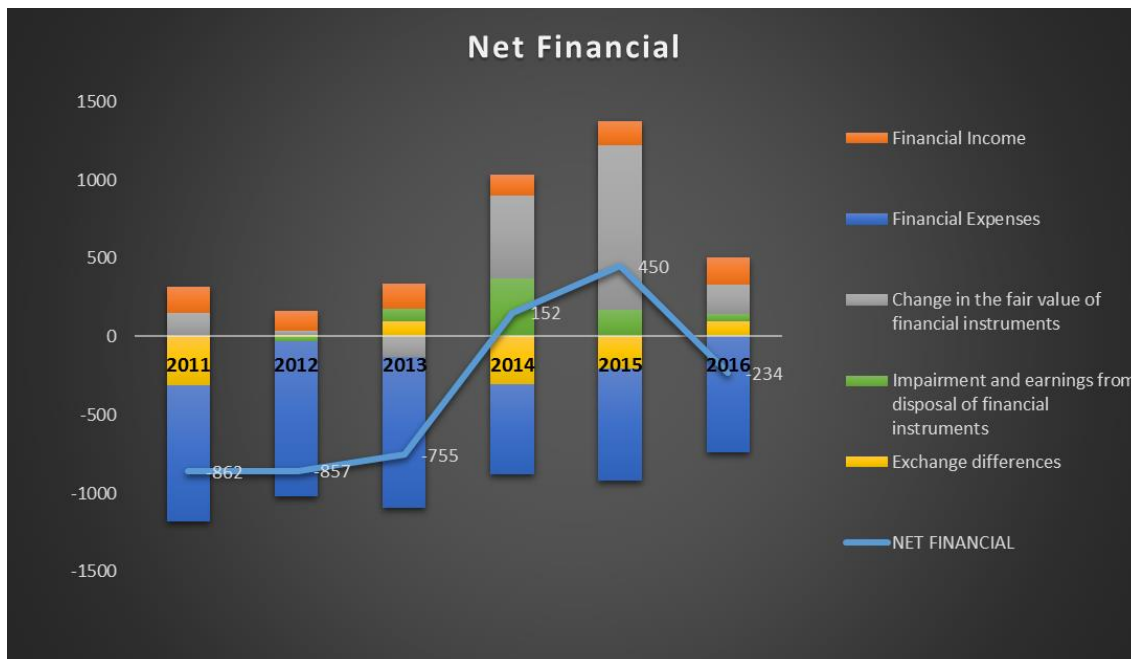
Finally, in 2016, it won, once again, positive values for 1,911 million of euros, as a consequence of reverting impairment provisions and benefits on disposal of fixed assets, for a value of 1,625 million of euros. These profits are explained by the sale of a large number of gas assets in Spain: sale of 10% of the *Gas Natural SDG* participation, sale of a wind business in the United Kingdom, sale of the LNG business in Peru and Ecuador, disinvestment in REPSOL E&P T&T Limited and another disinvestment in the Tangguh LNG project.

5.4.4 Financial net income

The financial net income of REPSOL S.A. is negative, almost every year along the studied period, with the exemption of 2014 and 2015, as it can be observed in the figure number 13 “Financial net income”. However, the impact on the benefits of the company is not very relevant because financial income do not reach 1% on the sales value.

On the one hand, financial incomes have remained around 170 million of euros, during the five years, by supporting fluctuations that represented a variation of 3%. On the other hand, financial expenses have been around 800 million of euros, approximately, all period long.

Figure 13 “Financial net income”



Source: Own elaboration based on data from the annual accounts of REPSOL S.A.

The most significant changes have been the variations of the reasonable value regarding financial instruments and exchange variations. Both in 2014 and 2015, financial instruments value increased 70% in relation to the last year, by placing it in 529 and 1,052 million respectively. At the same time, exchange variations reached negative values for 304 and 204, in every year.

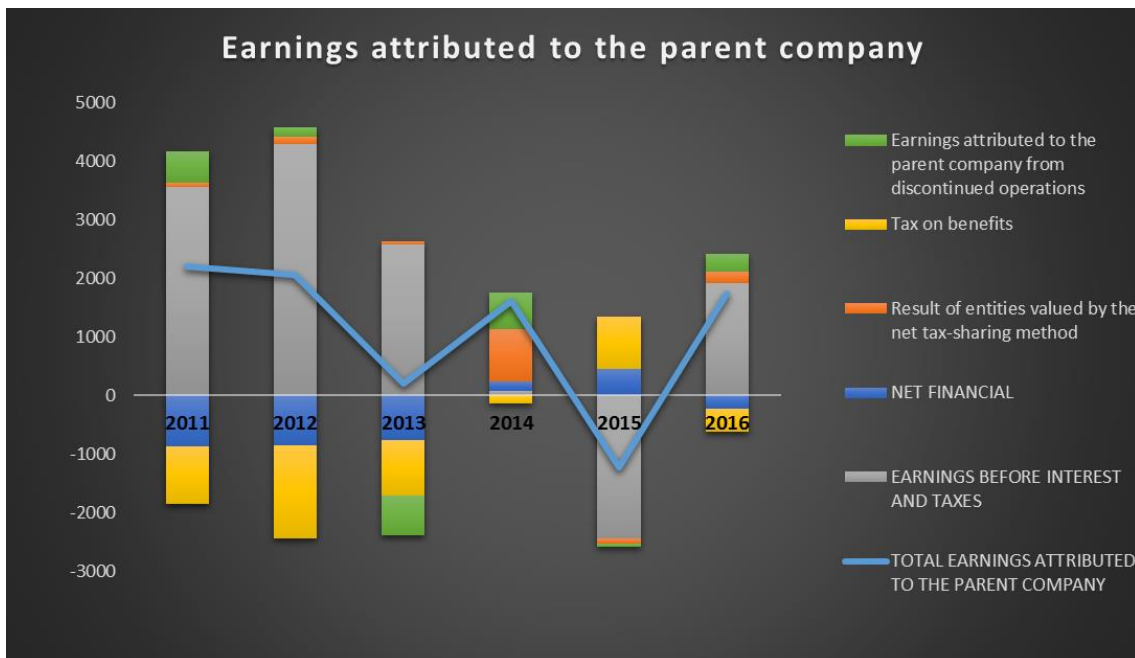
These phenomena have helped REPSOL S.A. to maintain its financial net income in a continued and increasing evolution around 20% annually

5.4.5 Earnings

Earnings attributed to the parent company have varied significantly during this period. Nevertheless, as it will be seen later, even though it has suffered notable losses during some periods, the REPSOL solvency continues being positive.

The tendency of the earnings seemed decreasing, a priori. However, this situation has not always been the case for various reasons that will be explained below, according to the figure 14 “Earnings attributed to the parent company” and REPSOL memories.

Figure 14 “Earnings attributed to the parent company”



Source: Own elaboration based on data from the annual accounts of REPSOL S.A.

In the first place, during 2013, earnings decreased drastically even including losses. The value represented was about 195 million of euros, 90% less than the previous year. That was caused due to the fact that REPSOL S.A obtained negative earnings regarding discontinued operations, for a value of 684 million of euros, principally because of the disinvestment that corresponded to a part of LNG assets and business sales that started with the signing of the Sheel agreement, the 26th February 2013.

In the second place, during the next period, 2014, the earnings attributed to the parent company increased because of the earnings of companies accounted for using

the net tax-sharing method. This result was net income and it represented 892 million of euros (a 15 times higher value than the previous one). Furthermore, this benefit is produced due to the capital gains generated by the sale of the company *Repsol Comercializadora de Gas, S.A.* and the fiscal impact of expropriating YPF S.A. and YPF Gas S.A. assets.

In the third place, 2015 is the only period when the company presents losses attributed to the parent entity. These losses are caused because of the high expenses regarding impairment provisions and losses on disposal of property, plant and equipment.

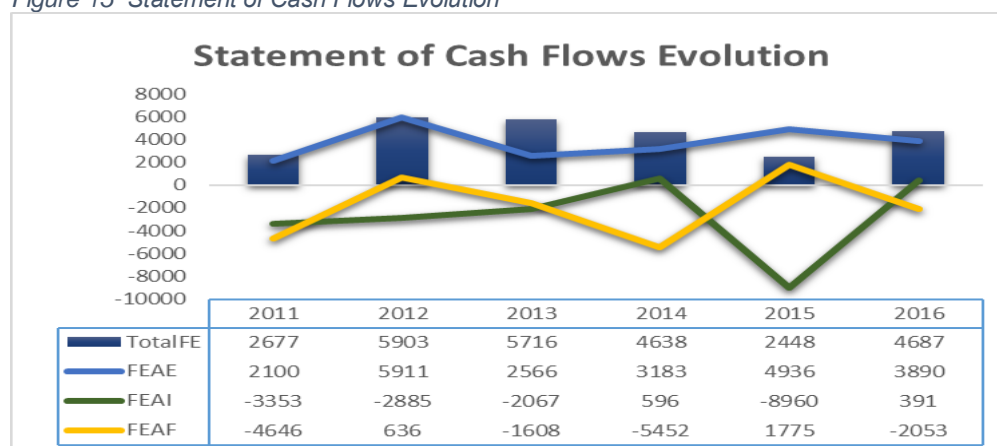
Finally, during 2016, the company gets earnings attributed to the parent entity, once again. In this case, earnings are influenced by the significant increase of incomes stemming from reversing an impairment loss of fixed assets. This fact, linked to the new sales during the year, generated a result attributed to the parent company, for a value of 1,736 million of euros.

5.5 Cash flow statement

REPSOLS uses certain raw material in order to produce its products, but now this material is scaring. As it will be explained below, the variations of the cash flow statement is linked to variations in oil prices (see the figure 15 “Statement of Cash Flows Evolution”).

Thus, three phases can be distinguished within the period of study: a cash increase from 2012 to 2014, a decrease of it until 2015 and a stable uprising from 2015 onwards.

Figure 15 “Statement of Cash Flows Evolution”



Source: Own elaboration based on data from the annual accounts of REPSOL, S.A.

On the one hand, by taking the Brent Price evolution as a reference, which will be analyzed before, it can be observed that the generated cash varies in the same way.

On the other hand, investments produced by this company were continuous until 2014, when property disinvestment and/or amortization become higher than its investments. This fact is caused because of the total acquisition of its Canadian affiliated and the conversion changes.

In 2015, there were a huge number of investment cash flows and a loss of capital flows. That can be explained, fundamentally, due to the higher amortizations of bunds, explorations, and productive assets included in business which were carried out by its subsidiary.

Finally, the REPSOL cash flow is stabilized during the two last periods. That is due to the fact that the economic-financial situation, as well as the Brent price, does not present drastic variations anymore.

5.6 Statement of changes in equity

The equity evolution of the company has undergone different fundamental changes that had to be mentioned and explained.

Even though they obtained benefits at the end of each period, the company's equity has increased gradually, as it can be observed in the figure number 16 "SCE summarized".

Figure 16 "SCE summarized"

	Capital	Prima de Emisión y reservas	Acciones y part. En patrimonio propias	Resultado del ejercicio atribuido a la sociedad dominante	Otros instrumentos de patrimonio neto	Ajustes por cambios de valor	Total Patrimonio Neto atribuible a la sociedad dominante y a otros tenedores de patrimonio	Intereses minoritarios	Total Patrimonio Neto
2010	1221	19343	0	4693	0	-1117	24140	1846	25986
2011	1221	23226	-2572	2193	0	-530	23538	3505	27043
2012	1282	24956	-1245	2060	0	-351	26702	770	27472
2013	1324	26240	-26	195	0	-526	27207	243	27450
2014	1375	24642	-127	1612	0	435	27937	217	28154
2015	1442	26030	-248	-1398	1017	1691	28534	228	28762
2016	1496	24232	-1	1736	1024	2380	30867	244	31111

Source: Own elaboration based on the annual accounts of REPSOL S.A.

First of all, it is important to mention that this company acquired its own shares in order to avoid an outflow of investments, given the results obtained. This action caused two stabilizing situations. On the one hand, REPSOL absorbed almost all the equity to

the parent entity, presenting less than 1% of the minority interests of the company. On the other hand, by acquiring its shares, they increased their capital and reserves, proportionally.

Secondly, by acquiring its own shares they depreciate the shares cost, as it will be seen later. As a consequence, it was clear that they would lose investors. However, REPSOL reacted by using its reserves in order to avoid this situation.

From 2015 onwards, the company decided to acquire less treasury shares and to reduce its reserves in order to deal with possible losses. In that way, they did not depreciate its share cost and investors continued to have confidence in its economic stability.

6. RATIOS

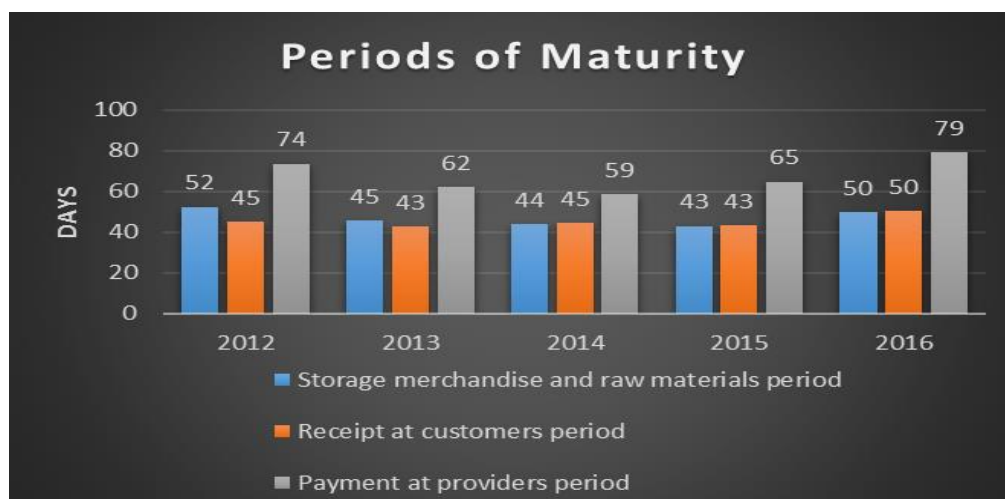
This section will discuss the evolution of the average maturity period as well as the different liquidity, solvency and bankruptcy indicators. All that will be based on the ratios and indicators about the economic and financial stability of REPSOL.

Firstly, the average maturity period is, in general terms, the average duration of what is known as short cycle or short-term cycle. In other words, it is the period between the beginning and the end of a full turnover of a floating asset.

By observing the figure number 17, “Maturity periods”, it is clear that the company has maintained the receipt at customer’s period around 43 and 45 days, approximately. Nevertheless, this period increased during the last year, and it reached 50 days. Due to the fact that they were periods no longer than a month, REPSOL S.A. aims to avoid, with these figures, the liquidity problems that could appear when developing its activities.

On the other hand, the company has always tried to supply the goods used, one day before they were sold. For this reason, the period presents practically the same values than the receipt at customer’s period. However, this asset turnover was slower during the two first periods. That was because they needed just a couple of days more in order to substitute the raw materials and stock, after selling.

Figure 17 “Maturity periods”



Source: Own elaboration based on data from the annual accounts of REPSOL S.A.

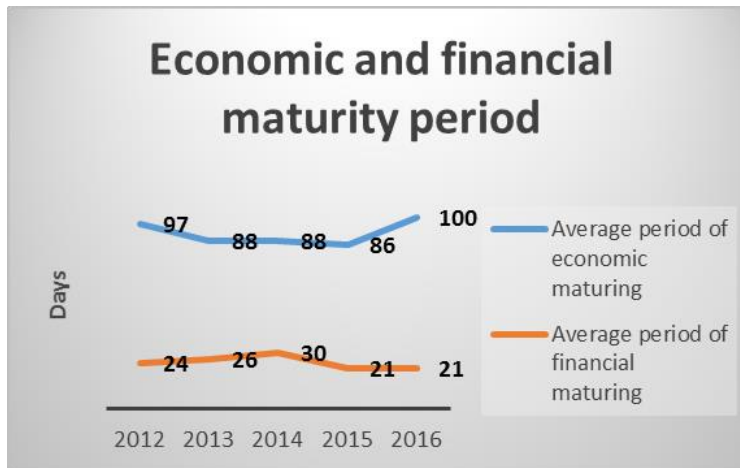
Finally, the payment at provider’s period, as funding method, has always been superior to the two last ones, almost 20 days, during the entire period of study. It gets the shortest period in 2014, with 59 days of payment period, and, on the contrary, the

longest period is in 2016 with 79 days of supplier payment at provider's period. This situation is caused by the lack of liquidity generated in 2015, as it will be explained below. Because of this limited liquidity of the company, REPSOL S.A. reinforced and improved the conditions with its suppliers in order to generate a stronger funding and deal.

In the second place, the evolution of the maturity periods can be observed in the figure 18 "Economic and financial maturity period". On the one hand, the average maturity period, 'is the time, on average, since a company invest on a monetary unit in the operating cycle, until it recovers its investments through sales' (Esteo, 1988). As it can be observed, this period has been about 3 months (90 days) during all the period of study, approximately. Nevertheless, both in 2012 and 2016, this period was placed in 100 days.

On the other hand, the average maturity period is also 'the time, on average, since a company pays each monetary unit invested in the operating cycle, until it recovers the investments by charging to clients' (Esteo, 1988). In this case, the evolution difference in relation to the last maturity period is due to the evolution of the payment at provider's period, as mentioned before. In this way, evolution is increasing in 2014 until reaching 30 days, however it decreases until 21 days during the two next periods.

Figure 18 "Economic and financial maturity period"



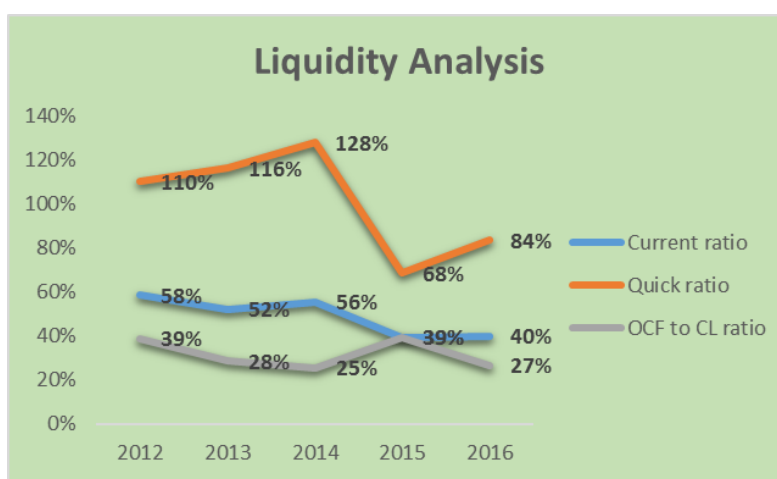
Source: Own elaboration based on data from the annual accounts of REPSOL S.A.

In the third place, this paper is going to be focused on the REPSOL liquidity ratios: Current Ratio, Quick Ratio and Operating Cash Flow to Current Liabilities Ratio.

As the figure number 19 “Liquidity Analysis” shows, its evolution has increased during the three first periods, until representing 128%, in 2014. However, in 2015, the company suffered a lack of liquidity that halved this ratio to 68%. After this lack of liquidity, in the last year, REPSOL S.A acquired enough cash flow and incremented its current ratio in 20%, likewise, it implied its liquidity conditions in the short terms.

The Quick Ratio follows the same evolution than the Current Ratio. Nevertheless, in 2015, when it suffers a reduction, in this case, it is not as notable as the last one because it passed from 56% in 2014 to 39% in 2015; about 17% less. This situation would explain why the lack of liquidity during this period is not marked by the REPSOL ability to generate liquid assets in the operating cycle, because this remains practically stable.

Figure 19 “Liquidity Analysis”



Source: Own elaboration based on data from the annual accounts of REPSOL S.A.

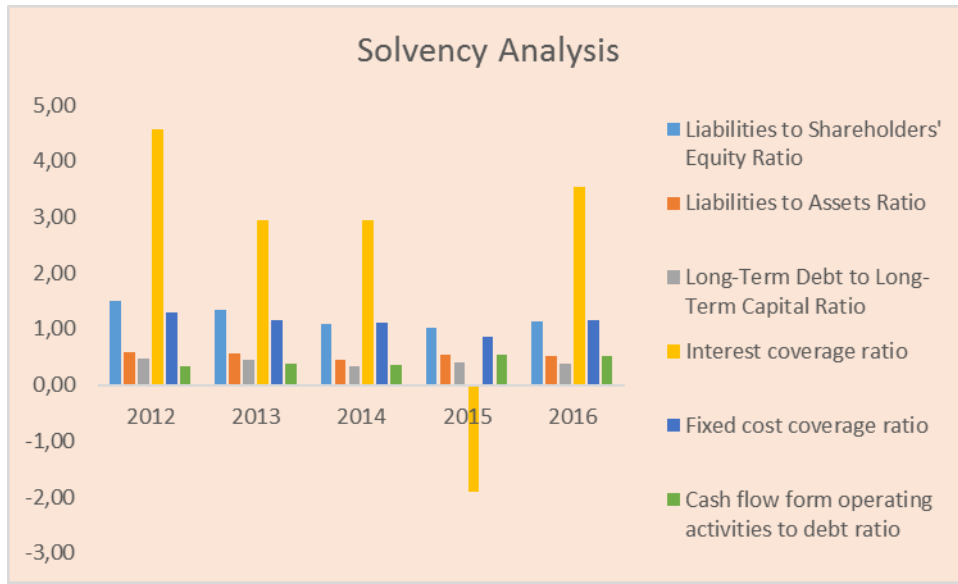
The Operating Cash Flow to Current Liabilities ratio has remained stable during the period of study. Particularly, in 2015, REPSOL S.A. generated more cash than the usual in order to deal with this lack of liquidity due to the reasons mentioned previously.

In the fourth place, the evolution regarding solvency ratios of REPSOL will be analyzed, more specifically: Liabilities to Shareholders’ Equity Ratio, Liabilities to Assets Ratio, Long-Term Debt to Long-Term Capital Ratio, Interest coverage Ratio, Fixed Cost coverage Ratio and Cash Flow from Operating Activities to Debt Ratio.

These ratios are reflected in the figure number 20 “Solvency analysis”, however, it only details the ratios which have more importance and variations. These ratios are the ones belonging to the Interest Coverage Ratio.

As it can be observed in the graph below, benefits have a high influence regarding the interest coverage. For this reason, due to the fact that, in 2015, REPSOL S.A suffered losses of 1,227 million of euros, a solvency problem arises in relation to the payment of interest derived from financial debts, by producing then an interest coverage ratio of -190%.

Figure 20 "Solvency Analysis"



Source: Own elaboration based on data from the annual accounts of REPSOL S.A.

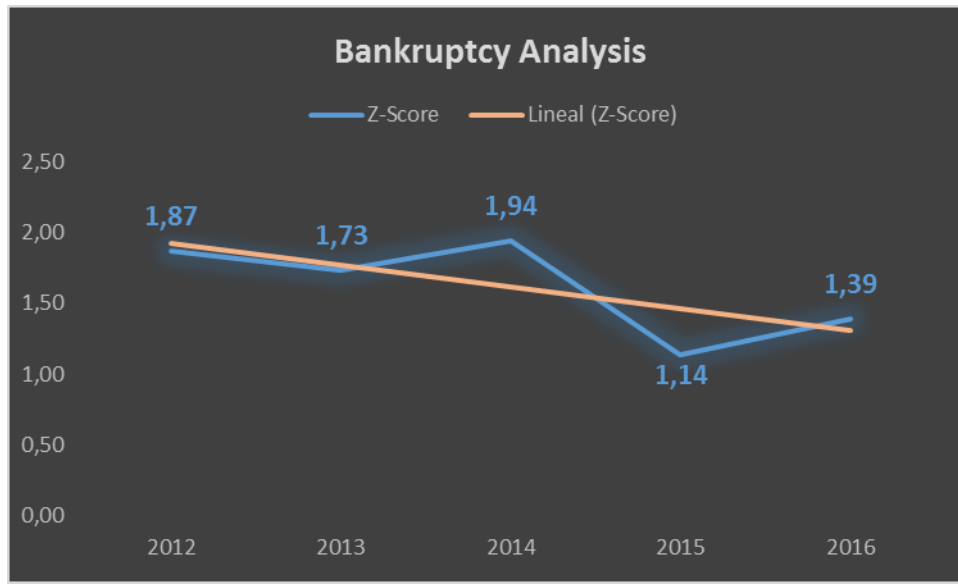
However, the other indicators of solvency remain steady along the period of the REPSOL analysis. Therefore, it is highly important to say that the economic-financial structure of the company stays fixed and solvent until nowadays.

At the final point, the evolution regarding the Altman Z-Score indicator will be analyzed in order to measure the financial strength of the company.

The figure number 21 named "Bankruptcy Analysis" shows the decreasing evolution of this indicator along the studied period. During the three first years, the Atlman Z-Score has been superior or close to 1.8, what is to say, the company is in an alert condition. The company management and administration must take measures because if financial conditions do not change over the coming years, the company bankrupt will be very probable.

In the two last tax years, the indicator is situated under 1.8; concretely, 1.14 in 2015 and 1.39 in 2016. Along these periods, the company situation is critical and dangerous, financially speaking. Therefore, REPSOL must restructure its organization because the company could go bankrupt in the coming years.

Figure 21 "Bankruptcy Analysis"



Source: Own elaboration based on data from the annual accounts of REPSOL S.A.

Nevertheless, even though there was a decline of 0.8 points in a year, by taking the most recent period as a reference, it can be observed that there are signs of financial improvement. That is due to the fact the company has improved its financial requirements, after having lived a drastic year, financially speaking, when it generated so high losses

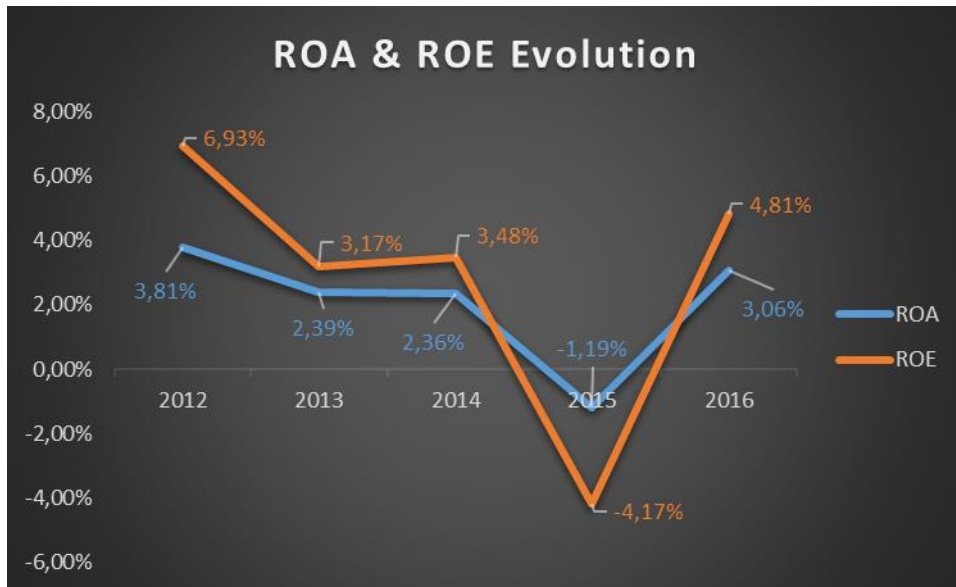
7. PROFITABILITY

The evolution regarding economic and financial returns has degraded along the period of study. In order to measure this decreasing effect, the return on asset (ROA) and return on Equity (ROE) will be analyzed, as well as its evolution represented in the figure 22 "ROA & ROE evolution".

Concerning the economic return, REPSOL S.A has seen how it was decreasing at the same time than the earnings of each period, in other words, the assets ability to generate incomes by themselves, has decreased. ROA establishes the relationship between the profit achieved (which has been reduced 40% in relation to the first period) and the total assets belonging to the company (which are decreasing 1% per year).

This effect can be explained by itemizing the return indicator and its components. On the one hand, the profit margin has decreased until arriving to its lowest point in 2015, for a value of -1.63% of profit margin. However, in 2016, REPSOL increased these figures until arriving to its first numbers, for a value of 5.22% regarding the profit margin. On the other hand, assets turnover has decreased gradually, year by year, so it passed from 87.72% in 2012, to 58.52% in 2016.

Figure 22 "ROA & ROE Evolution"



Source: Own elaboration based on data from the annual accounts of REPSOL S.A.

By basing this study in the financial profitability through ROE, it can be observed how its evolution has followed the same direction than the economic profitability. However, the graph shows that ROE variations have been extremes.

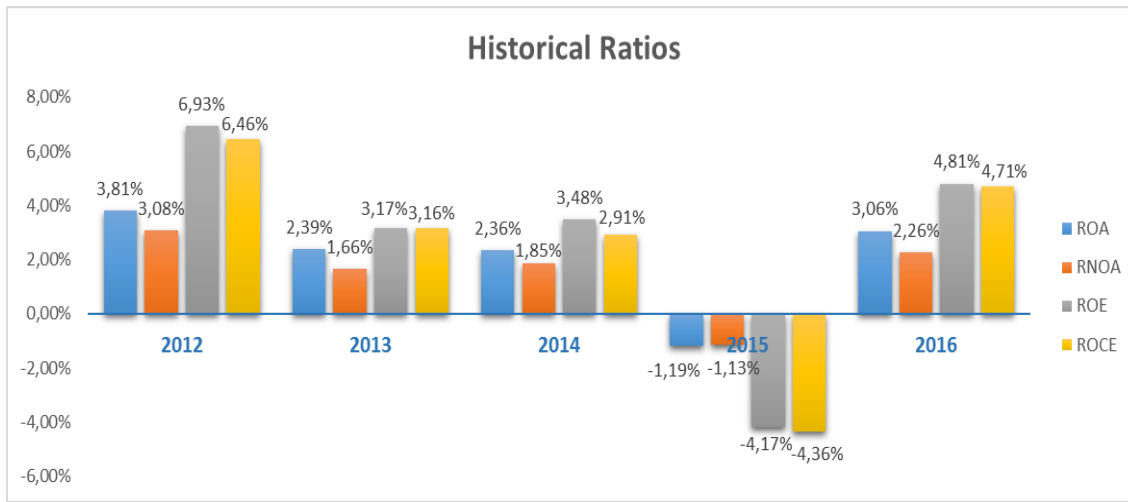
Generally, ROE measures how many resources are needed to earn economic benefits. In this case, REPSOL S.A is able to remunerate its shareholders satisfactorily with the capital provided, which is higher than its ability to generate benefits. This effect can be explained in two different ways.

On the one hand, the costs that the company involves when financing are, usually, around 1.5% of the total liabilities. For this reason, the company has not any problem to look for new financing sources during the periods which present more liquidity problems.

On the other hand, REPSOL S.A shows a high leverage situation that linked to the facility it has to fund; it represents a financial leverage of 2%. Consequently, variations are more fluctuating in the financial profitability than the economic profitability, in a determined period.

This hypothesis is reflected in the figure 23 “Historical Ratios” where it can be observed that ROCE and ROE always presents higher values than RNOA and ROA; either being positive or negatives.

Figure 23 “Historical Ratios”



Source: Own elaboration based on data from the annual accounts of REPSOL S.A.

8. CONCLUSIONS FROM THE RESULTS OBTAINED

Having reached this point, it is necessary to summarize the main conclusions and causes of why the annual accounts of REPSOL suffer variations along the period of study. Thus, there are four situations which can be differentiated perfectly and are of relevant importance to the company.

First of all, during 2013, REPSOL applied the new European regulation regarding accounts valuation and this fact affected directly the values belonging to the REPSOL consolidated annual accounts. As they are changes in the accounting policies, it provokes that the values of different items vary notably within the same period. For this reason, during 2013, the company suffered negative variations in its financial statements.

Secondly, by taking into account practically all the periods, the most important aspects are when REPSOL is constantly disinvesting. These disinvestments affected directly to the earnings obtained, by causing fluctuations of 80% between years. Therefore, the results obtained vary drastically during the studied periods.

Thirdly, and particularly, in 2015, there was an important fact because REPSOL acquired 100% of the Talisman Energy Inc. ordinary shares. In this way, REPSOL S.A provided 7,716 million of euros to acquire and invest on *Repsol Exploración S.A* and *Repsol Canada Inversiones*. This fact meant a relevant change regarding the company assets.

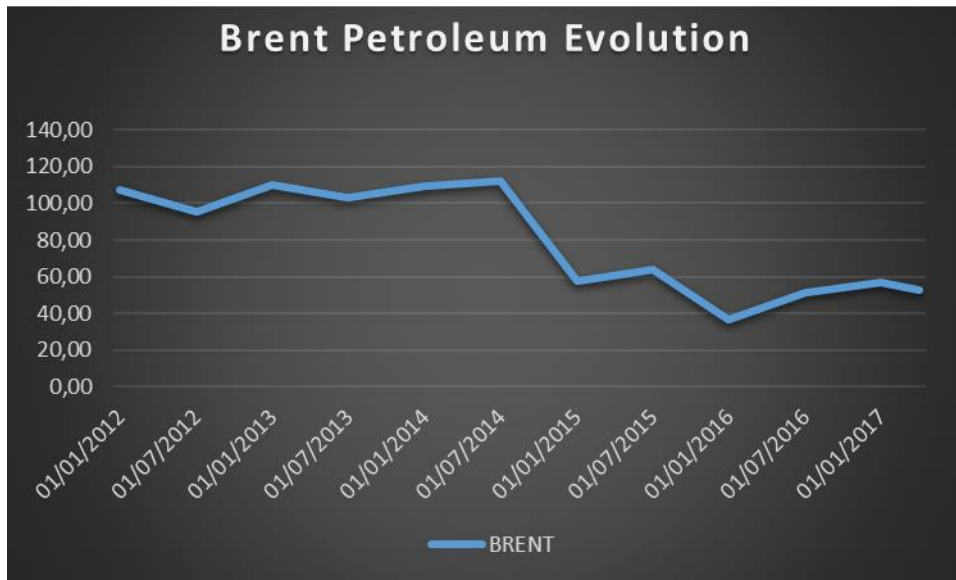
Fourthly and finally, during 2016, the company recovered profits thanks to the incomes concerning the reversal impairment provisions and gains on disposal of property, plant and equity. This item increased 150% in relation to 2016. That can be explained because they applied the new European accounting criteria which generated losses during the previous year.

These are the main conclusions that can be highlighted after analyzing and studying the annual accounts of REPSOL S.A. Now it is time to analyze the Spanish refining market in order to compare the company studied with its direct competitors. In this way, it would be possible to corroborate that REPSOL is the leader within its niche market.

9. OIL REFINING MARKET ANALYSIS

In order to optimize the oil refining market analysis, the Brent oil prices will be studied because they are the most relevant indicator. Likewise, this section will assess the evolution of the direct competences of REPSOL that have been chosen to compare their synergies with the petroleum price.

Figure 24 “Historical Brent Price”



Source: Own elaboration based on the historical Brent Price extracted from INFOBOLSA

In the figure 24 “Historical Brent Price”, the Brent barrel price has been fluctuating along the years. From 2012 to 2015, the Brent barrel price was stabilized around 105 dollars per barrel, by reaching the maximum price in 2015 with 112.1\$. This stability comes from the continued economic equilibrium between supply and demand of crude oil. There were only a few petroleum extraction companies which were dealing with global demand for crude oil, at that time.

However, there were two important facts: an historical decline in petroleum prices during 2015, and a new stability regarding these prices from the beginning of 2016 to nowadays.

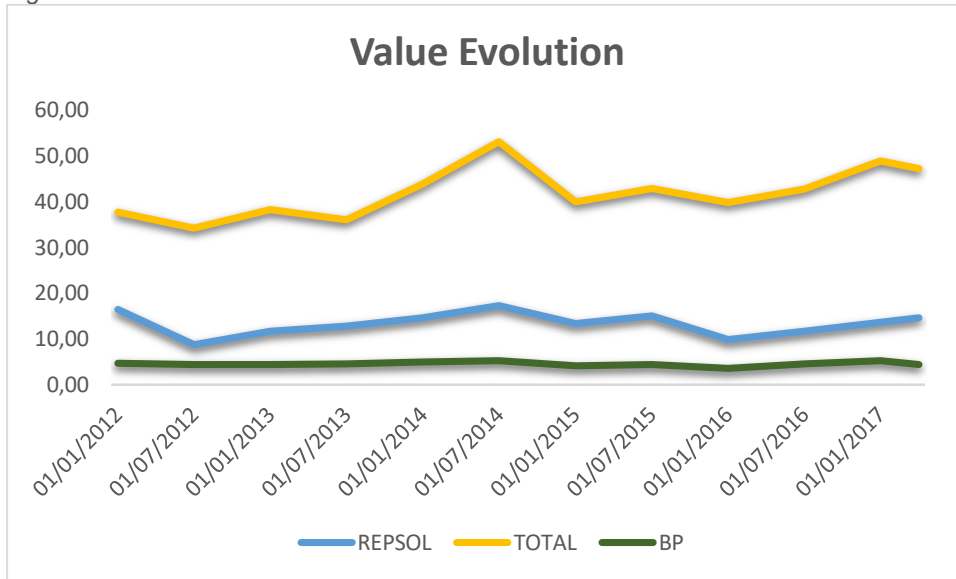
With regard to the collapse in prices, the Brent oil price became deteriorated by up to 50% in 2015. This incident was caused because of the over-exploitation and over-supply generated by the United States and Saudi Arabia, the main extractors of crude oil.

According to *ElEconomista* (2015, 4), “petroleum reached its lowest level in January of 2015, around 45 dollars per barrel, six weeks after Saudi Arabia furthered its position of maintaining the production in spite of the growing reserves caused by the fracking expansion”. Thus, after losing the market leadership as a result of the expansion of the US companies, the Saudi countries opted to use this offensive, even though the OPEC (Organization of the Petroleum Exporting Countries) refused it. Consequently, the Brent oil price presented its lowest price at the end of 2015, by becoming 38.47\$.

Secondly, after declining in the previous year, the Brent price was stabilized and began to increase gradually until reaching around 50\$. This upward intervention was thanks to the OPEC because they established a reduction of crude oil production to stop the continued decline of prices; likewise, it would foment again its growth. As it is mentioned in an article belonging to a Spanish economic newspaper named *Expansión* (2016), “the output reduction, together with the high global demand that represented 1.23 million of euros daily, has as objective to start an upward trend in the crude oil prices”. Given the critical situation concerning the oil price, the OPEC intervention was the key to not block the oil market. The reduction of oil production and the technological advance helped to rise again the Brent price, as a consequence, the Brent barrel was stabilized around 50\$.

By revolving around the other companies, the figure number 25 named “Value Evolution” shows the share prices belonging to TOTAL, REPSOL and, to a lesser extent, BP, that have increased gradually in spite of the fluctuations mentioned about the Brent price.

Figure 25 "Value Evolution"



Source: Spanish Stock Exchange, Euronext Paris and London Stock exchange.

TOTAL, S.A. is more affected by the Brent Price variation than the other competitors. That is due to the fact that its transactions are focused, practically all of them, in treating and distributing this crude. Therefore, TOTAL is more affected, drastically, by the drop in the Brent oil price than REPSOL and BP. Graphically; it can be observed how, after the Brent price decline in the summer of 2014, TOTAL shares decreased around 1,000 base points.

On the contrary, BP spreads out its activity in different sectors; therefore, the Brent price fluctuations not affect directly its share prices in the London Stock Exchange.

Regarding REPSOL, it occupies the halfway point between its two competitors. On the one hand, it diversifies when developing its activities. On the other hand, given the fact that its main activity is to process and distribute hydrocarbons, the Brent prices does not affect this company significantly.

As an explanatory note, the next section also will show an analysis of CLH and CEPSA. However, it has been impossible to study its prices evolution because of the lack of information. That is due to the both companies stopped being listed in the Spanish continuous market.

CEPSA stop being listed in 2011 because this company was absorbed by a part of the sovereign fund belonging to the Abu Dhabi International Petroleum Investment Company. As *EIEconomista* (2011) said: "the fact of being excluded from trading was produced after IPIC, which already controlled 47.06% of CEPSA, presented a takeover

bid for the entire company with the TOTAL agreement, which had 48.83% of shares to intervene”.

Furthermore, CLG ceased trading in the Spanish market after reaching a takeover bid of exclusion at the end of 2015. According to *EIEconomista* (2015): “The National Market Commission decided to cancel, in a precautionary way, the exchange of CLH, *Compañía Logística de Hidrocarburos*, after the public offer of a takeover bid launched by the company”.

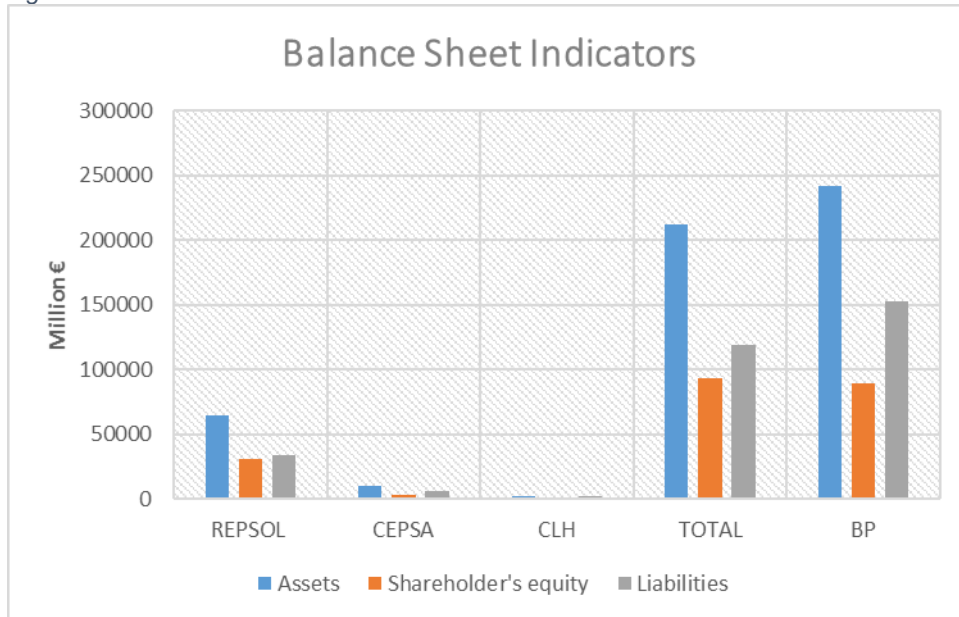
10. COMPARISON BETWEEN THE DIRECT COMPETITORS OF REPSOL

In this section, data from the annual accounts and the most important ratios of REPSOL will be compared to different competitors in the refining market. To do this, two Spanish competitors companies in the Spanish market have been selected, but also two international companies. These companies are CEPSA and CLH, nationally; and TOTAL S.A and BP, globally.

This comparison will be divided into two sectors easily identifiable. On the one hand, the most relevant data regarding Balances, Losses and Profits of each company, by assets, liabilities, net income, sales and earnings. On the other hand, the most important ratios concerning solvency, liquidity and profitability, of each company that distributes hydrocarbon.

To start the comparison, and by focusing the study in the figure number 26, “Balance Sheet Indicators”, the items regarding assets, liabilities and net income belonging to the 5 companies will be compared.

Figure 26 "Balance Sheet Indicators"



Source: Own elaboration based on the annual accounts of REPSOL S.A.

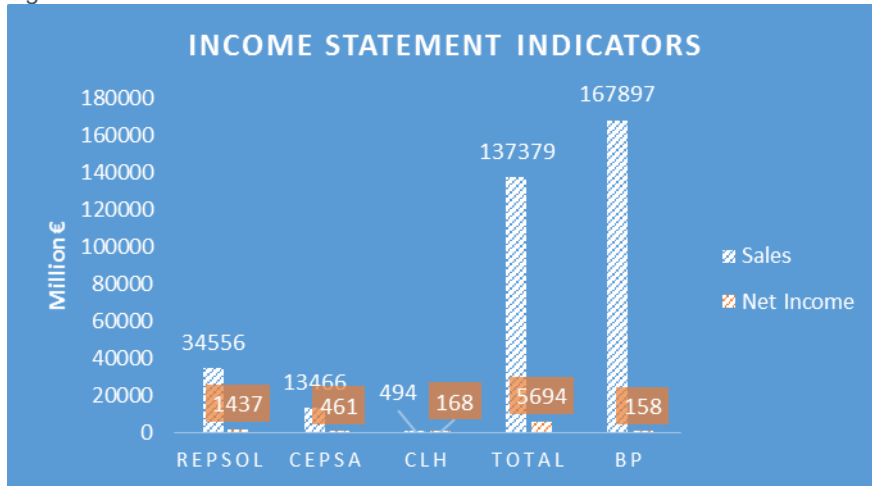
REPSOL is clearly the leader in the Spanish refining market because its values are 5 times higher than its principal competitor CEPSA. Such is the case that the assets, liabilities and net income values of REPSOL are of: 64,849, 33,738 and 31,111 million of euros, respectively; while the values of CEPSA are: 9,835, 6,552 and 3,283, respectively.

However, as it can be observed, REPSOL is not a strong competitor in the refining market at the international level; although it is considered the 24th hydrocarbon distribution company at the global level.

In this sphere, both TOTAL S.A and BP are larger companies in the market. Such is the case that the balance values of these companies are: 211,906, 118,719 and 93,187 million of euros, respectively, and for TOTAL: 241,574, 152,728 y 88,847 million of euros, respectively, in the BP case.

Now, by focusing on the losses and profits data, the REPSOL situation, in relation to its competitors, is identical to that previous one mentioned, according to the Balance sheet data.

Figure 27 “Income Statement Indicators”



Source: Own elaboration based on the annual accounts of REPSOL S.A.

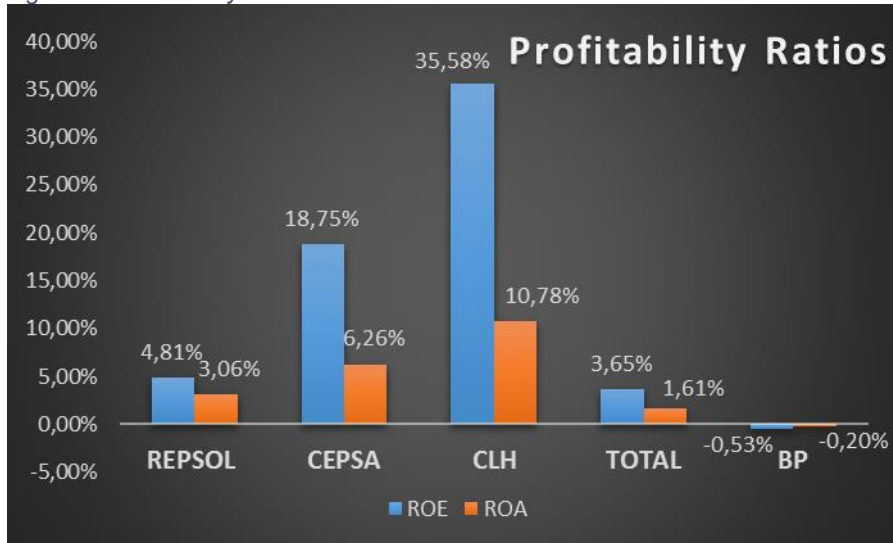
As we can observe in the figure 27, “Income Statement Indicators”, the business number of REPSOL is higher than its competitors in Spain, but regarding the international competitors, this number is very inferior. Both TOTAL and BP operate with more than 100,000 million of euros, more than REPSOL.

In spite of the drastic difference between sales, it can be observed how REPSOL, with its management and activity, has obtained annual benefits which are very close to the figures of its competitor. Therefore, by focusing on the graph, REPSOL has higher annual profits than some larger international companies, as in the case of BP; but not when comparing to TOTAL.

One more time, in the Spanish refining market, REPSOL is leader in both sales and earnings. Neither CEPSA nor CLH are close to the REPSOL’s business figures, as a consequence, in earnings and sales, REPSOL gets stronger and becomes the leader in the market.

To continue with this study, we are going to focus on the comparison between the ratios concerning economic profitability (ROA) and financial profitability (ROE) of the company.

Figure 28 “Profitability Ratios”



Source: Own elaboration based on the annual accounts of REPSOL S.A.

As the figure 28 “Profitability Ratios” shows, the situation of economic stability is reversed with respect to the amounts in the annual accounts. In this case, when operating with fewer amounts during its activities, the economic and financial performance of the REPSOL's competences, at the national level, are high in relation to the target company. Both CEPSA and CLH obtain a financial return which is two and three times greater than REPSOL; 6.26% and 10.78%, respectively.

Regarding the economic profitability (ROA), proportionalities are even higher because the competition obtains 18.75% and 35.58%, respectively, as opposed to REPSOL with 4.81%.

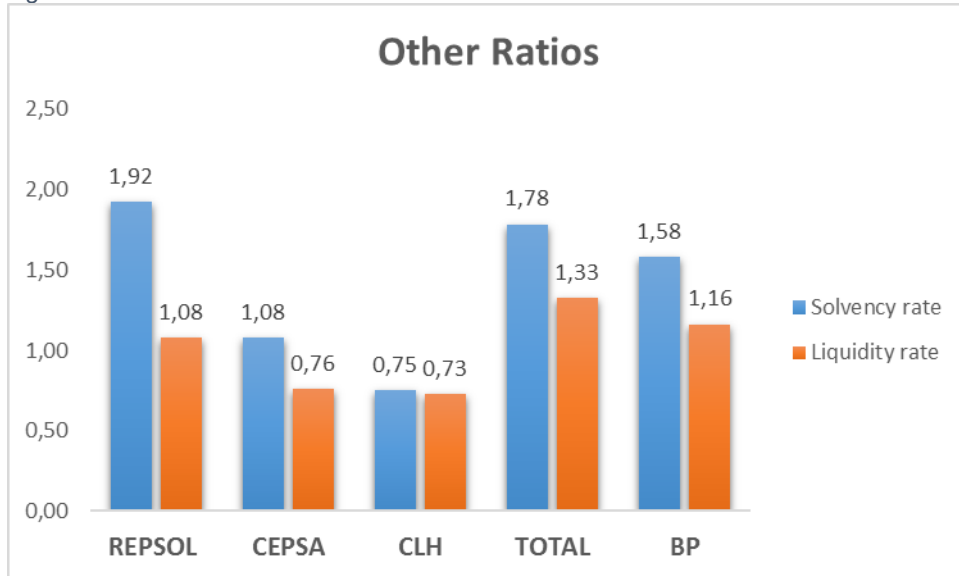
If these companies are compared to the leaders in the sector, they are relatively small, but these, including REPSOL, have a lower risk of registering losses in their activities. This theory is reflected in the TOTAL and BP profitability because they are larger multinationals, for this reason, they obtain a lower profitability than the REPSOL ones, even registering negative data as in the case of BP (a ROA of -0.53% and a ROE of -0.20%).

For all that, REPSOL, despite obtaining a beneficial profitability (4.81% and 3.06%), could improve its management and activity in the future in order to extent and operate with higher business numbers or to optimize its distribution for a higher profitability.

In the second place, we will see the solvency and liquidity ratios belonging to these companies in order to value its abilities to generate cash, as well as how they deal with debts and liabilities by using its assets; either liquids or not.

The figure 29 “Other Ratios” shows how REPSOL obtains higher solvency and liquidity ratios than its national competitors. In addition, REPSOL has the highest solvency ratio between the 5 companies (1.92), followed by TOTAL (1.78) and BP (1.58).

Figure 29 “Other Ratios”



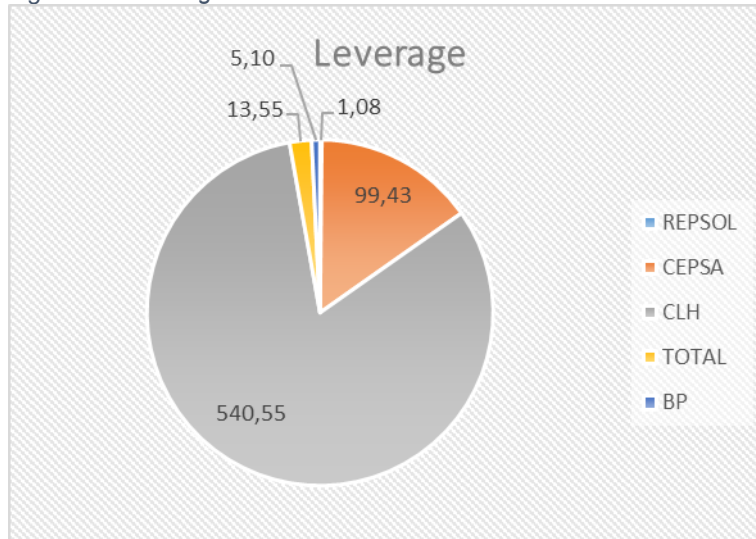
Source: Own elaboration based on the annual accounts of REPSOL S.A.

On the other hand, according to the liquidity ratio, REPSOL is at the same level as its national competitors; 1.08 in front of 1.33 and 1.16 of TOTAL and BP. As discussed above, this economic solvency is explained by the easy capacity that REPSOL has to face its non-current liabilities with its non-current assets, considering that figures are practically the same. In terms of liquidity, REPSOL has abundant cash assets and generates enough liquidity to cover its current debts for each year, in spite of its smallness compared to TOTAL or BP.

For these reasons, REPSOL is a leader in the national refining market because its solvency and liquidity capacities are practically the double than its national competitors. Statistically, REPSOL obtained a solvency ratio of 1.92 and a liquidity ratio of 1.08, higher than the CEPESA (1.08 and 0.76) and CLH (0.75 and 0.73) ratios.

Thirdly, we will see how the leverage degree of companies influences when developing its activity and its possible future growth. This impact is shown in the figure number 30, named “Leverage”, where the leverage belonging to the five companies can be observed, in percentages.

Figure 30 "Leverage"



Source: Own elaboration based on the annual accounts of REPSOL S.A.

In this figure, it can be seen how the financial leverage degree affects negatively to the growth and development of the company. The smallest companies such as CEPSA and CLH have a leverage ratio of 99.43 and 540.55, respectively. These figures predict a bad and drastic situation of decreasing, by producing imminent losses.

However, TOTAL and BP international competences show a moderate degree of leverage, by obtaining 13.55 and 5.10, respectively. In this financial situation, these companies are involved in an environmental stability and economic sustainability. However, the quality and quantity of leverage can be improved and reduced, as it happened in the case of REPSOL (1.08).

Once again, REPSOL obtains the highest level concerning the financial leverage of all the companies analyzed, by presenting a ratio of 1.08. This situation improves the company's image and strengthens its position of leadership in the national market because it presents better financial figures even than its international competitors.

Finally, it can be said that REPSOL presents favorable economic and financial characteristics to maintain its leaderships in the Spanish refining market. Moreover, the company can develop and grow as a hydrocarbons distributor in other markets, as well as to try to position itself as one of the leading companies in the global refining market.

11. CONCLUSIONS

After this study, several conclusions have been reached according to the accounting and financial analysis of the company, the evolution of the refining market and the comparison with the competitors of REPSOL.

Firstly, REPSOL S.A. has reacted very favorably to those extreme fluctuations that the oil price suffered throughout the period of study. The reasons for this adaptation were three. One of them is the easy ability to convert their non-liquid assets in current assets. Another reason is the optimum management and development in the different territorial sectors. The last reason is the fast detection and elimination of their less productive or less beneficial sectors.

Secondly, the company has been able to boost itself in two different aspects and all thanks to the economic stability and the beneficial ratios of profitability, solvency and liquidity. One aspect has been the fact of consolidating itself as the leader in the Spanish market of hydrocarbons distribution. The second aspect is the possibility of growing and developing its activity in other markets in order to compete with the world leaders of the refining market.

Finally, it is necessary to talk about the financial situation of REPSOL. Its low leverage level allows carrying out new financial agreements to obtain liquidity and assets, and then, to be able of extending them to new markets.

Conversely, REPSOL presents several problematic situations when growing and developing as a company. On the one hand, in a situation of economic instability at the global level, it is very complicated to study and value the markets and other target segments. On the other hand, the difference between the world market leaders is high. Therefore, despite the fact of being a potential worldwide competitor, REPSOL cannot be sure of presenting a favorable development or expansion.

For all these reasons, REPSOL is considered as a leading company in the national refining market, by operating in all the Spanish provinces. In addition, the company is considered as a potential competitor that could be a direct rival to the world's leading companies in distributing and processing hydrocarbon. This last hypothesis can become reality because, nowadays, the target company has the optimum economic-financial conditions.

12. ANNEXES

1. Balance Sheet REPSOL, S.A

(expressed in millions of euros)

	2011	2012	2013	2014	2015	2016
NON-CURRENT ASSETS	50628	44760	42582	34848	50326	48921
Intangible assets	7783	5514	5325	1859	4522	5109
Goodwill	4645	2678	2648	498	3099	3115
Other intangible assets	3138	2836	2677	1361	1423	1994
Property, plant and equipment	36759	28227	26244	17141	28437	27297
Property investments	24	25	24	23	26	66
Investments accounted for using the equity method	699	737	412	11110	11758	10176
Non-current assets held for sale subject to expropriation		5392	3625			
Non-current financial assets	2450	1313	1802	593	715	1204
Deferred tax assets	2569	3310	4897	3967	4689	4746
Other non-current assets	344	242	253	155	179	323
CURRENT ASSETS	20329	20161	22504	17041	12751	15928
Current assets held for sale	258	340	1851	98	262	144
Stocks	7278	5501	5256	3931	2853	3605
Commercial debtors and other accounts receivable	9222	7781	7726	5685	5680	5885
Customers for sales and services	6555	6081	5621	3083	2607	3111
Other debtors	2147	1284	1634	1970	2060	1785
Current tax assets	520	416	471	632	1013	989
Other current assets	220	221	144	176	271	327
Other financial current assets	674	415	93	2513	1237	1280
Cash and cash equivalents	2677	5903	7434	4638	2448	4687
TOTAL ASSETS	70957	64921	65086	51889	63077	64849
EQUITY	27043	27472	27920	28154	28689	31111
Capital and reserves	24068	27053	27733	27502	26789	28487
Capital	1221	1282	1324	1375	1442	1496
Share premium account	6428	6428	6428	6428	6428	6428
Reserves	247	247	259	259	259	259
Shares and equity investments	-2572	-1245	-26	-127	-248	-1
Profit or loss brought forward and other reserves	17186	18465	19785	19524	19346	17644
Earnings attributed to the parent company	2193	2060	195	1612	-1227	1736
Dividends and remunerations	-635	-184	-232	-1569	-228	-99
Other equity instruments					1017	1024
ADJUSTMENTS FOR CHANGES IN VALUE	-530	-351	-526	435	1672	2380
Financial assets available for sale	-4	42	488	-5	3	6
Other financial instruments		15				
Hedging operations	-181	-210	-60	-163	-227	-171
Exchange differences	-345	-198	-954	603	1896	2545
EQUITY ATTRIBUTED AT THE PARENT COMPANY	23538	26702	27207	27937	28461	30867
MINORITY INTERESTS	3505	770	713	217	228	244
NON-CURRENT LIABILITIES	26810	24139	22347	13492	19911	19001
Grants	118	61	66	9	7	4
Non-current provisions	3826	2258	3625	2386	5827	6127
Financial non-current liabilities	15345	15300	13125	7612	10581	9482
Bank debts and bonds or other negotiable values	15137	15073	13053	7524	10491	9396
Other financial liabilities	208	227	72	88	90	86
Deferred tax liabilities	3839	3063	3352	1684	1554	1379
Other non-current liabilities	3682	3457	2179	1801	1942	2009
CURRENT LIABILITIES	17104	13310	14819	10243	14477	14737
Pasivos vinculados con activos no corrientes mantenidos para la venta	32	27	1533		8	146
Current provisions	452	291	303	240	1377	872
Financial current liabilities	4985	3790	4519	4086	7073	6909
Bank debts and bond or other negotiable values	4902	3721	4464	1450	4152	3716
Other financial liabilities	83	69	55	2636	2921	3193
Commercial creditors and other accounts payable	11635	9202	8464	5917	6019	6810
Suppliers	4757	4376	4115	2350	1799	2128
Other creditors	6522	4507	4056	3402	3975	4365
Current tax liabilities	356	319	293	165	245	317
TOTAL EQUITY AND LIABILITIES	70957	64921	65086	51889	63077	64849

2. Income Statement; REPSOL, S.A.

CONTINUING OPERATIONS (expressed in millions of euros)	2011	2012	2013	2014	2015	2016
Sales	49994	57193	54683	45433	39582	34556
Income from services and other income	909	1731	1063	409	155	133
Change in stocks of finished products and in process of manufacture products	711	-389	-228	-224	-524	129
Income from reversal of impairment provisions and gains on disposals of property	206	273	23	290	659	1625
Imputation of non-financial fixed assets grants and other	17	13	13	1		
Other operating income	800	772	744	1383	1869	990
OPERATING INCOME	52637	59593	56298	47292	41741	37433
Supplies	-39607	-44471	-43170	-38254	-28833	-23615
Personal expenses	-1809	-1977	-2039	-1729	-2129	-2501
Other operating expenses	-5421	-6128	-5796	-4847	-6540	-5930
Amortization of property, plant and equipment	-2069	-2587	-2559	-1796	-2988	-2529
Expenses from provisions for impairment and losses on disposals of property	-182	-144	-163	-588	-3691	-947
OPERATING EXPENSES	-49088	-55307	-53727	-47214	-44181	-35522
EARNINGS BEFORE INTEREST AND TAXES	3549	4286	2571	78	-2440	1911
Financial Income	166	128	162	134	150	176
Financial Expenses	-871	-994	-963	-576	-718	-741
Change in the fair value of financial instruments	150	26	-131	529	1052	189
Exchange differences	-308	11	98	-304	-204	94
Impairment and earnings from disposal of financial instruments	1	-28	79	369	170	48
NET FINANCIAL	-862	-857	-755	152	450	-234
Result of entities valued by the net tax-sharing method	72	117	48	892	-94	194
EARNINGS BEFORE TAXES	2759	3546	1864	1122	-2084	1871
Tax on benefits	-991	-1581	-947	-146	899	-391
Earnings from continuing operations	1768	1965	917	976	-1185	1480
Earnings attributable to minority interests from continuing operations	-111	-75	-38			-43
Earnings attributed to the parent company from continuing operations	1657	1890	879	976	-1185	1437
Earnings from discontinued operations net of taxes	776	279	-684	597		299
Earnings attributable to minority interests from discontinued operations	-240	-109		39	-42	
Earnings attributed to the parent company from discontinued operations	536	170	-684	636	-42	299
TOTAL EARNINGS ATTRIBUTED TO THE PARENT COMPANY	2193	2060	195	1612	-1227	1736
EARNINGS PER SHARE ATTRIBUTED TO THE PARENT COMPANY						
Basico	1,72	1,7	0,15	1,17	-0,87	1,16
Diluted	1,72	1,7	0,15	1,17	-0,87	1,16
Shares	1221	1256	1302	1350	1400	1466
Market capitalization	2100	2136	195	1580	-1218	1700

3. Statement of Cash Flow

(expressed in millions of euros)	2011	2012	2013	2014	2015	2016
Earnings before taxes	2759	3546	1282	1122	-2352	1871
Result adjustment	2735	3410	1467	1410	6081	2547
Amortization of property, plant and equipment	2069	2587	1520	1796	3124	2529
Other result adjustment (net)	666	823	-53	-386	2957	18
Changes in current capital	-2275	696	-275	966	1370	-517
Other cash flows from operating activities	-1119	-1741	92	-315	-163	-11
Dividend charges	62	75	628	530	363	920
Tax collection / (payments)	-1009	-1534	-425	-611	-128	-264
Other collections / (payments) of operating activities	-172	-282	-111	-234	-398	-667
Cash Flows from Operating Activities	2100	5911	2566	3183	4936	3890
Investment payments	-4287	-3907	-2335	-4200	-12232	-3649
Associates and group companies	-275	-255	-143	-18	-8974	-842
Property, plant and equipment, intangible assets and property investments	-3552	-3424	-1992	-2606	-2991	-2003
Other financial assets	-278	-228	-200	-1576	-267	-804
Other assets	-182					
Divestment charges	932	1144	268	4792	2778	4056
Associates and group companies	396	640	144	116	894	3090
Property, plant and equipment, intangible assets and property investments	103	55	82	84	352	813
Other financial assets	433	449	42	4592	1532	153
Other cash flows	2	-122		4	494	-16
Cash Flows from Investing Activities	-3353	-2885	-2067	596	-8960	391
Collections and (payments) for equity instruments	-2557	1388	1014	-82	861	-92
Acquisition	-2703	-61	-106	-171	-318	-103
Alienation	146	1449	1120	89	183	11
Issue					996	23
Amortization						-23
Collections and (payments) for financial liability instruments	134	759	-1126	-3184	1255	-910
Issue	7626	7988	7141	4488	12244	12712
Return and amortization	-7492	-7229	-8267	-7672	-10989	-13622
Payments for dividends and remuneration of other equity instruments	-1333	-947	-470	-1712	-488	-420
Other Cash Flows from Financing Activities	-890	-564	-1026	-474	147	-631
Interest payment	-879	-900	-591	-610	-682	-591
Other collections / (payments) of financing activities	-11	336	-435	136	829	-40
Cash Flows from Financing Activities	-4646	636	-1608	-5452	1775	-2053
Effect of changes in exchange rates	-81	-78	-18	147	59	11
Net increase / (decrease) of cash and cash equivalents	-5980	3584	-1127	-1526	-2190	2239
Discontinued operations cash flows from operating activities	2020	867	110	-86		
Discontinued operations cash flows from investment activities	-1951	-872	2378	535		
Discontinued operations cash flows from financing activities	2143	-346	249	-1		
Discontinued operations effect of changes in exchange rates	-3	-7	-2			
Discontinued operations net increase / (decrease) of cash and cash equivalents	2209	-358	2735	448	0	0
Cash and cash equivalents at the beginning of the period	6448	2677	4108	5716	4638	2448
Cash and cash equivalents at the end of the period	2677	5903	5716	4638	2448	4687
Register and banks	1303	4036	3911	2210	2311	3207
Other financial assets	1374	1867	1805	2428	137	1480
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2677	5903	5716	4638	2448	4687

4. Statement of Changes in Equity

(expressed in millions of euros)

	EQUITY ATTRIBUTED TO THE PARENT COMPANY								
	OWN FUNDS								
	Capital	Reserves and Issue Premium	Own shares and equity interests	Earnings attributed to the parent company	Other equity instruments	Adjustments for changes in value	Total equity attributed to the parent company and to other holders of equity instruments	Minority interests	Total Equity
Final balance at 31/12/2010	1221	19343	0	4693	0	-1117	24140	1846	25986
Adjustments									
Adjusted starting balance	1221	19343	0	4693	0	-1117	24140	1846	25986
Total recognized income / (expenses)		-10		2193	0	298	2481	516	2997
Transactions with shareholders or owners									
Expansion / (reduction) of capital									
Distribution of dividends		-1276					-1276	-404	-1680
Operations with shares or equity investments (net)		-12	-2572				-2584		-2584
Expansion / (reduction) by variation of perimeter		478				312	790	1537	2327
Other transactions with shareholders or owners									
Other changes in equity									
Transfers between items of equity		4707		-4693		-24	-10	10	
Other changes in equity		-4				1	-3		-3
Final balance at 31/12/2011	1221	23226	-2572	2193	0	-530	23538	3505	27043
Adjustments									
Adjusted starting balance	1221	23226	-2572	2193	0	-530	23538	3505	27043
Total recognized income / (expenses)		-17		2060		179	2222	85	2307
Transactions with shareholders or owners									
Expansion / (reduction) of capital	61	-61							
Distribution of dividends								-70	-70
Operations with shares or equity investments (net)		45	1327				1372		1372
Expansion / (reduction) by variation of perimeter								-8	-8
Other transactions with shareholders or owners		-426					-426		-426
Other changes in equity									
Transfers between items of equity		2193		-2193					
Other changes in equity		-4					-4	-2742	-2746
Final balance at 31/12/2012	1282	24956	-1245	2060	0	-351	26702	770	27472
Adjustments									
Adjusted starting balance	1282	24956	-1245	2060	0	-351	26702	285	26987
Total recognized income / (expenses)		-1		195		-180	14	-33	-19
Transactions with shareholders or owners									
Expansion / (reduction) of capital	42	-42							
Distribution of dividends		-51					-51	-3	-54
Operations with shares or equity investments (net)		-206	1219				1013		1013
Expansion / (reduction) by variation of perimeter									
Other transactions with shareholders or owners		-464					-464		-464
Other changes in equity									
Transfers between items of equity		2060		-2060					
Other changes in equity		-12				5	-7	-6	-13
Final balance at 31/12/2013	1324	26240	-26	195	0	-526	27207	243	27450
Adjustments									
Adjusted starting balance	1324	26240	-26	195	0	-526	27207	243	27450
Total recognized income / (expenses)		-5		1612		951	2558	-25	2533
Transactions with shareholders or owners									
Expansion / (reduction) of capital	51	-51							
Distribution of dividends		-1324					-1324	-1	-1325
Operations with shares or equity investments (net)		2	-101				-99		-99
Expansion / (reduction) by variation of perimeter									
Other transactions with shareholders or owners		-400					-400		-400
Other changes in equity									
Transfers between items of equity		195		-195					
Other changes in equity		-15				10	-5		-5
Final balance at 31/12/2014	1375	24642	-127	1612	0	435	27937	217	28154
Adjustments		225				5	230		230
Adjusted starting balance	1375	24867	-127	1612	0	440	28167	217	28384
Total recognized income / (expenses)		11		-1398		1259	-128	56	-72
Transactions with shareholders or owners									
Expansion / (reduction) of capital	67	-67							
Distribution of dividends									
Operations with shares or equity investments (net)		3	-121				-118		-118
Expansion / (reduction) by variation of perimeter		49				18	67	-45	22
Other transactions with shareholders or owners		-471					-471		-471
Other changes in equity									
Transfers between items of equity		1590		-1612	1017		995		995
Other changes in equity		48				-26	22		22
Final balance at 31/12/2015	1442	26030	-248	-1398	1017	1691	28534	228	28762
Adjustments									
Adjusted starting balance	1442	26030	-248	-1398	1017	1691	28534	228	28762
Total recognized income / (expenses)		-11		1736		688	2413	46	2459
Transactions with shareholders or owners									
Expansion / (reduction) of capital	54	-54							
Distribution of dividends								-9	-9
Operations with shares or equity investments (net)		-61	247				186		186
Expansion / (reduction) by variation of perimeter								-21	-21
Other transactions with shareholders or owners		-243					-243		-243
Other changes in equity									
Transfers between items of equity		-1427		1398	7		-22		-22
Other changes in equity		-2				1	-1		-1
Final balance at 31/12/2016	1496	24232	-1	1736	1024	2380	30867	244	31111

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