

SECTORAL ANALYSIS OF ACCOMMODATION AND FOOD SERVICE ACTIVITIES



Central Balance-Sheet Studies
November 2011

5



Banco de Portugal

EUROSYSTEM

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BANCO DE PORTUGAL

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www.bportugal.pt

Edition

Statistics Department

Translation

International Relations Department

Translation Unit

Design, printing and finishing

Administrative Services Department

Documentation, Editing and Museum Division

Editing and Publishing Unit

Lisbon, 2013

Number of copies

200

ISBN 978-989-678-221-4 (print)

ISBN 978-989-678-222-1 (online)

ISSN (print) - 2182-1704

ISSN (online) - 2182-1712

Legal Deposit 326546/11

FOREWORD

This analysis is based on data obtained from Simplified Corporate Information (IES) and held in the Central Balance-Sheet Database of Banco de Portugal. Through IES, enterprises are able to meet their obligation to report their annual accounts simultaneously to the Ministries of Finance and Justice, Banco de Portugal and Instituto Nacional de Estatística - INE (Statistics Portugal). The IES is usually reported within six and a half months of the end of the financial year, which, for most enterprises resident in Portugal, corresponds to 15 July of the year following the reference year. As regards data for 2010, and after the changes introduced into the accounting regulations applicable to most enterprises, the deadline for IES submission was extended to 30 September 2011. The IES submission relating to 2010 is the first corporate annual account report complying with the new Accounting Normalisation System, thus discontinuing some of the accounting concepts based on the old Official Chart of Accounts.

Therefore, most recent data available in the Central Balance-Sheet Database of Banco de Portugal for the Accommodation and Food Service Activities sector refer to 2009. The Central Balance-Sheet Database also includes preliminary data for 2010, based on quarterly accounting data reported through the Quarterly Survey of non-financial corporations (NFC). This Survey is conducted by Statistics Portugal and Banco de Portugal among a group of enterprises, in order to obtain information on a small number of economic and financial variables. The answers gathered through this Survey, from approximately 3,000 enterprises, cover a significant proportion of the situation and activity of the NFC sector in Portugal and may be used to monitor their overall evolution. However, the quarterly results do not provide complete information on the results for the entire NFC population, since they chiefly reflect developments in the economic sectors and size classes which are best represented in the Quarterly survey of non-financial corporations.

Furthermore, this Study includes some additional details for the year 2010 and the first half of 2011 as regards banking loans, drawn from the Central Credit Register of Banco de Portugal.

SUMMARY

This publication examines the economic and financial situation of enterprises in the *Accommodation and food service* activities sector, based on information compiled by the Central Balance-Sheet Database of Banco de Portugal. This analysis focuses chiefly on the 2006-2009 period, for which there are detailed data on most enterprises in the sector, making it possible to evaluate their behaviour in some detail, in a particularly adverse year such as 2009.

In 2009, the *Accommodation and Food Service Activities* sector represented 9% of the number of enterprises, 2% of turnover and 7% of the number of employees of NFCs in Portugal. Compared with 2000, these figures reflect an increase in the relative importance of this sector as regards turnover and number of employees (0.4 p.p. and 0.7 p.p. respectively).

The most important activities in the *Accommodation and Food Service Activities* sector are, in terms of Portuguese Classification of Economic Activities (henceforth CAE, the Portuguese acronym), CAE 561 - Restaurants, which represent 43% of turnover, CAE 551 - Hotels and similar accommodation, which account for 28% of turnover and CAE 563 - Beverage serving activities, representative of 18% of turnover. In terms of corporate size class, the *Accommodation and Food Service Activities* sector was chiefly made up of microenterprises (89%), although turnover derived mainly from small and medium-sized enterprises (47%). With regard to geographical location, head offices were mostly concentrated in coastal areas, especially in the Lisbon, Oporto, Faro and Funchal districts. As regards their legal nature, private limited companies were predominant (69% of total turnover), in contrast to a balanced position between public limited companies and private limited companies among total NFCs in Portugal. Companies with more than 20 years of trading in the sector under review had the largest turnover share (40%).

The results of the concentration indicator used in this Study point to the absence of concentration in the *Accommodation and Food Service Activities*. CAE 562 - *Event catering and other food service activities* is the only exception, with signs of some concentration.

At activity level, information available in the Central Balance-Sheet Database of Banco de Portugal indicates that the *Accommodation and Food Service Activities* sector contracted by 2% in turnover in 2009, which translated into a 9% fall in Earnings before interest, taxes, depreciation, and amortization (EBITDA) and a 0.8 p.p. decline in return on equity, which stood at -7%. In the 2006-2009 period, this sector posted, on average, negative return on equity, with a single exception in 2007, when that return was null.

Turning to their size, small and medium-sized enterprises had the largest fall in both turnover (4%) and EBITDA (13%). Microenterprises had the lowest decline in both indicators (0.3% and 0.2% respectively). However, only large enterprises had, on average, positive return on equity. By economic sector, CAE 55 – *Accommodation* saw a strong decline in EBITDA (-21%), while CAE 56 – *Food and beverage service activities* had a positive performance of 8%. Nevertheless, return on equity in CAE 55 – *Accommodation* (-6%) was less negative than in CAE 56 – *Food and beverage service activities* (14%).

At financing level, the capital ratio of *Accommodation and Food Service Activities* stood at 28% in 2009. Individual data revealed that half the enterprises in CAE 56 – *Food and beverage service activities* had attained capital ratio levels below 12%, compared with 26% in CAE 55 - *Accommodation*.

The sector's financing needs were mainly fulfilled through recourse to financial debt (63% in 2009). In spite of the retrenchment in activity, liabilities in the *Accommodation and Food Service Activities* sector rose by 6% in 2009, driven mainly by bank loans and debt securities issued.

Financial debt costs in the *Accommodation and Food Service Activities* sector reflected developments in market rates, decreasing by 15% in 2009. This took place in the microenterprise and small and medium-sized enterprise classes (with average falls of 4% and 24% respectively), in spite of an average 1% rise in large enterprises' financial

costs. The overall performance of financial costs allowed for an improvement in the ratio of interest paid to EBITDA in the *Accommodation and Food Service Activities* sector, which stood at 50% in 2009 (compared with 46% in NFCs), reflecting an improvement of 5 p.p. from the previous year. As regards the ratio of short-term financial debt to EBITDA, the *Accommodation and Food Service Activities* sector also compared unfavourably with the NFC aggregate (2.4 and 1.4 respectively). This was chiefly driven by the microenterprise class, which showed a high short-term financial debt level versus income generated in 2009.

Financing of the *Accommodation and Food Service Activities* sector through trade credits grew by 21% in the 2006-2009 period. Days payable outstanding were also higher than days sales outstanding over this period, standing in 2009 at 69 days and 25 days respectively. This favourable position in trade credit management was also due to the fact that at least three quarters of its enterprises had a positive differential between the respective days payable outstanding and days sales outstanding from 2006 to 2009, i.e. they received from their customers earlier than they paid to suppliers.

Additional information from the Central Credit Register on loans granted by resident credit institutions shows that credit to the *Accommodation and Food Service Activities* sector grew over the whole 2006-2011 period, in contrast to the NFC aggregate in Portugal that declined by 2% in 2010. By economic sector, this was chiefly due to CAE 55 – *Accommodation*, which absorbed nearly 80% of credit to the whole *Accommodation and Food Service Activities* sector. The non-performing loan ratio of *Accommodation and Food Service Activities* has deteriorated since 2007, reaching 4% in the first half of 2011. Nonetheless, this sector compares favourably with the NFC aggregate in Portugal (5.7%). It should be noted, however, that the share on non-performing enterprises in the sector under review (24%) was slightly higher than in the NFC aggregate (23%).

CONTENTS

I SECTORAL ANALYSIS OF ACCOMMODATION AND FOOD SERVICE ACTIVITIES

13	1 Introduction
14	2 Characterisation of the Accommodation and Food Service Activities Sector
14	2.1 Structure
21	2.2 Market concentration
22	2.3 Dynamics
24	3 Economic and Financial Analysis
24	3.1 Economic environment
24	3.2 Activity and profitability
24	3.2.1 Turnover
28	<i>Box 1 Geographical distribution of turnover in the Accommodation and Food Service Activities Sector</i>
30	3.2.2 Operational Costs
31	3.2.3 EBITDA
33	3.2.4 Return on equity
36	3.3 Financial situation
36	3.3.1 Financial structure
41	<i>Box 2 Loans from resident credit institutions – characterisation based on the Central Credit Register</i>
44	3.3.2 Financial costs and solvency
47	3.3.3 Trade credit financing
50	Annex
51	References
53	Central Balance-Sheet Studies

CHARTS

- 15** Chart 1 Structure of the sector | By CAE-Rev.3 group (2009)
- 17** Chart 2 Structure of enterprise size classes (turnover - 2009)
- 20** Chart 3 Structure of the sector | By legal nature (turnover - 2009)
- 20** Chart 4 Structure of the sector | By enterprise maturity (turnover - 2009)
- 21** Chart 5 Herfindahl-Hirschman Index (2009)
- 22** Chart 6 Churn Rate
- 23** Chart 7 Churn rate | By CAE-Rev.3 Group
- 23** Chart 8 Churn rate | By enterprise size
- 25** Chart 9 Turnover | Total and by enterprise size - annual growth rate (%) and contributions (p.p.)
- 26** Chart 10 Turnover | by CAE-Rev.3 Groups (2009) - Contributions to the annual growth rate (p.p.)
- 27** Chart 11 Turnover | Total and by enterprise size - quartile distribution of the annual growth rate
- 28** *Box 1 - Chart 1.1 Turnover distribution | By CAE Division and Portuguese region*
- 29** *Box 1 - Chart 1.2 Turnover | Developments in CAE 55 – Accommodation (2006-2009) - contributions to the growth rate (p.p.)*
- 30** Chart 12 Operational costs - annual growth rate
- 30** Chart 13 Operational costs (2009) - contributions to the annual growth rate (p.p.)
- 31** Chart 14 Structure of operational costs (2009)
- 32** Chart 15 EBITDA | Total and by enterprise size - annual growth rate (%) and contributions (p.p.)
- 33** Chart 16 EBITDA – By CAE Rev.3 group (2009) - contributions to the annual growth rate (p.p.)
- 34** Chart 17 Return on equity | Total and by enterprise size
- 34** Chart 18 Return on equity | Total and by enterprise size - quartile distribution
- 35** Chart 19 Return on equity | By CAE-Rev.3 division and group (2009) - quartile distribution
- 36** Chart 20 Capital ratio | Total and by enterprise size
- 37** Chart 21 Capital ratio | Total and by enterprise size - quartile distribution
- 38** Chart 22 Capital ratio | By CAE-Rev.3 division and group (2009) - quartile distribution
- 39** Chart 23 Liabilities structure | Total and by enterprise size (2009)
- 40** Chart 24 Liabilities - annual growth rate (%) and contributions (p.p.)
- 41** *Box 2 - Chart 2.1 Financing from credit institutions - annual growth rate (%) and contributions (p.p.)*
- 42** *Box 2 - Chart 2.2 Non-performing loans ratio and percentage of non-performing enterprises*
- 44** Chart 25 Financial costs | Total and by enterprise size - annual growth rate (%), contributions (p.p.) and market interest rate
- 45** Chart 26 Weight of interest on EBITDA | Total and by enterprise size
- 46** Chart 27 Ratio of short-term financial debt to EBITDA | Total and by enterprise size
- 47** Chart 28 Ratio of short-term financial debt to EBITDA | Total and by enterprise size - quartile distribution
- 48** Chart 29 Days sales outstanding - quartile distribution
- 49** Chart 30 Days payable outstanding - quartile distribution
- 49** Chart 31 Differential between days payable outstanding and days sales outstanding - quartile distribution

TABLES

- 15** Table 1 Weight of the Accommodation and Food Service Activities sector in NFCs (2000 and 2009)
- 16** Table 2 Structure of the sector | By enterprise size (2009)
- 19** Table 3 Geographical location | By CAE-Rev.3 (2009) Group
- 28** *Box 1 - Table 1.1 Turnover growth rate (2006-2009) | By Portuguese region*

ILLUSTRATIONS

- 18** Illustration 1 Geographical location (2009)
- 43** Illustration 1.1 Non-performing loans ratio by enterprises | By economic sector and geographical location (June 2011)

ACRONYMS

CAE	Portuguese Classification of Economic Activities
COGS	Cost of goods sold and materials consumed
EBITDA	Earnings before interest, taxes, depreciation and amortisation
SES	Supplies and external services
HHI	Herfindahl-Hirschman Index
IES	Simplified Corporate Information
INE	Statistics Portugal
p.p.	Percentage points
GDP	Gross domestic product
SMEs	Small and medium-sized enterprises (excluding microenterprises)
ESA 95	European System of National and Regional Accounts in 1995
NFCs	Non-financial corporations

SECTORAL ANALYSIS OF ACCOMMODATION AND FOOD SERVICE ACTIVITIES



INTRODUCTION

1

CHARACTERISATION

2

ECONOMIC AND FINANCIAL ANALYSIS

3

I SECTORAL ANALYSIS OF ACCOMMODATION AND FOOD SERVICE ACTIVITIES

1 INTRODUCTION

This *Sectoral Analysis of Accommodation and Food Service Activities* evaluates the economic and financial situation of enterprises operating in the *Accommodation and Food Service Activities economic sector*, based on information compiled by the Central Balance-Sheet Database of Banco de Portugal¹. This database contains information on the enterprises belonging to the Non-Financial Corporations (NFCs) sector in Portugal, therefore excluding sole proprietors². The analysis covers the 2006-2009 period, and includes some additional details for 2010 as regards financing through bank loans.

The results in this publication complement the aggregate data on NFCs, obtained from the Central Balance-Sheet Database that are released within the scope of Banco de Portugal's statistical publications³. In particular, this analysis characterises the aggregates, for a range of selected indicators, in terms of dispersion of individual results of the enterprises⁴. For the purpose, it frequently uses quartile distribution thus avoiding any distortions triggered by possible extreme observations that may bias the analysis of aggregate results⁵.

The Study also analyses the contributions of different enterprise sub-groups in order to determine the aggregate results of the *Accommodation and Food Service Activities* sector. In this field, enterprises are broken down by Division and Group⁶ of the Portuguese Classification of Economic Activities, 3rd revision (CAE-Rev.3) and also by size class.⁷

The analysis starts with the characterisation of *Accommodation and Food Service Activities*, evaluating the structure in terms of economic activity, business size, geographical location, maturity and legal nature. It also presents data on business dynamics and concentration. The characterisation of the sector uses pre-2006 data, based on Banco de Portugal estimates for the population of NFCs in Portugal since 2000. This analysis also evaluates the economic and financial situation of the *Accommodation and Food Service Activities* sector. For this purpose, turnover developments over the period under review are examined, in order to determine the extent to which these are reflected in business profitability. This implies a breakdown of the effects having a bearing on this profitability in the operational and financial components of business activity, also seeking to provide some information on the solvency capacity of the sector.

This *Study* also compares the situations in the *Accommodation and Food Service Activities* sector and in the NFC aggregate in Portugal⁸ for all indicators under analysis.

1 The Central Balance-Sheet Database is a database with economic and financial information on non-financial corporations (NFCs) in Portugal. Information used in this Study is based on annual accounting data reported within the scope of the IES (Simplified Corporate Information), which cover nearly all enterprises in the NFC institutional sector. For further details on the activities of the Central Balance-Sheet Database, please refer to the Supplements to the Statistical Bulletin 5/2005 – Statistics on Non-Financial Corporations from the Central Balance-Sheet Database and 1/2008 – Simplified reporting: Inclusion of the Simplified Corporate Information in the Statistics on Non-Financial Corporations from the Central Balance-Sheet Database, as well as the Central Balance-Sheet Study |1, November 2010 – Enterprise and Sector Tables.

2 The NFC sector represents one of the economy's institutional sectors. The institutional sectorisation of economic agents is carried out in accordance with the 1995 European system of national and regional accounts (ESA95), approved by Council Regulation (EC) No 2223/96 of 25 June 1996. ESA95 is a harmonised reference on the compilation methodology and deadline for release of the national accounts of EU countries, including statistics of the responsibility of Banco de Portugal. Based on this regulation, sole proprietors are included in the households' institutional sector. Hence, all data throughout this document exclude sole proprietors (in Portugal these account for around two-thirds of the number of enterprises, but only for 5% of the respective turnover).

3 Central Balance-Sheet Database statistics are published in Banco de Portugal's Statistical Bulletin (Chapter G) and in Sector Tables, both available on the Banco de Portugal's website and BPstat | Statistics Online.

4 For the sake of simplicity, this Study refers interchangeably to the expressions 'enterprise' and 'corporation', but both exclude the sole proprietor aggregate.

5 Moreover, annual data in the scope of this analysis cover information on all enterprises of the Accommodation and Food Service Activities sector reporting to the IES. In view of the non-exhaustive coverage of the population of enterprises in Portugal in the period prior to IES, the results of the historical series in Banco de Portugal's statistical publications are based on data from common enterprises over two consecutive years.

6 According to the CAE-Rev.3, the Accommodation and Food Service Activities sector (Section I) includes the following Divisions: CAE 55 – Accommodation and CAE 56 – Food and beverage service activities. It also includes the following groups: CAE 551 – Hotels and similar accommodation; CAE 552 – Holiday and other short-term accommodation; CAE 553 – Camping grounds, recreational vehicle parks and trailer parks; CAE 559 – Other accommodation; CAE 561 – Restaurants and mobile food service activities; CAE 562 – Event catering and other food service activities; CAE 563 – Beverage serving activities.

7 In terms of size, three main classes are considered: micro, small and medium-sized and large enterprises. The criteria used for this classification are taken from European Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises. According to this Recommendation, a microenterprise is defined as an enterprise which employs fewer than ten persons and whose annual turnover and/or annual balance sheet total does not exceed €2 million. For the purpose of this Study, small and medium-sized enterprises (SMEs) exclude microenterprises, and are defined as those enterprises which employ fewer than 250 persons and have an annual turnover that does not exceed € 50 million and/or an annual balance sheet total that does not exceed € 43 million. Large enterprises are any enterprises which are not classified above.

8 For further details on the results obtained for the NFC aggregate, please refer to Studies Nos 2 and 3 of the Central Balance-Sheet Database of Banco de Portugal (December 2010 and September 2011), entitled: 'Structure and Dynamics of Non-financial Corporations in Portugal and Sectoral Analysis of Non-financial Corporations in Portugal.'

2 CHARACTERISATION OF THE ACCOMMODATION AND FOOD SERVICE ACTIVITIES SECTOR

This Section uses data for years prior to 2006, based on the population of NFCs in Portugal in the statistical databases made available by Banco de Portugal. These have made it possible to evaluate economic activity developments in the *Accommodation and Food Service Activities* sector, in terms of its characteristics and composition over a decade (2000-2009). Information from the IES, starting in 2006, made a considerable contribution to assessing that population.

2.1 Structure

The *Accommodation and Food Service Activities* sector is one of the 21 Sections of CAE-Rev.3 and aggregates the following Divisions / Groups:

- **CAE 55 – Accommodation:** *includes the activities of temporary renting of accommodation, for pecuniary interest, with or without food service and other ancillary services (e.g. meeting rooms), either open to the general public, or reserved to members of a given organisation. Hotels and similar accommodation include hotels, boarding houses, motels, inns, guesthouses, apart-hotels, holiday apartments, holiday villages and guest houses. It does not include long-term housing rental. As regards its classification, this Division is formed by the following Groups: CAE 551 – Hotels and similar accommodation, CAE 552 – Holiday and other short-stay accommodation, CAE 553 – Camping grounds, recreational vehicle parks and trailer parks, and CAE 559 – Other accommodation; and*
- **CAE 56 – Food and beverage service activities:** *includes (i) activities related to the preparation and sale of food for consumption, usually on site, as well as the supply of other consumption with the meals; (ii) activities related to the preparation and sale of meals or cooked dishes to be delivered and/or served at a place determined by the customer for a particular event; (iii) activities related to the supply and possibly the preparation of meals and beverages to particular groups of people, usually at lower prices. It includes, in particular, canteens and messes; it also includes catering based on a contract for a certain period of time; (iv) activities related to the sale of beverages and light meals for consumption on-site with or without performance. As regards its classification, this Division is formed by the following Groups: CAE 561 – Restaurants and mobile food service activities, CAE 562 – Event catering and other food service activities, and CAE 563 – Beverage serving activities.*

In 2009 the *Accommodation and Food Service Activities* sector included approximately 32,000 enterprises, 4,000 of which belonged to CAE 55 – *Accommodation* and around 28,000 to CAE 56 – *Food and beverage service activities*. In that year, the *Accommodation and Food Service Activities* sector represented 9% of the number of enterprises in the NFC aggregate in Portugal, 2% of turnover and 7% of the number of employees (Table 1). Compared with 2000, this sector grew more than the NFC aggregate, both in turnover (30 p.p. more than NFC), and in number of employees (13 p.p. more than NFC). As regards the number of enterprises in the *Accommodation and Food Service Activities* sector, growth was lower, translating into a loss in its relative weight (10% of total NFCs in 2000 to 9% in 2009).

By **sector of economic activity**, CAE 561 – *Restaurants* stood out in all variables under review. This CAE represented 48% of enterprises, 43% of turnover and 46% of the number of employees in the *Accommodation and Food Service Activities* sector (Chart 1). In terms of number of enterprises,

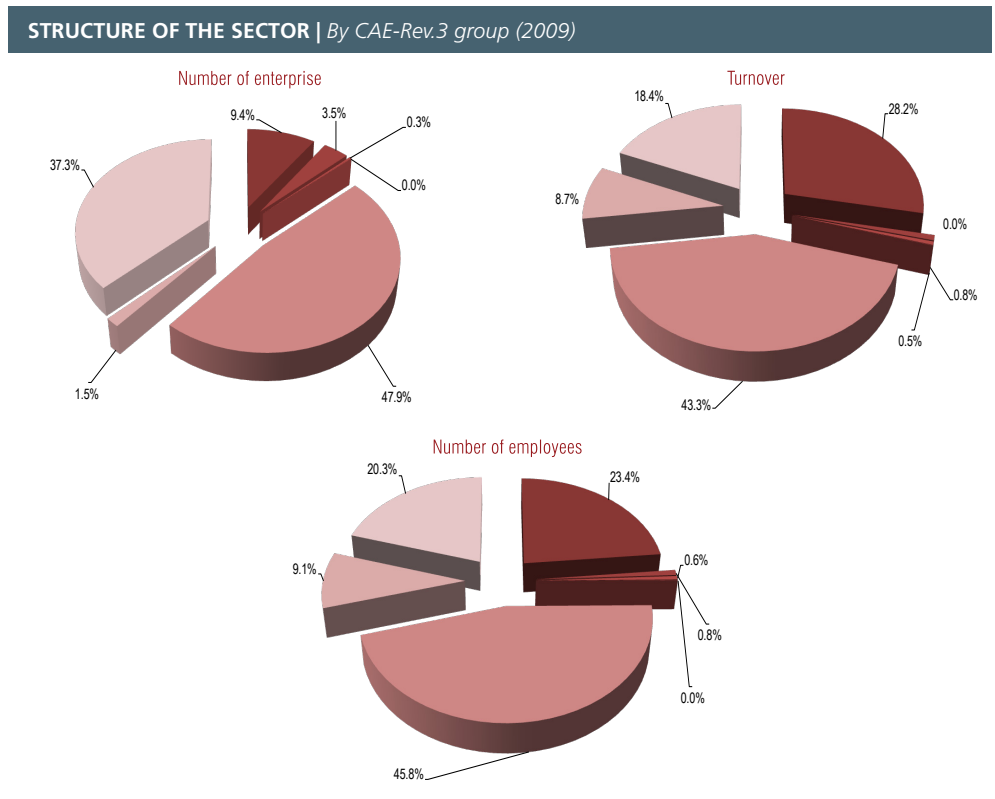
CAE 563 - Beverage serving activities was also relevant, as it aggregates 37% of enterprises in the sector. As regards turnover and number of employees, CAE 551 - Hotels and similar accommodation is also noteworthy, representing 28% of turnover and 23% of the number of employees in the sector.

Table 1

WEIGHT OF THE ACCOMMODATION AND FOOD SERVICE ACTIVITIES SECTOR IN NFCs (2000 AND 2009)		Weight in NFCs
2000	Number of Enterprises	9.6%
	Turnover	1.9%
	Number of Employees	6.3%
2009	Number of Enterprises	8.7%
	Turnover	2.3%
	Number of Employees	7.0%

Compared with the year 2000, the weight of CAE 563 - Beverage serving activities declined in all variables under review (by 4 p.p. in number of enterprises, 2 p.p. in turnover and 3 p.p. in number of employees). The contribution of CAE 551 - Hotels and similar accommodation to turnover and to the total number of employees decreased also (by 3 p.p. in both variables). In turn, the relative weight of CAE 561 - Restaurants rose by 1 p.p. in the number of enterprises, 4 p.p. in turnover and 5 p.p. in the number of employees. Also noteworthy was the strong increase in the number of enterprises in CAE 552 - Holiday and other short-stay accommodation, which more than doubled in this ten-year period.

Chart 1



Note: CAE 551 – Hotels and similar accommodation; CAE 552 – Holiday and other short-stay accommodation; CAE 553 – Camping grounds, recreational vehicle parks and trailer parks; CAE 559 – Other accommodation; CAE 561 – Restaurants and mobile food service activities; CAE 562 – Event catering and other food service activities; CAE 563 – Beverage serving activities.

As regards the breakdown by **enterprise size class** (Table 2) the *Accommodation and Food Service Activities* sector is in line with the general pattern of NFCs in Portugal, and is formed mainly by microenterprises (89% in the sector and 87% in NFCs). Microenterprises in this sector, however, represented, in relative terms, larger turnover shares and higher number of employees (34% and 37% in the sector, vis-à-vis 16% and 26% in NFC).

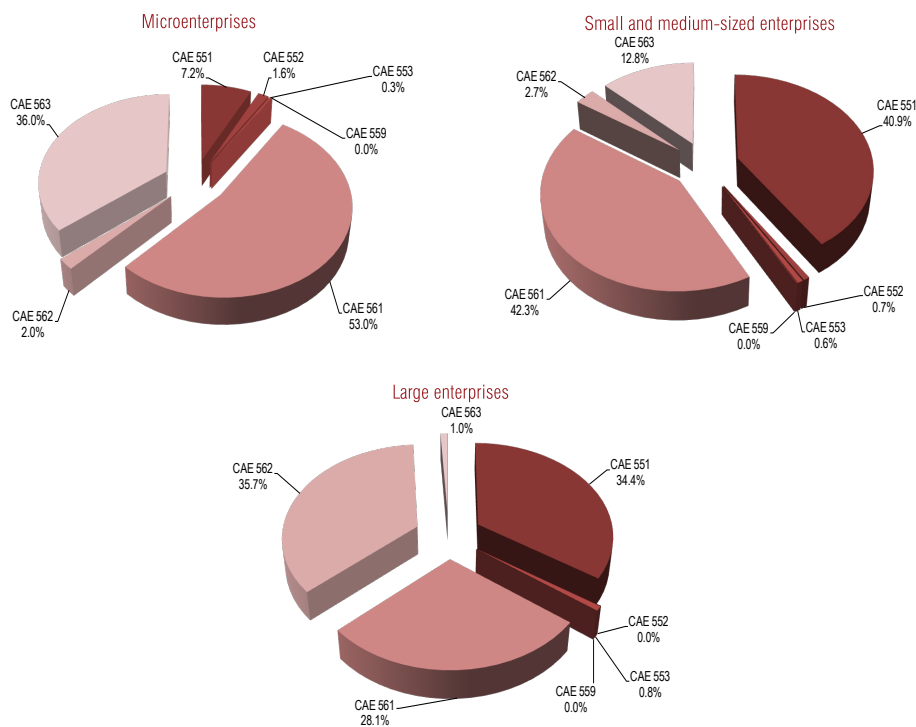
Table 2

STRUCTURE OF THE SECTOR <i>By enterprise size (2009)</i>			
		NFC	Accommodation and food service activities
Enterprises	Microenterprises	87.2%	88.8%
	Small and medium-sized enterprises	12.5%	11.1%
	Large enterprises	0.3%	0.1%
Turnover	Microenterprises	15.7%	34.0%
	Small and medium-sized enterprises	43.1%	47.1%
	Large enterprises	41.2%	18.9%
Employees	Microenterprises	25.5%	37.4%
	Small and medium-sized enterprises	46.0%	45.1%
	Large enterprises	28.4%	17.4%

Chart 2 shows the structure of each enterprise size class, based on the turnover generated by the different activities carried on in this sector. *CAE 561 – Restaurants* stood out among all classes, although its relevance tends to decline with the increase in enterprise size (53% of microenterprises in sector, 42% of small and medium-sized enterprises, and 28% of large enterprises). *CAE 551 - Hotels and similar accommodation* was relevant in both small and medium-sized enterprises and large enterprises (41% and 34% of enterprises in the sector respectively). Also worthy of mention in microenterprises was *CAE 563 - Beverage serving activities* (36% of microenterprises), and in large enterprises was *CAE 562 - Event catering and other food service activities* (36% of large enterprises in the sector).

Chart 2

STRUCTURE OF ENTERPRISE SIZE CLASSES (TURNOVER - 2009)



Note: CAE 551 – Hotels and similar accommodation; CAE 552 – Holiday and other short-stay accommodation; CAE 553 – Camping grounds, recreational vehicle parks and trailer parks; CAE 559 – Other accommodation; CAE 561 – Restaurants and mobile food service activities; CAE 562 – Event catering and other food service activities; CAE 563 – Beverage serving activities.

In terms of **geographical location**⁹, the *Accommodation and Food Service Activities* sector was mostly concentrated in coastal areas, especially in the Lisbon and Oporto districts, in line with the general distribution of NFCs in Portugal (Illustration 1).

The Faro district, however, stood out in this sector, representing 9% of the number of enterprises and 11% of total turnover (compared with 5% and 2% respectively in total NFCs). As regards the Autonomous Regions, Funchal gained more weight in the sector, with 4% of the number of enterprises and 6% of turnover (compared with 3% and 5% respectively in total NFCs). In turn, the Braga, Aveiro and Santarém districts showed lesser weight in aggregate *Accommodation and Food Service Activities*, compared with the weight they had in NFCs as a whole.

⁹ Geographical location refers to the district where the enterprise head office is located.

Illustration 1

GEOGRAPHICAL LOCATION (2009)

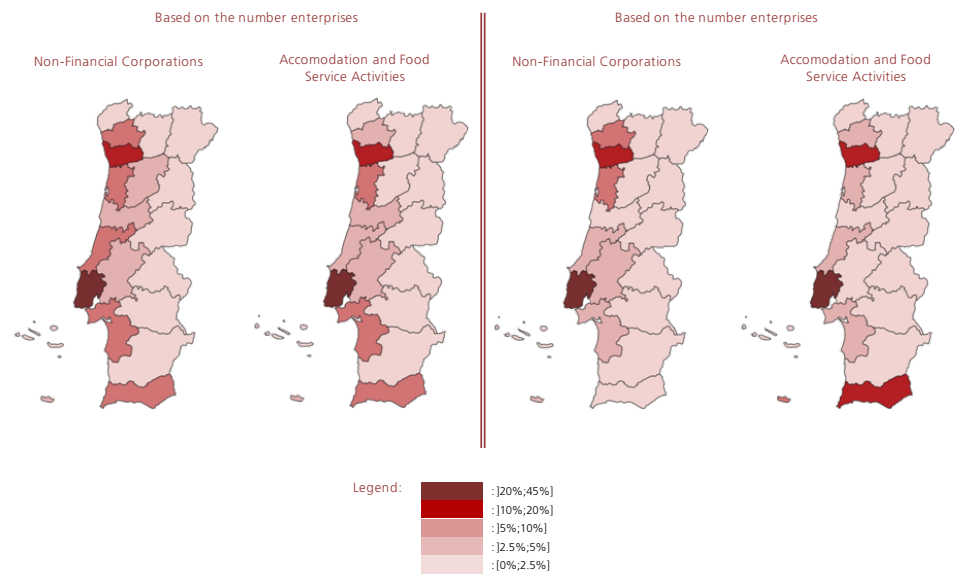


Table 3 presents the main locations (TOP 3 Districts) of each group integrating the *Accommodation and Food Service Activities* sector. In 2009 most activities in this sector were usually concentrated in the Lisbon district, irrespective of the variable considered. In the case of *CAE 562 - Event catering and other food service activities*, that district absorbed around 90% of the number of employees and turnover. The sole exceptions were in *CAE 553 - Camping grounds, recreational vehicle parks and trailer parks* and *CAE 552 - Holiday and other short-stay accommodation*, in which the Oporto and Faro districts were more relevant.

Table 3

CAE Rev. 3 Group		GEOGRAPHICAL LOCATION By CAE-Rev.3 (2009) Group					
		Number of enterprises		Turnover		Employees	
		District (TOP 3)	% of total	District (TOP 3)	% of total	District (TOP 3)	% of total
551	Hotels and similar accommodation	Lisbon	23.8%	Lisbon	38.6%	Lisbon	33.7%
		Faro	18.0%	Faro	20.6%	Faro	20.6%
		Oporto	10.6%	Funchal	13.4%	Funchal	13.4%
552	Holiday and other short-stay accommodation	Lisbon	11.0%	Lisbon	25.0%	Faro	16.8%
		Faro	9.3%	Faro	20.6%	Lisbon	15.1%
		Oporto	8.0%	Évora	8.8%	Évora	6.0%
553	Camping grounds, recreational vehicle parks and trailer parks	Faro	18.0%	Oporto	33.7%	Oporto	33.1%
		Setúbal	12.4%	Faro	16.4%	Beja	23.2%
		Lisbon	10.1%	Setúbal	11.0%	Faro	12.0%
561	Restaurants and mobile food service activities	Lisbon	35.1%	Lisbon	41.1%	Lisbon	39.9%
		Oporto	12.8%	Oporto	16.7%	Oporto	17.4%
		Faro	9.3%	Faro	8.5%	Faro	8.7%
562	Event catering and other food service	Lisbon	36.3%	Lisbon	88.2%	Lisbon	89.9%
		Oporto	21.8%	Oporto	4.3%	Oporto	4.4%
		Setúbal	7.5%	Braga	1.6%	Braga	1.1%
563	Beverage serving activities	Lisbon	32.4%	Lisbon	37.2%	Lisbon	37.5%
		Oporto	18.1%	Oporto	15.7%	Oporto	17.4%
		Setúbal	7.9%	Setúbal	7.0%	Setúbal	6.6%

By legal nature¹⁰ of the enterprises, the *Accommodation and Food Service Activities* sector showed a clear predominance of private limited companies (69%), whereas total NFCs in Portugal were virtually broken down into public limited companies (50%) and private limited companies (44%) (Chart 3) in 2009.

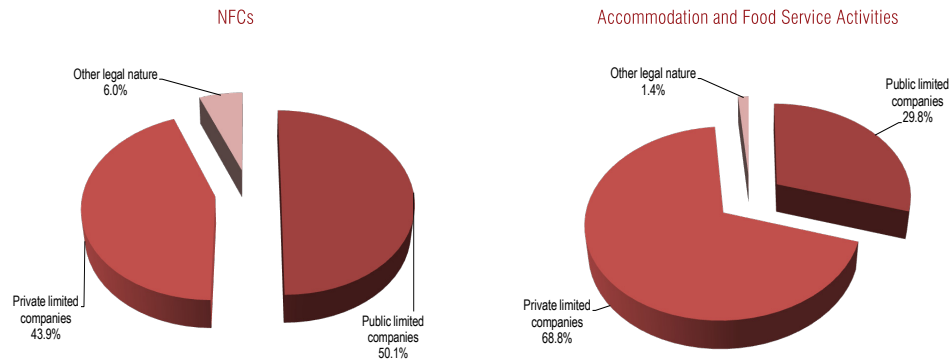
In *CAE 55 – Accommodation*, private limited companies were predominant (81%), even though public limited companies accounted for 60% of turnover and 54% of the number of employees.

¹⁰ Considering the numerous categories included in national regulations for the classification of enterprises by legal nature, we opted for highlighting only public limited companies and private limited companies, whereas the remaining legal nature is aggregated under 'other legal nature'.

In CAE 56 - *Food and beverage service activities*, private limited companies prevailed over all other variables under review: 96% of the number of enterprises, 82% of turnover and 83% of the number of employees. However, among the activities in CAE 56 - *Food and beverage service activities*, the most relevant was CAE 562 - *Event catering and other food service activities*, in which public limited companies concentrated a significant share of turnover (59%) and of the number of employees (58%), although representing only 5% of the number of enterprises.

Chart 3

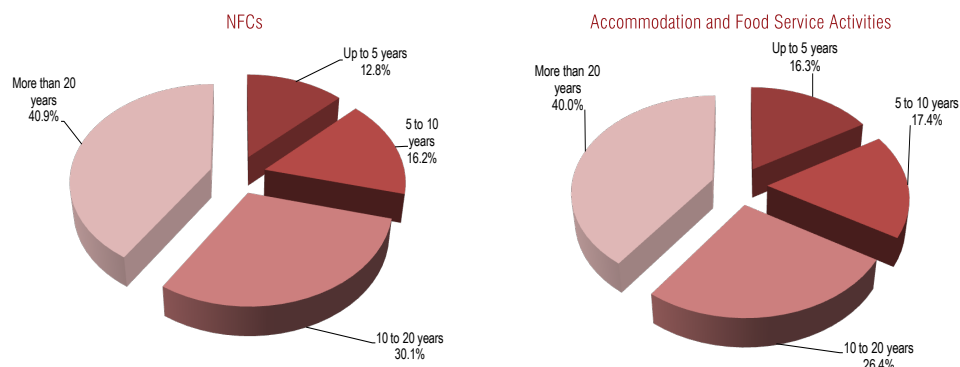
STRUCTURE OF THE SECTOR | By legal nature (turnover - 2009)



By **enterprise maturity**¹¹ the *Accommodation and Food Service Activities* sector did not differ much from the NFC aggregate in Portugal, where enterprises with more than 20 years concentrated the largest share of turnover (40%, compared with 41% in NFCs). In 2009, however, the share of enterprises with less than 10 years in the *Accommodation and Food Service Activities* sector was smaller than in total NFCs (50% and 57% respectively), but concentrated a more significant share of turnover (34%, compared with 29%) (Chart 4).

Chart 4

STRUCTURE OF THE SECTOR | By enterprise maturity (turnover - 2009)



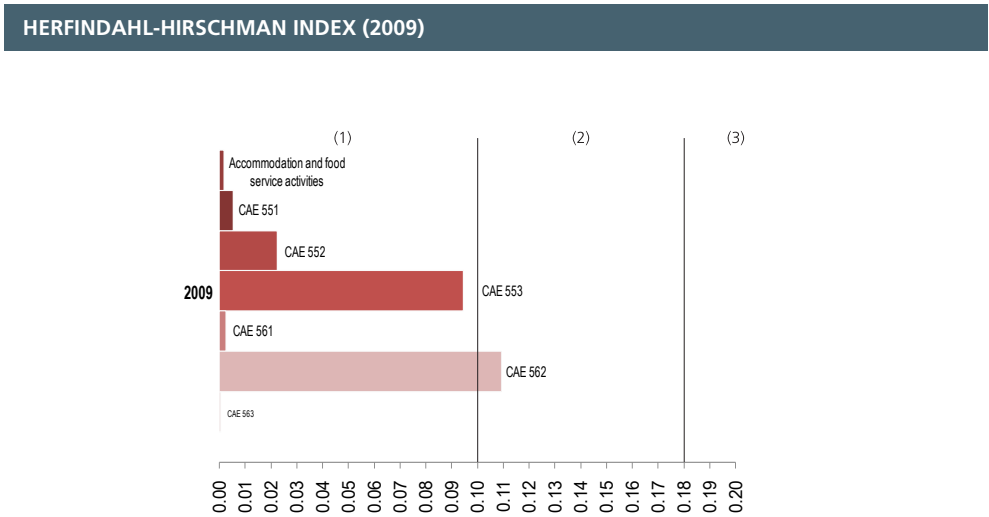
¹¹ The enterprise maturity corresponds to the age of the enterprise as at the analysis reference date. In order to define relatively homogeneous groups, meaningful at produced information level, three maturity classes were built: up to and including 10 years; from 10 to and including 20 years; and more than 20 years.

2.2 Market concentration

With the purpose of characterising the *Accommodation and Food Service Activities* sector in terms of market concentration, the *Herfindahl-Hirschman Index* (HHI) was calculated, based on the market share of each enterprise in its sector of activity¹². The results obtained show that in 2009, as in 2000, the *Accommodation and Food Service Activities* sector revealed no signs of market concentration (Chart 5).

Nonetheless, the results obtained for 2009 as regards *CAE 562 - Event catering and other food service activities* showed some market concentration (HHI of 0.11), where the five enterprises with the largest market share aggregated approximately 65% of turnover. In the same year, *CAE 553 - Camping grounds, recreational vehicle parks and trailer parks* was also close to the threshold of 'market with some market concentration' (HHI of 0.09), in which the five enterprises with the largest market share were responsible for around 44% of turnover. Both activities saw a decline in their business concentration level in the 2000-2009 period (in 2000 the HHI of these activities was 0.13 and 0.15 respectively).

Chart 5



Note: (1) HHI < 0.1, i.e. market with no indication of business concentration; (2) 0.1 < HHI < 0.18, i.e. market with some business concentration; (3) HHI > 0.18, i.e. market with high business concentration

CAE 551 – Hotels and similar accommodation; **CAE 552** – Holiday and other short-stay accommodation; **CAE 553** – Camping grounds, recreational vehicle parks and trailer parks; **CAE 561** – Restaurants and mobile food service activities; **CAE 562** – Event catering and other food service activities; **CAE 563** – Beverage serving activities.

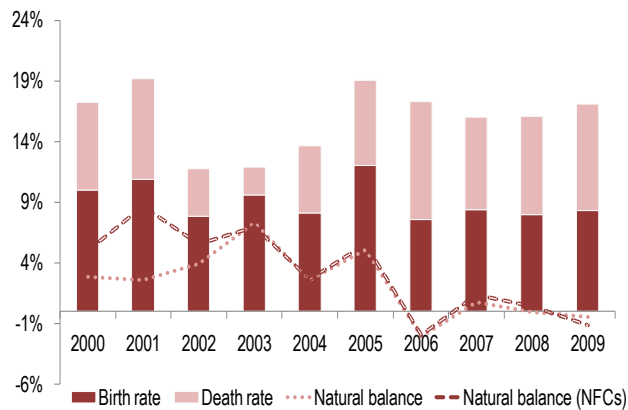
¹² The HHI index assumes values between 1/n and 1, with values between 1/n and 0.1 denoting a market with no indication of business concentration, between 0.1 and 0.18 representing markets with some concentration and above 0.18 denoting high business concentration. The value 1 is assumed in a monopoly situation where an enterprise holds the whole market share.

2.3 Dynamics

Chart 6 presents the churn rate¹³ of the *Accommodation and Food Service Activities* sector. In the period under review, this rate reached its peak at approximately 19% in 2001. Compared with total NFCs in Portugal, from 2000 to 2004 the *Accommodation and Food Service Activities* sector showed lower churn rates (between 12% and 19%, compared with 13% and 25% in total NFCs), whereas from 2005 to 2009 the situation reversed (the churn rate in the sector ranged between 16% and 19%, whereas in total NFCs it stood between 15% and 18%).

Chart 6

CHURN RATE



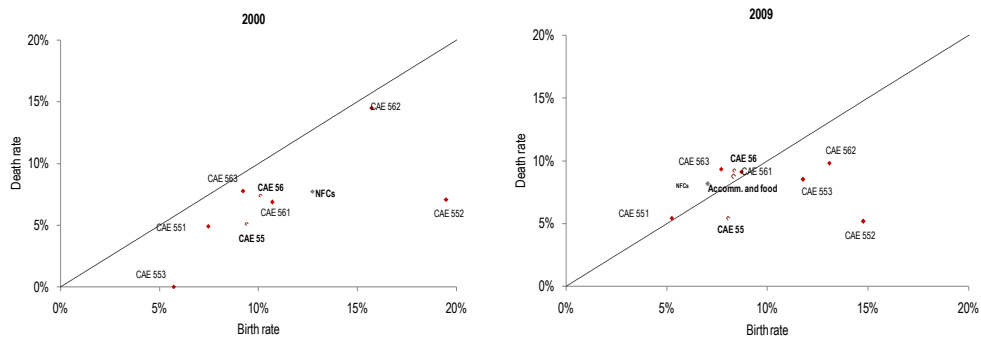
In terms of natural balance, given by the difference between the birth rate and the death rate, the *Accommodation and Food Service Activities* sector closely followed the development of NFCs in Portugal. In terms of differences, however, we should highlight the fact that the natural balance in CAE 55 - *Accommodation* was higher than in total NFCs in Portugal in different periods, and even increased in 2009, contrary to its development in the NFC aggregate. In CAE 56 - *Food and beverage service activities*, in turn, the natural balance has been usually lower.

Charts 7 and 8 allow for a more detailed analysis of the churn rate in enterprise activity and size. They show that in 2000 birth rates were higher than death rates in all activity groups, thereby confirming the positive 3% natural balance in the sector aggregate. 2009 saw a broadly based decline in birth rate, except CAE 553 - *Camping grounds, recreational vehicle parks and trailer parks*. CAE 551 - *Hotels and similar accommodation*, CAE 561 - *Restaurants*, and CAE 563 - *Beverage serving activities* reached even negative natural balances of -0.2%, -0.4% and 1.6% respectively (Chart 7).

¹³ The churn rate makes it possible to assess the dynamics for creating and closing enterprises in an economy. It is calculated from the sum of the enterprise birth rate (calculated from the ratio of enterprises starting their activity to the number of active enterprises in the reference period) and the respective death rate (resulting from the ratio of enterprises ceasing their activity to the number of active enterprises in the reference period).

Chart 7

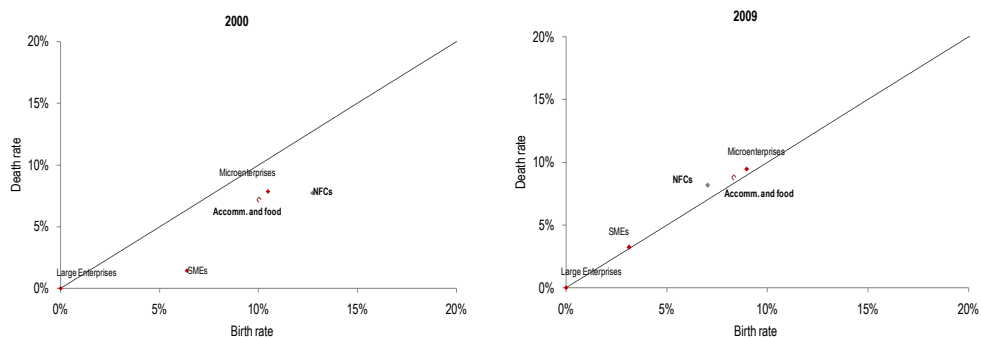
CHURN RATE | By CAE-Rev.3 Group



A **CAE 55** – Accommodation; **CAE 551** – Hotels and similar accommodation; **CAE 552** – Holiday and other short-stay accommodation; **CAE 553** – Camping grounds, recreational vehicle parks and trailer parks; **CAE 56** – Food and beverage service activities; **CAE 561** – Restaurants and mobile food service activities; **CAE 562** – Event catering and other food service activities; **CAE 563** – Beverage serving activities.

Chart 8

CHURN RATE | By enterprise size



By enterprise size, all classes had positive natural balances in 2000, except large enterprises¹⁴. In 2009, in contrast, microenterprises and small and medium-sized enterprises had higher death rates than birth rates (Chart 8).

Nonetheless, in spite of the negative natural balances in most recent periods, over the last 10 years as a whole, the number of enterprises in the *Accommodation and Food Service Activities* sector rose from nearly 26,000 enterprises in 2000 to around 32,000 in 2009.

¹⁴ The sector under review is formed by a very limited group of large enterprises. Thus, the death rate of the large enterprise class reflects the situation of a very small number of enterprises.

3 ECONOMIC AND FINANCIAL ANALYSIS

3.1 Economic environment

Developments in the *Accommodation and Food Service Activities* sector cannot be separated from the situation of NFCs in Portugal as a whole and, ultimately, from the wider context of the Portuguese economy and its international framework.

The year 2009 was thus characterised by a retrenchment in the Portuguese GDP (2.5%), after a number of years of low growth of economic activity (GDP's year-on-year rate of change was nil in 2008, and stood at 2.4% in 2007 and 1.4% in 2006). It should also be noted that the fall in activity in 2009 was chiefly due to a decline in exports (12%), in the context of the international crisis, particularly relevant in this sector. GDP grew in 2010 (1.3%), but decelerated throughout the year¹⁵.

The activity of NFCs in Portugal was a key factor in the development of Portuguese GDP in the 2006-2010 period, and was highly dependent on their access to credit. In effect, NFCs in Portugal have evinced one of the highest indebtedness levels in the euro area as a whole. At the end of 2010, this sector's financial debt exceeded 150% of GDP (compared with 102% in the euro area), in the wake of a strong acceleration over the last decade (in 2000 it accounted for 114% of GDP)¹⁶.

During most of the period under review in this *Study*, enterprises have benefitted from the relatively favourable financing conditions of the Portuguese economy. In 2010, however, the sovereign debt crisis in the euro area became more acute, and the conditions of access to international financing markets deteriorated sharply, with an impact on enterprise financing in Portugal¹⁷.

3.2 Activity and profitability

3.2.1 Turnover

Activity developments in the *Accommodation and Food Service Activities* sector in the 2006-2009 period, assessed in terms of turnover, moved in tandem with the deceleration observed in the population of NFCs in Portugal (Chart 9). Nevertheless, the *Accommodation and Food Service Activities* sector grew always above NFC total, with a single exception in 2008, the year when the rise in turnover in the sector was 2 p.p. below the rise in total NFC (4%). In 2009, both aggregates had negative growth rates (-2% in the *Accommodation and Food Service Activities* sector and -9% in NFCs).

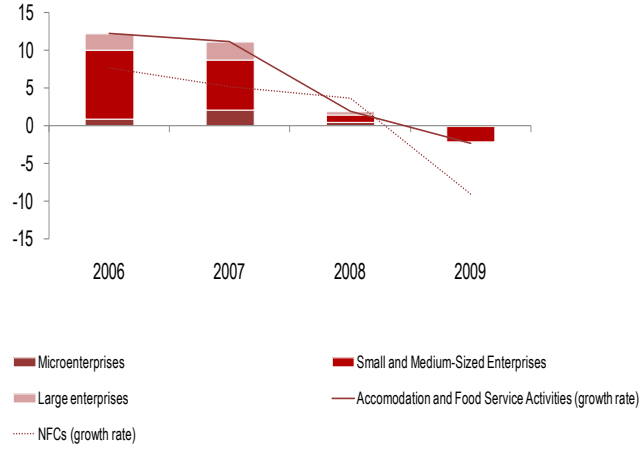
¹⁵ References to GDP developments relate to changes in volume.

¹⁶ Data relating to non-consolidated financial accounts of NFCs.

¹⁷ For further macroeconomic information, please refer to Banco de Portugal's Annual Report and also to the Economic Bulletin published on a quarterly basis. Both publications are available at <http://www.bportugal.pt>.

Chart 9

TURNOVER | Total and by enterprise size
- annual growth rate (%) and contributions (p.p.)

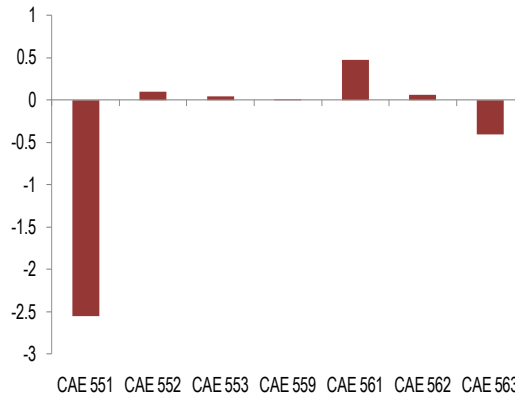


The **economic sectors** making up *Accommodation and Food Service Activities* have shown mixed developments. In effect, the turnover of *CAE 55 - Accommodation* grew significantly in 2006 and 2007 (16% and 14% respectively) and declined in 2008 and 2009 (2% and 8% respectively). *CAE 56 - Food and beverage service activities*, in turn, showed a more marked time volatility and, throughout the whole period, this indicator had positive growth rates, growing first at a slightly slower pace than *CAE 55 - Accommodation* in 2006 and 2007, to show subsequently more resilience to the fall in activity in 2008 and 2009 (4% and 0.2% growth respectively).

In 2009 turnover receded only in two CAE groups: CAE 551 – *Hotels and similar accommodation* (9%) and CAE 563 – *Beverage serving activities* (2%). In turn, the major positive contribution¹⁸ to turnover developments in the *Accommodation and Food Service Activities* sector was given by CAE 561 – *Restaurants* (Chart 10).

Chart 10

TURNOVER | *By CAE-Rev.3 Groups (2009)*
- contribution to the annual growth rate (p.p)



Note: CAE 551 – Hotels and similar accommodation; CAE 552 – Holiday and other short-stay accommodation; CAE 553 – Camping grounds, recreational vehicle parks and trailer parks; CAE 561 – Restaurants and mobile food service activities; CAE 562 – Event catering and other food service activities; CAE 563 – Beverage serving activities.

In terms of **enterprise size**, Chart 9 shows that the small and medium-sized enterprise class has always given the most significant contribution to turnover developments in the *Accommodation and Food Service Activities* sector. The year 2009 was no exception, and small and medium-sized enterprises largely accounted for the negative result in the sector. In 2009, turnover of small and medium-sized enterprises fell by 4%, in contrast to declines of 0.3% in microenterprises and 1% in large enterprises.

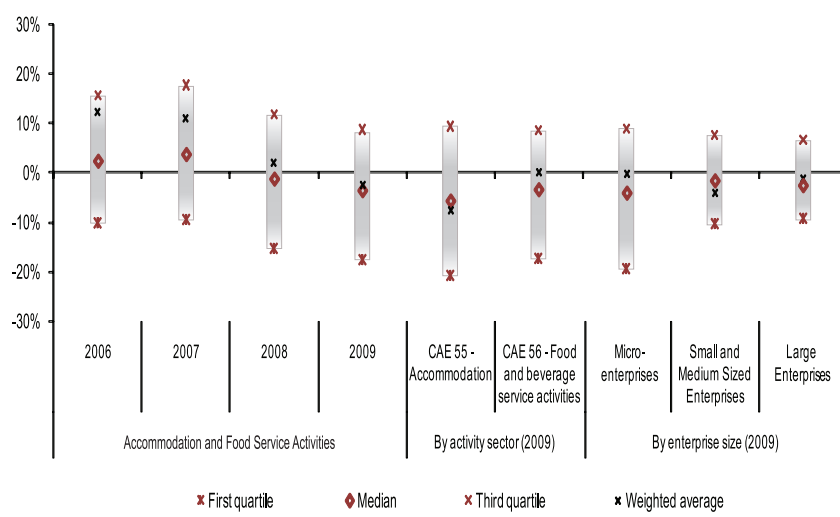
¹⁸ The contribution from a given group is calculated from the result obtained at group level and its weight in the respective aggregate. The sum of the contributions from the different groups corresponds to the value of the indicator calculated for the sector.

Chart 11 shows the quartile distribution of turnover growth rates of enterprises in the sector under review, allowing for a more detailed analysis of this indicator. In 2009 half the enterprises in the sector posted a fall in turnover exceeding 4% (value of the distribution median). Since 2007 the turnover growth rate has also deteriorated, irrespective of the quartile under review.

By **economic sector**, the situation in CAE 55 – *Accommodation* is in general more negative than in CAE 56 - *Food and beverage service activities*, given that the first quartile¹⁹ and the median are lower than 4 p.p. and 2 p.p. respectively. More specifically, whereas one fourth of enterprises in CAE 55 – *Accommodation* turnover decreased by more than 21%, in CAE 56 - *Food and beverage service activities* the same percentage of enterprises registered declines above 17%. When broadening the share of enterprises under review, half the enterprises declined by more than 4% in CAE 56 - *Food and beverage service activities*, while in CAE 55 – *Accommodation* the decreases exceeded 6% in half the enterprises.

Chart 11

TURNOVER | Total and by enterprise size
- quartile distribution of the annual growth rate



With regard to the distribution of the turnover growth rate by **enterprise size** class, the median value of microenterprises (-4%) was lower than in the other size classes (-2% in small and medium-sized enterprises and -3% in large enterprises). Microenterprises was also the class with wider result dispersion (inter-quartile²⁰ range of 28 p.p.). In the other size classes, the inter-quartile range stood at 18 p.p. in small and medium-sized enterprises and at 16 p.p. in large enterprises.

¹⁹ In order to calculate the quartiles, the enterprise values for the indicator under analysis are placed in ascending order. The first quartile corresponds to the value of the enterprise in the position corresponding to 25% of the ordered sample (i.e. where 25% of enterprises show a lower value for that indicator and 75% a higher value). The second quartile (or median) corresponds to 50%, i.e. the indicator value for this enterprise divides the breakdown into two halves, where one half of the enterprises show a higher value and the other half a lower value. The third quartile corresponds to the 75% position of the ordered sample (75% of enterprises show a higher value for that indicator, and only 25% show a higher value). The inter-quartile range (obtained as the difference between the third and first quartiles) provides an indication of the distribution dispersion. For further details on the calculation of these statistical measures, please refer to the Central Balance-Sheet Study No 1, November 2010 – Enterprise and Sector Tables.

²⁰ Obtained from the difference between the third and first quartiles

BOX 1: GEOGRAPHICAL DISTRIBUTION OF TURNOVER IN THE ACCOMMODATION AND FOOD SERVICE ACTIVITIES SECTOR²¹

In the 2006-2009 period, Alentejo (20%) and North (17%) were the regions with the highest turnover growth in the *Accommodation and Food Service Activities* sector. At the other end, activity in the Azores and Madeira declined by around 1% and 2% respectively (Table 1.1).

Table 1.1

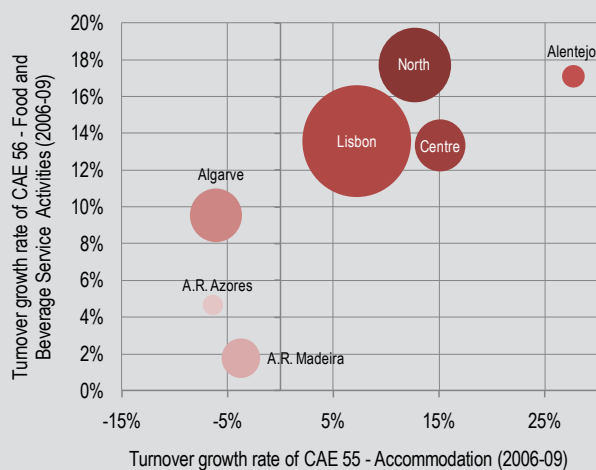
TURNOVER GROWTH RATE (2006-2009) By Portuguese region						
ALENTEJO	NORTH	CENTRE	LISBON	ALGARVE	A.R. AZORES	A.R. MADEIRA
20%	17%	14%	12%	0%	-1%	-2%

The breakdown of the sector into its two Divisions in the CAE shows that the turnover increase in *CAE 56 - Food and beverage service* activities was broadly based across all Portuguese regions, whereas in *CAE 55 - Accommodation* it fell in three regions (by 6% in the Azores and Algarve and by 4% in Madeira). The highest growth in *CAE 56 - Food and beverage service* activities was in the North (18%) and Alentejo (17%), and the lowest growth was in Madeira (2%). In turn, the strongest turnover growth in *CAE 55 - Accommodation* was in Alentejo (28%) and Centre (15%) (Chart 1.1).

In the period under review, turnover developments in *CAE 55 - Accommodation* were chiefly determined by *CAE 551 - Hotels and similar accommodation*, irrespective of the geographical area (Chart 1.2). Alentejo had a different result from the other regions, due to the significant contribution of *CAE 552 - Holiday and other short-stay accommodation* and also of *CAE 553 - Camping grounds, recreational vehicle parks and trailer parks*.

Gráfico 1.1

TURNOVER DISTRIBUTION | By CAE Division and Portuguese region



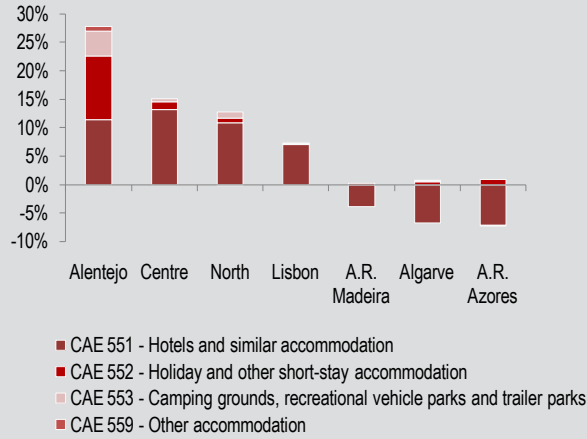
Note: The circle area indicates the share of each region in turnover in the *Accommodation and Food Service Activities* sector in 2009.

²¹ The geographical distribution is based on the location of the enterprise head office. For the purpose of this box, Portuguese districts were grouped in seven regions: North (Viana do Castelo, Braga, Vila Real, Bragança, Oporto, Aveiro); Centre (Viseu, Guarda, Coimbra, Leiria, Santarém, Castelo Branco); Lisbon (Lisbon, Setúbal); Alentejo (Portalegre, Évora, Beja); Algarve (Faro); Autonomous Region of Madeira (Funchal) and Autonomous Region of the Azores (Angra do Heroísmo, Horta, Ponta Delgada).

The results also reflect the different distribution by region of the various economic activities of CAE 55 – Accommodation. Therefore, while for the country as a whole 95% of turnover in that CAE was concentrated in CAE 551 - Hotels and similar accommodation, in Alentejo this CAE had a weaker relative importance (71%), offsetting CAE 552 - Holiday and other short-stay accommodation (18%).

Gráfico 1.2

TURNOVER | *Developments in CAE 55 – Accommodation (2006-2009)*
- contributions to the growth rate



3.2.2 Operational costs

Operational costs in the *Accommodation and Food Service Activities* sector rose in the 2006-2008 period, albeit at a slowing pace. In 2009 these costs declined by 2% (Chart 12). All main components of operational costs contributed to the decline in 2009 (Chart 13), especially the Cost of goods sold and materials consumed (COGS) and Supplies and external services (SES) both having declined by 3%, thus representing around 98% of the annual growth rate of operational costs in the Accommodation and Food Service Activities sector.

Chart 12

OPERATIONAL COSTS
- annual growth rate

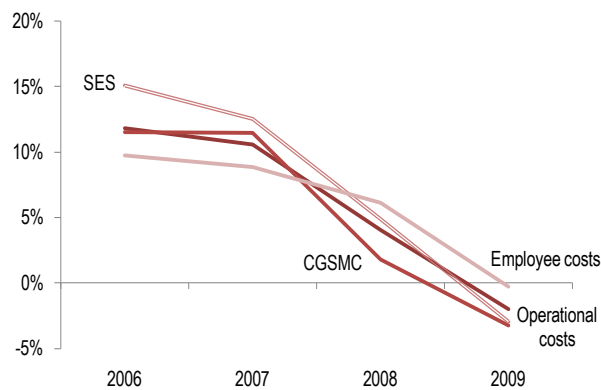
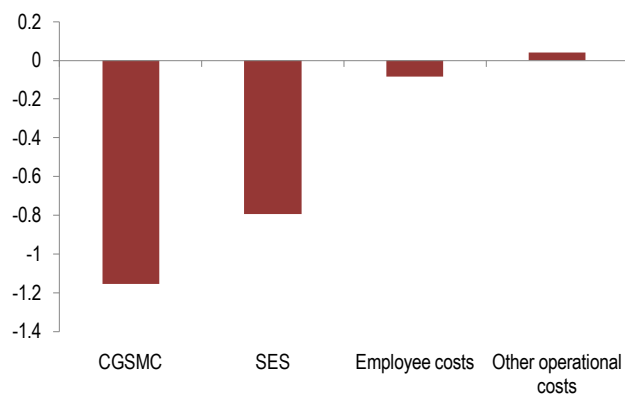


Chart 13

OPERATIONAL COSTS (2009)
- contributions to the annual growth rate (p.p.)

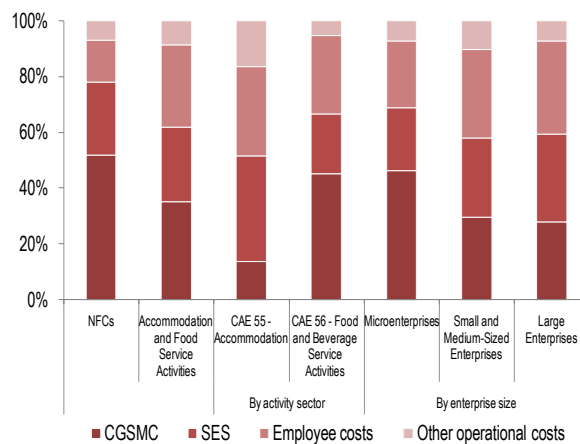


The relevance of these contributions was also due to the weight of COGS and SES on the operational cost structure of the *Accommodation and Food Service Activities* sector (62%) (Chart 14). Nonetheless, when compared with the NFC aggregate in Portugal, it is worth stressing the relatively higher weight of employee costs in the Accommodation and Food Service Activities sector (14 p.p. more), which was offset in COGS (-17 p.p.).

At CAE group level, there were significant differences between *CAE 55 - Accommodation* and *CAE 56 - Food and beverage service* activities in terms of operational cost structure. Whereas in *CAE 56 - Food and beverage service* activities the operational cost structure was closer to the pattern of most NFCs in Portugal (the main difference being the greater weight of employee costs in this activity), it was clearly different in *CAE 55 - Accommodation*, with the COGS representing only 14% of total costs and being therefore less relevant than SES (38%) and employee costs (32%).

Chart 14

STRUCTURE OF OPERATIONAL COSTS (2009)



By **enterprise size**, while COGS was clearly higher in operational costs in microenterprises, the other cost classes were more homogeneously distributed across COGS, SES and employee costs.

3.2.3 EBITDA²²

EBITDA in the *Accommodation and Food Service Activities* sector increased in 2006 and 2007 and declined in 2008 and 2009, following the trend observed in the NFC aggregate in Portugal. It should be noted, however, that the fall in the sector under review decelerated in 2009 (9%) from 2008 (18%), in contrast to developments in NFCs (Chart 15).

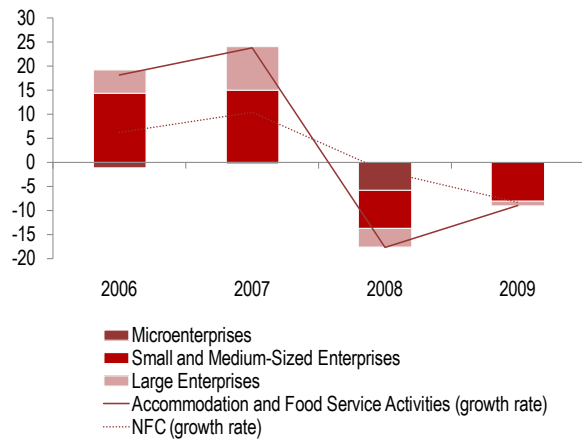
CAE 55 - Accommodation moved in tandem with developments in EBITDA of the NFC aggregate during the whole high-volatility period. In 2009 EBITDA in this CAE declined by around 21%. *CAE 56 - Food and beverage service* activities, however, followed the developments in EBITDA of the NFC aggregate only up to 2008, and in 2009 countered the NFC trend, growing by 8% (in contrast to -8% of NFC). It is important to stress in this respect that in 2009, while turnover in *CAE 56 - Food and beverage service* activities stagnated, turnover in NFCs had its largest contraction during the whole period under review (9%).

²² EBITDA stands for Earnings Before Interest, Taxes, Depreciation and Amortisation. It corresponds to profit or loss for the year plus costs related to interest, taxes, depreciation and amortization.

Assessing the contribution of the different **size classes**, small and medium-sized enterprises have always had a relevant role in EBITDA developments in the sector, similarly to turnover. In 2009, while EBITDA in microenterprises and large enterprises declined by 0.2% and 4% respectively, it contracted by 13% in small and medium-sized enterprises, thus decisively contributing to the results of the Accommodation and Food Service Activities sector.

Chart 15

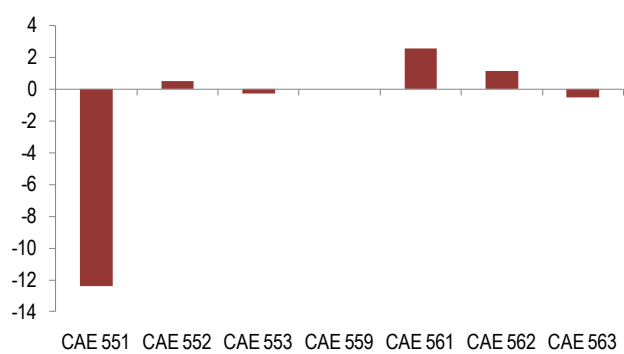
EBITDA | Total and by enterprise size
- annual growth rate (%) and contributions (p.p.)



By **economic sector**, Chart 16 stresses that the largest contribution to EBITDA contraction in 2009 stemmed from *CAE 551 – Hotels and similar accommodation*. In contrast, *CAE 561 – Restaurants* and *CAE 562 – Event catering and other food service activities* made the most positive contributions. Reference should be made to the special situation of *CAE 562 – Event catering and other food service activities*, whose behaviour in the last two years was rather different from the sector under review, with EBITDA growth rates of 16% and 17% in 2008 and 2009 respectively.

Chart 16

EBITDA – By CAE Rev.3 group (2009)
- contributions to the annual growth rate (p.p.)



Note: CAE 551 – Hotels and similar accommodation; CAE 552 – Holiday and other short-stay accommodation; CAE 553 – Camping grounds, recreational vehicle parks and trailer parks; CAE 561 – Restaurants and mobile food service activities; CAE 562 – Event catering and other food service activities; CAE 563 – Beverage serving activities.

3.2.4 Return on equity²³

Return on equity of the *Accommodation and Food Service Activities* sector has followed, in general, the trend observed by the NFC aggregate, albeit at a clearly lower and almost always negative level (Chart 17). In 2009, in average terms, return on equity of the *Accommodation and Food Service Activities* sector stood at -7%, compared with 4% for the whole NFC population in Portugal.

Considering the breakdown by **enterprise size**, and similar to the NFC aggregate, large enterprises had the highest average return on equity. Actually, in the *Accommodation and Food Service Activities* sector for the 2006-2009 period only this size class showed positive average return. In 2009 average return on equity declined in all size classes, i.e. by 2 p.p., 0.3 p.p. and 1 p.p. in microenterprises, small and medium-sized enterprises and large enterprises respectively.

²³ This is calculated from the ratio of profit or loss for the year to equity, and measures return from equity invested by shareholders. As mentioned in *Central Balance-Sheet Study No 1*, November 2010 – Enterprise and sector tables, return on equity is derived from individual data only for enterprises with positive equity.

Chart 17

RETURN ON EQUITY | Total and by enterprise size

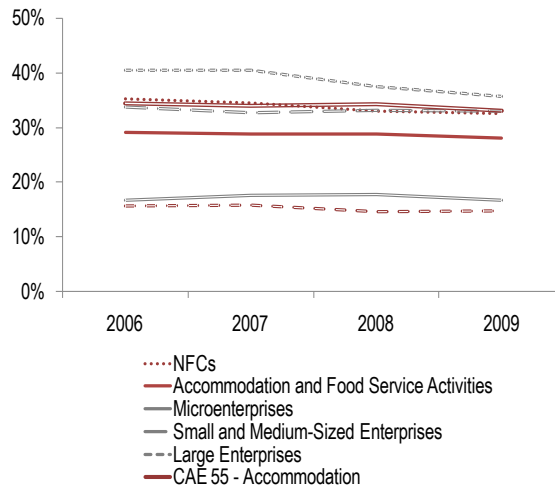
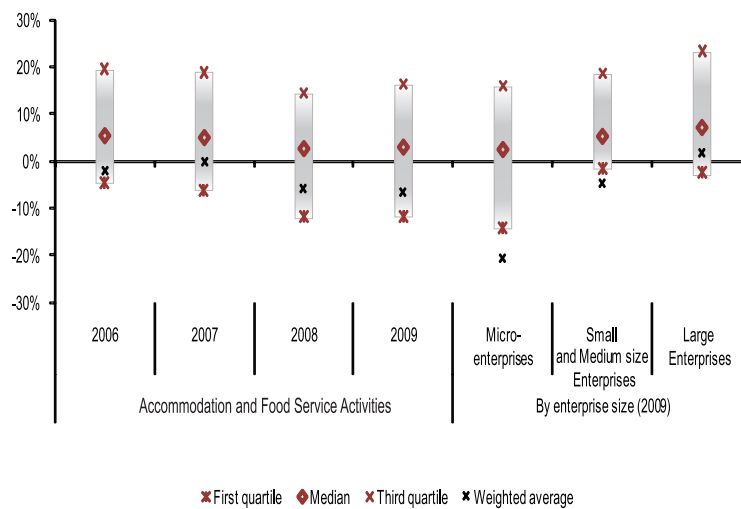


Chart 18

RETURN ON EQUITY | Total and by enterprise size
- quartile distribution

By **economic sector**, both CAE 55 – Accommodation and CAE 56 – Food and beverage service activities had negative average return on equity in 2009 (-6% and -14% respectively), whereas CAE 562 - Event catering and other food service activities was the only activity with positive average return (21%), even exceeding NFCs' (4%).

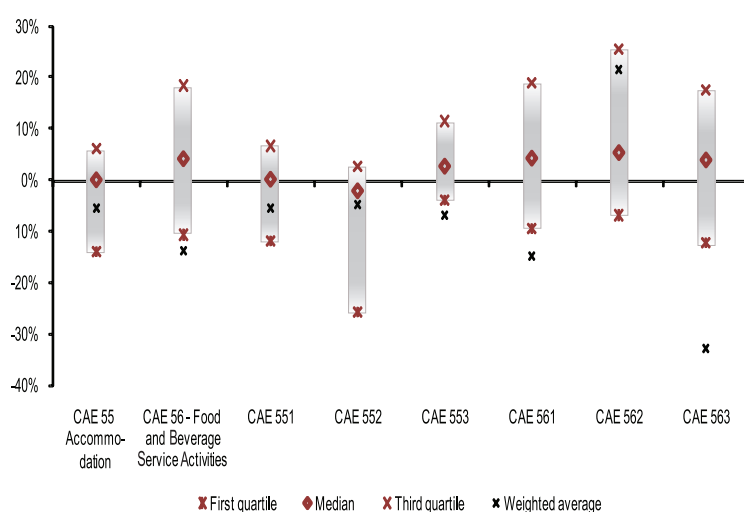
Assessing corporate data on an individual basis, even though average return in this sector was negative in 2009, more than half the enterprises managed to post positive return (median). Compared to the previous year, the value of the median even increased slightly (from 2.6% in 2008 to 2.9% in 2009) (Chart 18).

This scenario, in terms of enterprise size, chiefly reflects the situation in the microenterprise class, which was highly heterogeneous: return on equity was below -14% in one fourth of the

enterprises and, at the opposite end, it was above 16% in another fourth of enterprises. The inter-quartile range was lower in small and medium-sized enterprises and large enterprises (21 p.p. in SMEs, 26 p.p. in large enterprises and 30 p.p. in microenterprises). Also, when compared with microenterprises, return on equity was higher for most small and medium-sized enterprises and large enterprises, and the values for the median and the 3rd quartile increased with the enterprise size class. More specifically, half the enterprises had return on equity over 2% in the case of microenterprises, 5% in small and medium-sized enterprises and 7% in large enterprises. At the 3rd quartile level, more than one fourth of enterprises had return on equity over 16% in microenterprises, 19% in small and medium-sized enterprises and 23% in large enterprises.

Chart 19

RETURN ON EQUITY | By CAE-Rev.3 division and group (2009)
- quartile distribution



Note: CAE 551 – Hotels and similar accommodation; CAE 552 – Holiday and other short-stay accommodation; CAE 553 – Camping grounds, recreational vehicle parks and trailer parks; CAE 561 – Restaurants and mobile food service activities; CAE 562 – Event catering and other food service activities; CAE 563 – Beverage serving activities.

By **economic sector**, although the average value of CAE 56 - Food and beverage service activities was lower, this activity's return on equity was higher than in the 3rd distribution quartile (18%, compared to 6% for CAE 55 – Accommodation). In turn, the inter-quartile range revealed wider result dispersion (29 p.p. and 20 p.p. respectively in CAE 56 - Food and beverage service activities and CAE 55 – Accommodation). These data point to the existence of a sub-group of enterprises operating in CAE 56 - Food and beverage service activities with much higher return than the other enterprises in the sector, but with no sufficient weight to raise the average. In effect, when breaking down the group-level analysis of CAE (Chart 19), most of these enterprises actually belonged to CAE 562 – Event catering and other food service activities, which posted the highest value for the median (5%) and for the 3rd quartile (26%).

Still at the CAE group level, it is worth mentioning CAE 552 – Holiday and other short-stay accommodation, which had the largest share of enterprises with negative values (return on equity in half the enterprises was lower than 2%).

3.3 Financial situation

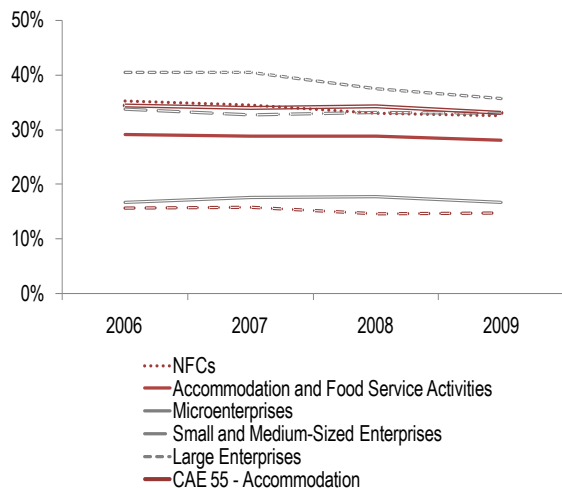
3.3.1 Financial structure

In the 2006-2009 period, the average level of capital ratio²⁴ of the *Accommodation and Food Service Activities* sector stood at 28%, approximately 4 p.p. below the value for the NFC aggregate in Portugal (Chart 20).

Considering the **enterprise size**, the capital ratio level rises, in average terms, in tandem with the enterprise size class. In 2009 microenterprises' capital ratio level stood at 17%, compared with 33% in small and medium-sized enterprises and 36% in large enterprises. By **economic sector**, the capital ratio levels in CAE 55 – *Accommodation* were significantly higher than in CAE 56 - *Food and beverage service* activities. In 2009 the capital ratio of the former was 33%, and of the latter 15%.

Chart 20

CAPITAL RATIO | Total and by enterprise size

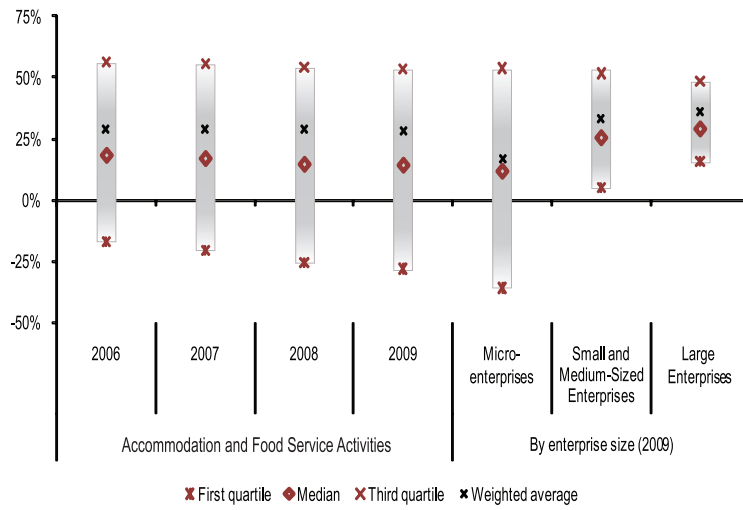


The quartile distribution shows that most enterprises were below the sector's average value (Chart 21). In effect, in 2009 the capital ratios stood below 14% in half the enterprises (median), i.e. their equity corresponded, at most, to only 14% of the assets. Most of these enterprises (72%) even had negative equity, i.e. their whole activity was exclusively financed by third-party equity, and were therefore in an extremely vulnerable situation.

²⁴ Calculated as the ratio of shareholder's equity to total assets.

Chart 21

CAPITAL RATIO | Total and by enterprise size
- quartile distribution

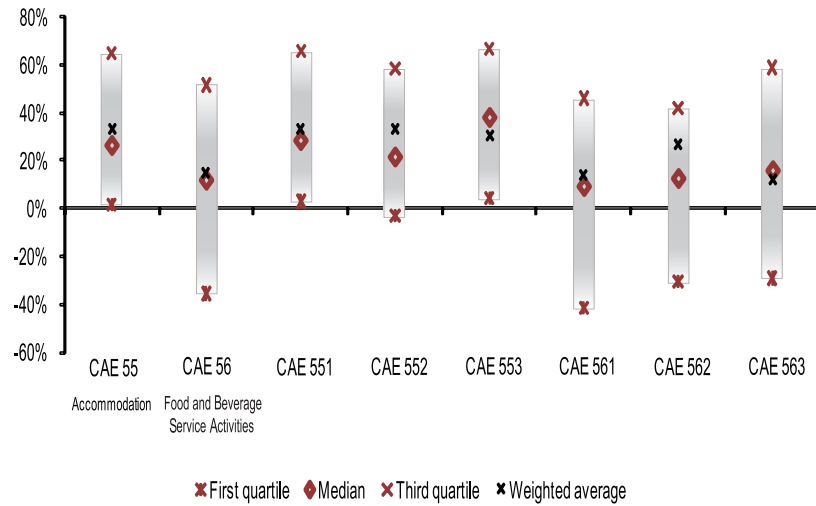


By **enterprise size** class microenterprises had the worst deficit situation. In 2009 more than one fourth of microenterprises had negative capital ratio levels, as a result of negative equity (reflecting negative results, sometimes entered consecutively). It is also worth mentioning the wider dispersion of results in this class, reflecting greater heterogeneity among enterprises.

Considering the economic sectors (Chart 22), it is interesting to highlight the different situation of activities developed within the scope of CAE 55 - Accommodation and CAE 56 - Food and beverage service activities. Thus, while 75% of enterprises in the three Groups associated with the former CAE had positive capital ratios, that percentage was close to 50% in the Groups associated with the latter CAE.

Chart 22

CAPITAL RATIO | By CAE-Rev.3 division and group (2009)
- quartile distribution

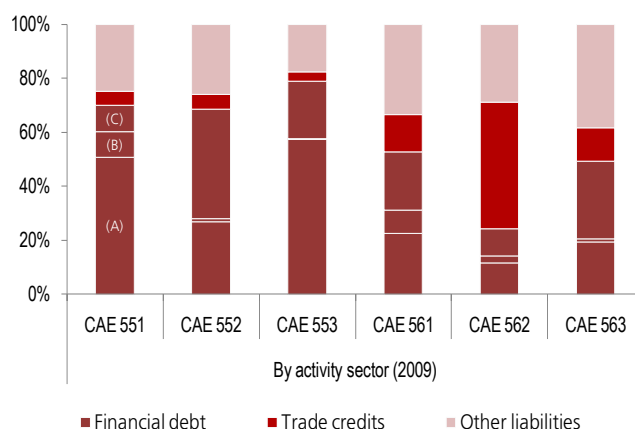


Note: CAE 551 – Hotels and similar accommodation; CAE 552 – Holiday and other short-stay accommodation; CAE 553 – Camping grounds, recreational vehicle parks and trailer parks; CAE 561 – Restaurants and mobile food service activities; CAE 562 – Event catering and other food service activities; CAE 563 – Beverage serving activities.

Taking into account the high dependence of the *Accommodation and Food Service Activities* sector on third-party equity, it is important to analyse the external financing sources used by enterprises in this sector. Chart 23 shows that in 2009 financial debt in a broad sense (i.e. bank loans, debt securities issued and debt to group enterprises and to shareholders) and trade credit as a whole represented 72% of the sector’s total liabilities²⁵.

Chart 23

LIABILITIES STRUCTURE | Total and by enterprise size (2009)



(A) - Bank loans and debt securities; (B) - Debt to group enterprises; (C) - Debt to shareholders

The combined weight of these two financing sources in the *Accommodation and Food Service Activities* sector was perfectly in line with developments in the NFC aggregate. The relevance of trade credits in the sector under review is nonetheless smaller (9% against 18% in total NFCs).

By **enterprise size**, financial debt and trade credits, as a whole, ranged between 69% in microenterprises, 72% in small and medium-sized enterprises and 82% in large enterprises. Whereas in small and medium-sized enterprises and large enterprises the most relevant share of **financial debt** was formed by bank loans and debt securities, in microenterprises loans to shareholders were also significant. In turn, the weight of trade credits in enterprise liabilities ranged between 8% in microenterprises and small and medium-sized enterprises and around 13% in large enterprises.

In terms of **economic sectors**, trade credits had a negligible weight in *CAE 55 - Accommodation* (5%), which was offset by larger recourse to financial debt (70%). In *CAE 56 - Food and beverage service activities*, only half of financing corresponded to financial debt, and the weight of trade credits reached 15%. Worthy of note in this activity is *CAE 562 - Event catering and other food service activities*, where nearly half the liabilities (47%) corresponded to trade credits.

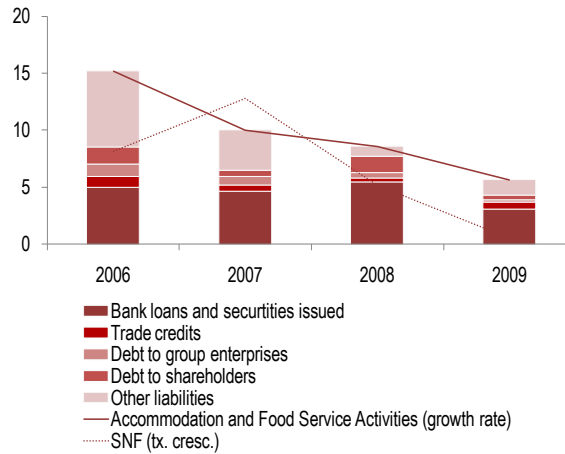
²⁵Excluding mainly accounting liabilities, such as accruals and prepaid expenses and provisions.

Finally, liability in the *Accommodation and Food Service Activities* sector has been growing, albeit at a decreasing pace, with its growth rate standing at 6% in 2009 (Chart 24). The bank loan and securities issued aggregate largely accounts for liability developments in the Accommodation and Food Service Activities sector, as a result of its weight on the sector's financing structure.

Chart 24

LIABILITIES

- annual growth rate (%) and contributions (p.p.)



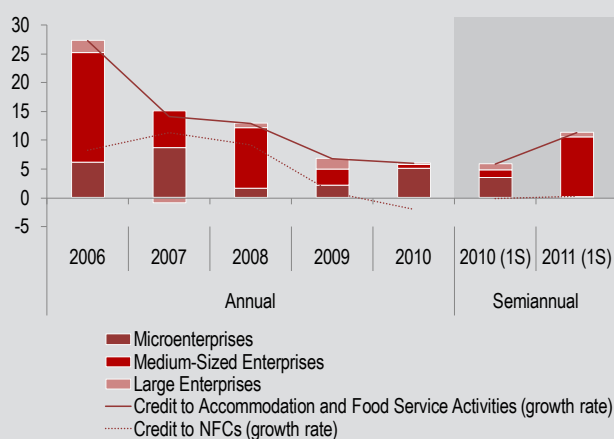
BOX 2: LOANS FROM RESIDENT CREDIT INSTITUTIONS – CHARACTERISATION BASED ON THE CENTRAL CREDIT REGISTER²⁶

Based on information available in the Central Credit Register of Banco de Portugal, this Box presents an analysis of the component related to loans from credit institutions resident in Portugal²⁷. In 2009 this comprised more than 99.8% of total loans obtained from credit institutions²⁸ by the Accommodation and Food Service Activities sector and involved 57.9% of enterprises in the sector.

From 2006 to 2010 credit granted by credit institutions to the *Accommodation and Food Service Activities* sector grew by 45.8%, with annual growth rates always above NFCs' rates (Chart 2.1.). In 2010, in particular, credit obtained by NFCs from credit institutions contracted (by 2.0%) while in the *Accommodation and Food Service Activities* sector it grew significantly (6.0%). In the same year, the *Accommodation and Food Service Activities* sector absorbed 5.1% of credit granted to NFCs by credit institutions. In the first half of 2011, credit obtained by the sector under review grew again more than in NFCs (11.4%²⁹ and 0.3% respectively, vis-à-vis December 2010).

Chart 2.1

FINANCING FROM CREDIT INSTITUTIONS
- annual growth rate (%) and contributions (p.p.)



Note 1: CAE 551 – Hotels and similar accommodation; CAE 552 – Holiday and other short-stay accommodation; CAE 553 – Camping grounds, recreational vehicle parks and trailer parks; CAE 561 – Restaurants and mobile food service activities; CAE 562 – Event catering and other food service activities; CAE 563 – Beverage serving activities.

By enterprise size, microenterprises and small and medium-sized enterprises have been determinant for developments in loans granted by credit institutions. It is also worth noting that, during the whole period under review, only the large enterprise class had a negative growth rate of credit, which occurred in 2007. By economic sector, 77.7% of credit granted in 2010 by credit institutions to enterprises in the *Accommodation and Food Service Activities* sector was concentrated in CAE 55 – *Accommodation*. Within this sub-sector, most credit was granted to enterprises in CAE 551 - *Hotels and similar accommodation* (96.3%). As regards activities

²⁶ The Central Credit Register is a database managed by Banco de Portugal, that gathers information provided by participating entities (credit-granting resident institutions) regarding credit granted. For further information, please refer to Supplement 1|2005 to Banco de Portugal's Statistical Bulletin, *A new source for Monetary and Financial Statistics: the Central Credit Register*.

²⁷ Credit institutions resident in Portugal shall mean the range of enterprises whose activity consists in receiving from the public deposits and other repayable funds, to be invested on their own account by granting credit. They include banks, savings banks and mutual agricultural credit banks (generally called 'banks' in this Study), and also factoring companies, credit purchase financing companies and financial leasing companies. It should be noted that 92% of credit granted in 2010 by resident credit institutions to NFCs stemmed from banks.

²⁸ Loans from credit institutions (resident and non-resident in Portugal) represented 61% of the *Accommodation and food services* financial debt.

²⁹ The growth rate for the first half of 2011 was somewhat boosted due to changes in the CAE that affected the comparability of data. Excluding that effect, the growth rate of financing from credit institutions to *Accommodation and Food Service Activities* would be 4.9%. This also affects CAE 55 – *Accommodation* and the SME size class.

related to CAE 56 – *Food and beverage service activities*, credit granted by credit institutions was broken down as follows: 68.5% to CAE 561 - *Restaurants*, 4.0% in CAE 562 - *Event catering and other food service activities*, and 27.5% to CAE 563 - *Beverage serving activities*. As regards developments in the 2006-2010 period, credit granted to CAE 55 - *Accommodation* grew persistently at a higher pace than to CAE 56 – *Food and beverage service activities*, except in 2007. It continued into the first half of 2011, with credit growing by 14.7% to CAE 55 – *Accommodation*, but declining by 0.2% to CAE 56 – *Food and beverage service activities*.

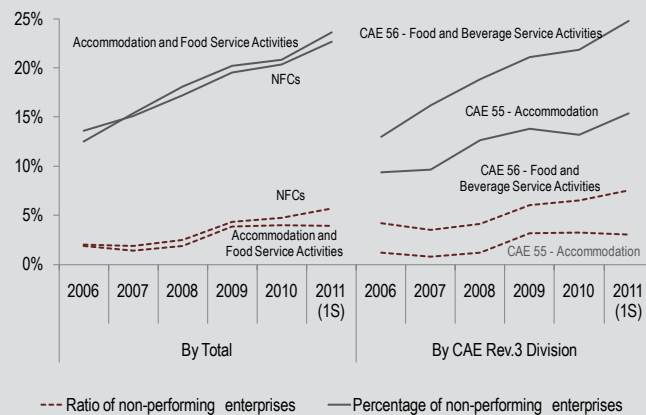
In terms of banking relationships, in 2010 63.9% of enterprises in *Accommodation and Food Service Activities* receiving credit from credit institutions were financed in a single credit institution, to an amount corresponding to 26.4% of total credit to the sector. This shows that financing in *Accommodation and Food Service Activities* was less distributed across the financial system than most NFCs (55.2% of which were related to a single credit institution, representing 20.8% of total credit).

Looking into loan maturities, most financing obtained by the sector under review was in the long term (74.4% in 2010). This credit segment stood at a much higher level than the population of NFCs in Portugal (54.2% in 2010).

The non-performing loans ratio in the first half of 2011 shows that the value for the *Accommodation and Food Service Activities* sector was lower than in the NFC aggregate (4.0% and 5.7% respectively). In addition, between 2006 and first half of 2011, the non-performing loans ratio in the sector under review rose by 2.0 p.p., compared with 3.7 p.p. in the NFC aggregate in Portugal (Chart 2.2). The increase in *Accommodation and Food Service Activities* was seen in all size classes, especially microenterprises (3.9 p.p.).

Chart 2.2

NON-PERFORMING LOANS RATIO AND PERCENTAGE OF NON-PERFORMING ENTERPRISES



By economic sector, during the whole period under analysis, the non-performing loans ratio in CAE 55 - *Accommodation* was lower than in NFCs in Portugal, whereas in CAE 56 – *Food and beverage service activities* it was always higher. In the first half of 2011, the value of the ratio stood at 3.1% in CAE 55 - *Accommodation* and at 7.5% in CAE 56 – *Food and beverage service activities*. By CAE groups, CAE 563 – *Beverage serving activities* had the highest non-performing level (8.4%), and CAE 553 – *Camping grounds, recreational vehicle parks and trailer parks* had the lowest level (0.1%).

The increase in the non-performing loans ratio also translated into a rise in the number of non-performing enterprises, with stress on the fact that in this ratio the *Accommodation and Food Service Activities* sector is in a

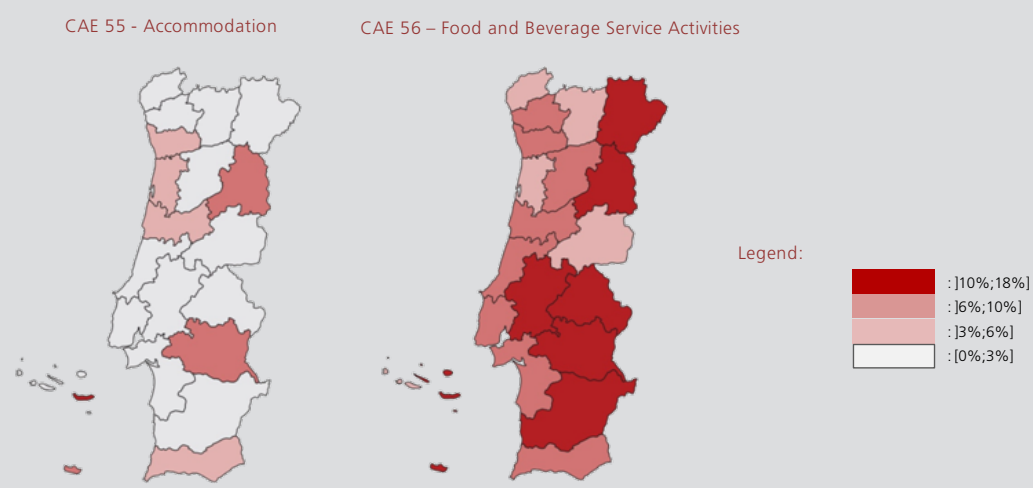
more unfavourable situation than the NFC aggregate in Portugal. Therefore, between 2006 and the first half of 2011, the percentage of enterprises in *Accommodation and Food Service Activities* in this situation rose by 11.1 p.p. to a value close to 23.6%, which compares with 9.0 p.p. and 22.7% in total NFCs in Portugal respectively.

By enterprise size, 25.7% of microenterprises in the sector receiving credit from credit institutions were non-performing in the first half of 2011, compared with 13.5% in small and medium-sized enterprises and 9.5% in large enterprises. By economic sector, stress is laid on *CAE 56 – Food and beverage service activities* (24.8%).

Finally, looking at the non-performing loans ratio³⁰ in the first half of 2011 by geographical location (Illustration 2.1) there were marked differences between *CAE 55 - Accommodation* and *CAE 56 - Food and beverage service activities*. Therefore, while three districts stand out in *CAE 55 - Accommodation*: Ponta Delgada 10.3%, Guarda 8.0% and Évora 7.7%, the geographical dispersion is wider in *CAE 56 – Food and beverage service activities*, showing high concentration away from the coast.

Illustration 1.1

NON-PERFORMING LOANS RATIO ENTERPRISES | By economic sector and geographical location (June 2011)



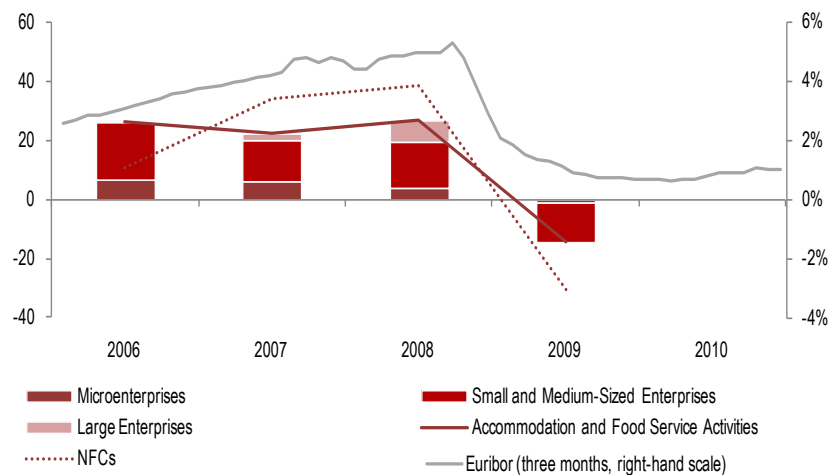
³⁰ The Non-performing loans ratio, also known as the ratio of credit overdue, is based on information on credit granted by credit institutions in the Central Credit Register of Banco de Portugal, calculating the share of the amount of credit overdue in total credit obtained. Credit shall be deemed to be overdue when the instalments of the respective repayments are not paid on the due dates. Credit customers may be in a non-performing situation as regards the principal and/or interest and other expenditure. This is the case when it has not been closed: regarding principal, within a maximum period of 30 days after maturity; and, regarding interest and other expenditure, after the due payment date.

3.3.2 Financial costs and solvency

Data from the Central Balance-Sheet Database of Banco de Portugal show that financing costs of NFCs in Portugal have in general followed the trend of market interest rates. In the case of the *Accommodation and Food Service Activities* sector, this situation was especially noticeable after 2007. In 2009 the sector's financial costs fell by around 15% (Chart 25), which was particularly apparent in the small and medium-sized enterprise class (24%). Financial costs in microenterprises declined by 4%, whereas in large enterprises they rose slightly (1%).

Chart 25

FINANCIAL COSTS | Total and by enterprise size
- annual growth rate (%), contributions (p.p.) and market interest rate

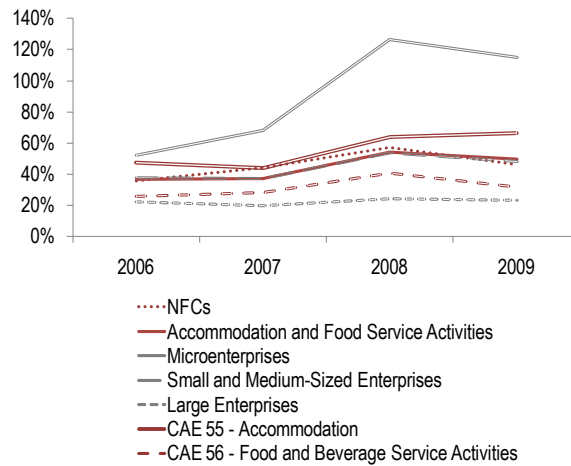


With a view to evaluating the solvency of enterprises making up the *Accommodation and Food Service Activities* sector, two indicators have been calculated. The first one relates EBITDA with financial costs. The second one compares short-term financial debt to EBITDA.

Chart 26 shows that share of interest paid on EBITDA in the sector was in line with developments in the NFC aggregate in Portugal in the 2006-2009 period. Up to 2008 the weight of interest paid rose, but this trend reversed slightly in 2009. In this year, financial costs represented around 50% of EBITDA in the *Accommodation and Food Service Activities* sector.

Chart 26

WEIGHT OF INTEREST ON EBITDA | Total and by enterprise size

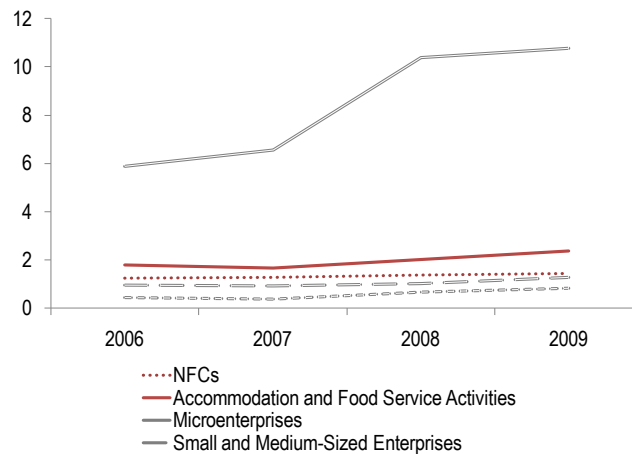


By **enterprise size** class, microenterprises showed the largest weight of interest paid on EBITDA (115%), while small and medium-sized enterprises had a value similar to the sector's total (48%). Large enterprises showed lower values in this indicator (23%).

Turning to **economic activity**, CAE 55 – Accommodation and CAE 56 - Food and beverage service activities had rather mixed behaviours. From 2006 to 2009, the results obtained for CAE 55 - Accommodation showed that, on average, interest absorbed approximately half EBITDA generated in the year. In the same period, the value obtained for CAE 56 - Food and beverage service activities was 32%. In this field, it should be recalled that financial debt was more expressive in financing CAE 55 - Accommodation than CAE 56 - Food and beverage service activities. Also noteworthy was CAE 562 - Event catering and other food service activities, with the lowest value for this ratio (7% in 2009).

Chart 27

RATIO OF SHORT-TERM FINANCIAL DEBT TO EBITDA | Total and by enterprise size



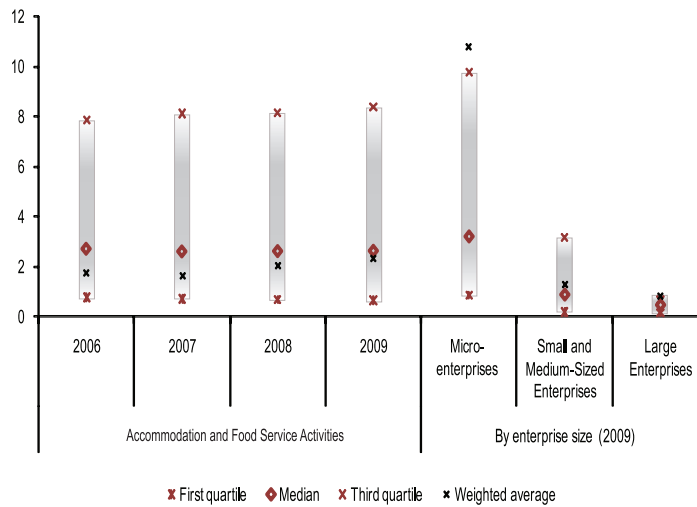
The ratio of short-term financial debt to EBITDA seeks to evaluate the enterprises' capacity to meet all the financial commitments already made and maturing in the short term. Information from Chart 27 shows that, over the whole period under review, the ratio of short-term financial debt to EBITDA remained relatively steady. In turn, the *Accommodation and Food Service Activities* sector was having more difficulties in meeting its short-term commitments than the NFC aggregate in Portugal. In 2009 short-term financial debt was 2.4 higher than EBITDA in this sector, while for total NFCs the ratio stood slightly above 1.4. Relevant for the ratio of the sector under review was the contribution of the microenterprise class, where short-term financial debt was eleven times higher than EBITDA. In small and medium-sized enterprises and large enterprises the situation was clearly more favourable (1.3 and 0.8 respectively).

The quartile distribution gives a clearer picture of developments in most enterprises belonging to the *Accommodation and Food Service Activities* sector (Chart 28). It shows that the sector's median (2.6 in 2009) has always exceeded the average (2.4 in 2009), thus indicating that the situation in most enterprises was more negative than suggested by the average indicator.

Again, microenterprises were behind this situation, with half the class needing to invest the whole EBITDA generated over more than three years (under the assumption of a constant EBITDA), in order to close the full short-term financial debt they held in 2009. For the same percentage of enterprises, in small and medium-sized enterprises it was necessary to wait for one year, while in large enterprises six months would be enough.

Chart 28

RATIO OF SHORT-TERM FINANCIAL DEBT TO EBITDA | Total and by enterprise size
- quartile distribution



3.3.3 Trade credit financing

Trade credit financing represented around 9% of total liabilities of enterprises in the *Accommodation and Food Service Activities* sector, having grown by 21% in the 2006-2009 period, albeit decelerating.

In principle, trade credits do not have an explicit associated cost, and are a relatively accessible manner to obtain short-term financing. Since, theoretically, this corresponds to very short-term financing, the net contribution of commercial debt lending and borrowing to enterprise financing is frequently analysed. One way to evaluate this net contribution is by analysing days payable outstanding and days sales outstanding and the respective differential.

In 2009 days payable outstanding in the *Accommodation and Food Service Activities* sector were 69 days, well above the 25 days of days sales outstanding. These results compare favourably with the NFC aggregate in Portugal, where both were around 90 days. However, they do not show the situation in most enterprises. Indeed, days payable outstanding in half the enterprises in the sector were less than 14 days, and more than three quarters of the enterprises did not grant credit to customers (Charts 29 and 30).

By **enterprise size** class, days outstanding in the sector reflect, to a large extent, the situation in microenterprises. The other size classes show higher heterogeneity of results, but also a higher number of days sales outstanding and days payable outstanding.

By **economic sector**, the differential between days payable outstanding and days sales outstanding in CAE 55 - *Accommodation* evolved positively from 18 days between 2006 and 2009 to 57 days last year. In CAE 56 – *Food and beverage service activities* the differential remained around 40 days between 2006 and 2009.

Chart 29

DAYS SALES OUTSTANDING
- quartile distribution

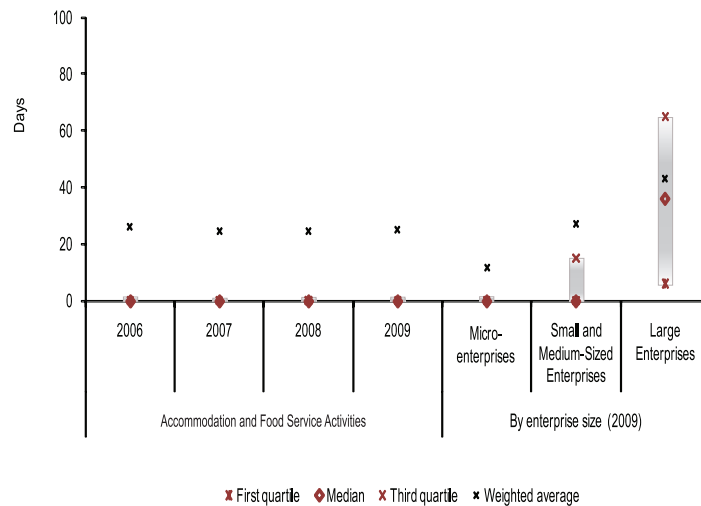
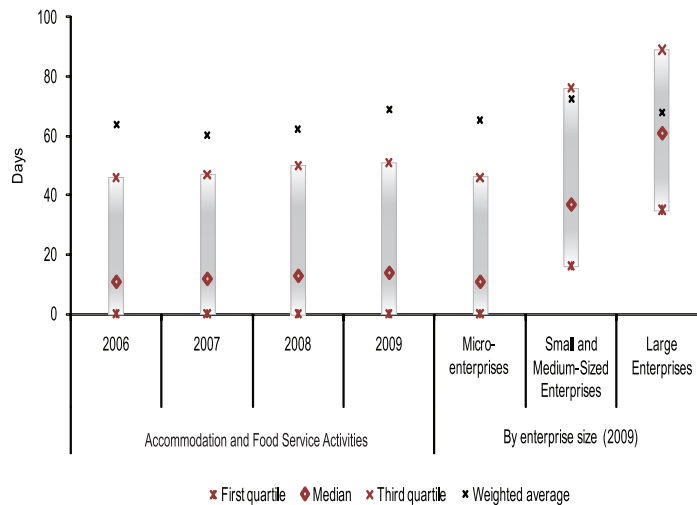


Chart 30

DAYS PAYABLE OUTSTANDING - quartile distribution

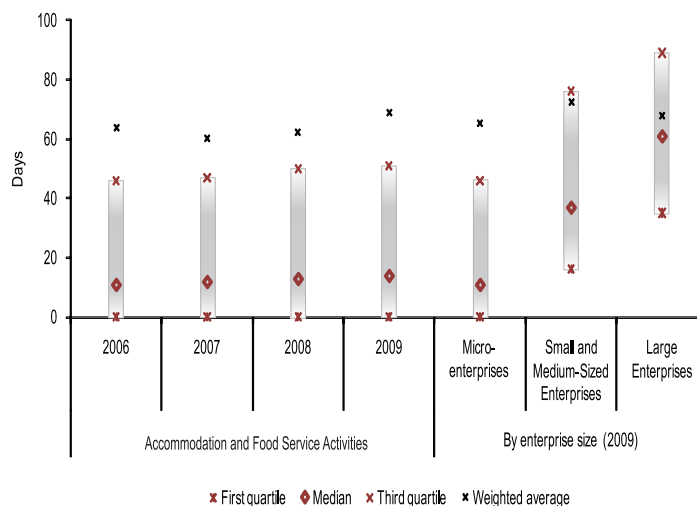


The capacity of the *Accommodation and Food Service Activities* sector to be financed through the management of its trade credits is also apparent when the differential is calculated by enterprise on an individual basis (Chart 31). In effect, the large majority of enterprises operating in this sector received from their customers earlier than they paid to suppliers.

The differential between days payable outstanding and days sales outstanding narrowed in parallel with the enterprise size, standing at 54 days in microenterprises, 46 days in small and medium-sized enterprises and 25 days in large enterprises. All size classes showed positive results, with special reference to small and medium-sized enterprises and large enterprises, which, in terms of the distribution median, are in a more favourable situation vis-à-vis microenterprises, than in terms of the average indicator. In effect, the share of enterprises financed through the management of their trade credits was lower in microenterprises than in the other classes.

Chart 31

DIFFERENTIAL BETWEEN DAYS PAYABLE OUTSTANDING AND DAYS SALES OUTSTANDING - quartile distribution



Annex

MAIN INDICATORS OF THE ACCOMMODATION AND FOOD SERVICE ACTIVITIES SECTOR (2009)

	Characterisation of the sector			Activity		Financing			Profitability			
	Weight in turnover	Turnover held by large enterprises	Market concentration (HHI)	Turnover	Growth rates	Capital ratio	Growth rates	Differential between days payable outstanding and days sales outstanding (median, days)	Weight of interest paid on EBITDA	Loans obtained from resident credit institutions (June 2011)	Return on equity	
Accommodation and Food Service Activities	100%	18.9%	0.0018	-2.3%	-9.0%	28.1%	8.0%	8.7%	49.6%	23.6%	4.0%	-6.7%
CAE 55	29.6%	22.5%	0.0048	-7.7%	-20.5%	33.1%	18.0%	9.3%	66.2%	15.3%	3.1%	-5.5%
CAE 551	28.2%	34.4%	0.0053	-8.5%	-21.6%	33.1%	18.4%	9.5%	66.9%	16.0%	3.0%	-5.5%
CAE 552	0.8%	0.0%	0.0223	13.4%	65.2%	33.4%	11.3%	-11.3%	51.9%	12.9%	5.6%	-4.9%
CAE 553	0.5%	0.8%	0.0944	9.6%	-27.7%	30.8%	15.0%	56.4%	57.5%	15.6%	0.1%	-7.0%
CAE 56	70.4%	17.4%	0.0027	0.2%	7.8%	14.7%	2.2%	6.1%	31.8%	24.8%	7.5%	-13.8%
CAE 561	43.3%	28.1%	0.0026	1.1%	9.4%	14.3%	2.4%	6.9%	34.4%	24.8%	7.4%	-15.0%
CAE 562	8.7%	35.7%	0.1092	0.7%	17.3%	26.6%	2.0%	17.8%	7.3%	26.1%	4.1%	21.4%
CAE 563	18.4%	1.0%	0.0004	-2.2%	-7.6%	12.2%	1.8%	2.6%	49.4%	24.6%	8.4%	-32.8%
NFC	-	41.2%	0.0012	-9.1%	-8.2%	32.6%	-1.9%	1.5%	46.3%	22.7%	5.7%	4.3%

NOTE: CAE 55 – Accommodation; **CAE 551** – Hotels and similar accommodation; **CAE 552** – Holiday and other short-stay accommodation; **CAE 553** – Camping grounds, recreational vehicle parks and trailer parks; **CAE 56** – Food and beverage service activities; **CAE 561** – Restaurants and mobile food service activities; **CAE 562** – Event catering and other food service activities; **CAE 563** – Beverage serving activities.

Weight of sector in total NFCs		
	2009	2009
Number of enterprises	2000	2009
Turnover	2000	2009
Number of employees	2000	2009
Accommodation and Food Service Activities	9.6%	8.7%
	1.9%	2.3%
	6.3%	7.0%

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CENTRAL BALANCE-SHEET STUDIES

- 1 | ENTERPRISE AND SECTOR TABLES
- 2 | STRUCTURE AND DYNAMICS OF NON-FINANCIAL CORPORATIONS IN PORTUGAL
- 3 | SECTORAL ANALYSIS OF NON-FINANCIAL CORPORATIONS IN PORTUGAL
- 4 | SECTORAL ANALYSIS OF FOOD INDUSTRY
- 5 | SECTORAL ANALYSIS OF ACCOMMODATION AND FOOD SERVICE ACTIVITIES

