

SECTORAL ANALYSIS OF NON-FINANCIAL CORPORATIONS IN PORTUGAL 2011/2012



Central Balance Sheet Studies
November 2012

8



Banco de Portugal

EUROSYSTEM

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Av. Almirante Reis, 71

1150-012 Lisboa

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FOREWORD

This analysis is mainly 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).

IES is usually reported within six and a half months from the financial year end, which, for most enterprises resident in Portugal, corresponds to 15 July of the year following the reference year. As regards data for 2011, however, the deadline for submission was extended to the end of July 2012, due to the late availability of the collection application.

For the second consecutive year the 2011 annual accounts reported through IES comply with the Accounting Normalisation System – SNC (*Sistema de Normalização Contabilística*). The accounting standards introduced in 2010, which changes the submission of accounts standard and confers special relevance on the accounting and financial reporting principles, made the quality control process developed within Banco de Portugal on the information reported by the enterprises even more relevant. This process essentially aims to ensure that accounting information for the economic year is coherent and that the main aggregates are consistent throughout the years. That analysis also involves matching the reported information with the data obtained from other statistical systems available within Banco de Portugal.

Therefore, data available for the population of enterprises in Portugal refer to 2011, and may be complemented, for a small group of enterprises, with quarterly information referring to a more recent period. The data for 2012 in the Central Balance Sheet Database are preliminary and are based on quarterly accounting data reported through the Quarterly Survey of non-financial corporations (NFCs). This Survey is conducted by Statistics Portugal and Banco de Portugal among a group of enterprises, in order to obtain information on a set of economic and financial variables. The answers obtained through this Survey, among approximately 3,000 enterprises, cover a significant proportion of the situation and activity of the NFC sector in Portugal and may be used to estimate their overall evolution. The quarterly results chiefly reflect developments in the economic sectors and size classes which are best represented in the Survey, namely *Manufacturing* and large enterprises.

Information for 2012 is also complemented with data on the financial debt of Portuguese enterprises available from other databases of the Statistics Department of Banco de Portugal, namely the Central Credit Register (CCR) and the Securities Statistics Integrated System (SSIS).

SUMMARY

In 2011, data from the Central Balance Sheet Database of Banco de Portugal show negative developments of enterprises' activity and return on equity in Portugal. For 2012, the information available up to the second quarter suggests a deterioration of this situation. NFCs' results from the Central Credit Register were in line with the Portuguese GDP performance, which declined by 1.7% in 2011, and, according to Statistics Portugal's preliminary data, by 2.8% in the first half of 2012.

Based on data from the Central Balance Sheet Database, in 2011 the number of enterprises active in Portugal declined for the third successive year, by around 1%. *Agriculture and fishing* stood out as the sector where the birth/death ratio was higher (the number of new enterprises exceeded the number of those closing their activity by 30%), whereas in *Construction* that ratio was lower (the number of enterprises closing their activity exceeded the number of new enterprises by 70%).

NFCs' EBITDA declined by 29% in 2011, and all size classes and economic sectors contributed to that decline. Major drops were seen in microenterprises (48%) and *Construction* (64%).

Enterprises' return on equity declined from 10% in 2010 to 3% in 2011. This decline was broadly based, but negative return was especially registered within microenterprises (-1%), *Construction* (-9%) and *Agriculture and fishing* (-1%). *Electricity and water* continued to be the sector with the highest return on equity (12%).

In 2011, equity financing continued to be low, representing less than 25% of assets for most enterprises. Microenterprises posted very heterogeneous results but continued to have the highest average capital ratio (40%). By economic activity sectors, *Construction* continued to have the lowest capital ratio (21%).

On the other hand, financial debt (bank loans, debt securities and debt to group companies) and trade credits represented over two-thirds of external financing in 2011. Compared to 2010, only debt to group companies increased (14%), while bank loans stood out on the downward side (8%). The deterioration of the financing conditions of the Portuguese economy was clearly reflected in enterprises' accounts. In effect, interests paid rose by 18% from 2010. This increase was broadly based across all size classes and economic sectors. As a result, financial pressure on enterprises increased with the share of interests paid on EBITDA at 28%, representing a deterioration of 11 p.p. from 2010. For 2012, data available suggest a deterioration of the financial debt burden.

In 2011, trade credits represented 17% of enterprises' liabilities. As a whole, accounts receivable exceeded accounts payable, and therefore a deficit situation persisted for enterprises, in terms of their trade credit financing. Nonetheless, in 2011, in addition to *Agriculture and fishing*, *Trade* and the large enterprise aggregate ensured net financing through this type of credit. The situation in *Construction*, in turn, deteriorated significantly, with days sales outstanding significantly worsening, placing this sector in the most negative position in this type of financing.

Compared with the end of the first half of 2012, and taking into account complementary information from Banco de Portugal's Central Credit Register, loans granted to enterprises by resident credit institutions fell by 3%, especially to smaller enterprises and *Trade* and *Construction*. The non-performing ratio continued to increase significantly, reaching 10% at the end of the first half of 2012. The growth was particularly strong among the above-mentioned enterprise aggregates.

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ACCRONYMS

CAE	Portuguese classification of economic activities
CI	Credit institutions
CoGS	Cost of Goods Sold and Materials Consumed
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
ESA 95	European System of National and Regional Accounts 1995
GDP	Gross domestic product
IES	Simplified Corporate Information (<i>Informação Empresarial Simplificada</i>)
INE	Statistics Portugal – <i>Instituto Nacional de Estatística</i>
NFCs	Non-financial corporations
POC	Official chart of accounts (<i>Plano oficial de contabilidade</i>)
p.p.	Percentage points
SES	Supplies and external services
SMEs	Small and medium-sized enterprises (excluding microenterprises)
SNC	Accounting Normalisation System (<i>Sistema de Normalização Contabilística</i>)

NON-FINANCIAL CORPORATIONS IN PORTUGAL 2011/2012



INTRODUCTION

1

STRUCTURE AND DYNAMICS

2

ECONOMIC AND FINANCIAL ANALYSIS

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I NON-FINANCIAL CORPORATIONS IN PORTUGAL 2011/2012

1 INTRODUCTION

The *study Sectoral Analysis of Non-Financial Corporations in Portugal 2011/2012* evaluates the economic and financial situation of non-financial corporations (NFCs)¹ resident in Portugal, based on information compiled by the Central Balance Sheet Database of Banco de Portugal².

This publication provides an update to the *Central Balance Sheet Studies* | 3 and 7. It focuses mainly on the evolution registered in 2011, according to information gathered from the most recent Simplified Corporate Information (IES) submission. Where data allows, information relative to the first half of 2012 was also included.

The results published in this analysis complement the aggregated enterprise data³, and are also derived from the Central Balance Sheet Database released within the scope of Banco de Portugal's statistical publications⁴. This analysis of microeconomic data provides additional details on the aggregate results published regarding the NFC sector and other enterprise sub-groups, as for instance economic activity sectors and enterprise size classes. Its purpose is therefore to identify and exploit heterogeneous enterprise groups, taking into account distinctive features.

The analysis begins with a brief reference to the structure and dynamics of the enterprise sector in 2011. Afterwards, it reviews recent turnover developments to determine the extent to which these are reflected in businesses' profitability. This involves a breakdown of the effects that influence this profitability into operating and financial components, while also aiming to provide some information on the sector's solvency capacity.

Finally, based on complementary information available in other databases from Banco de Portugal's Statistics Department, details are given on the financial debt of Portuguese enterprises, especially as regards bank loans and securities issued.

The Annex provides a methodological summary and the definition of the main concepts used throughout the *Study*. The statistical series under analysis can also be found on Banco de Portugal's website.

1 The NFC sector represents one of the economy's five institutional sectors. The institutional sectorisation of economic agents is carried out in accordance with the 1995 European System of National and Regional Accounts (ESA 95), approved by Council Regulation (EC) No 2223/96 of 25 June 1996. ESA 95 is a harmonised benchmark reference on the compilation methodology with a deadline for release of the national accounts of EU countries, including statistics under Banco de Portugal's responsibility. 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).

2 The Central Balance Sheet Database is a database with economic and financial information on NFCs in Portugal. Information used in this Study is based on annual accounting data (from the Annual Central Balance Sheet Database) reported within the scope of the IES (Simplified Corporate Information) and quarterly accounting data (from the Quarterly Central Balance Sheet Database) reported by enterprises through the Quarterly Survey of Non-Financial Corporations. Annual data cover nearly all NFCs and quarterly data cover around 3,000 enterprises, representing 40% of turnover in the sector. For further details on the activity 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 publication *Central Balance Sheet Study* | 6, December 2011 – *New Enterprise and Sector Tables: Adjustment to the Accounting Standards System*.

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

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

In 2011, the number of NFCs in Portugal continued to be around 370 thousand enterprises

Despite an increase in the weight of *Manufacturing*, the predominant activities continued to be related to services ...

2 STRUCTURE AND DYNAMICS

2.1 Structure

In 2011, the NFC sector used as reference for the statistics of Banco de Portugal's Central Balance Sheet Database comprised nearly 370 thousand enterprises. *Other Services* was the most important **economic sector**⁵ in terms of the number of enterprises, with approximately 170 thousand enterprises, followed by *Trade*, with around 100 thousand. *Agriculture and fishing*, with around 10 thousand enterprises, and *Electricity and water*, with under 2 thousand, remained the activities with the fewest enterprises.

In terms of the relative importance of each economic sector in total NFCs, there were no significant structural changes in 2011, compared with the previous year. Nonetheless, *Manufacturing* had a larger contribution to NFCs' total turnover (+2 p.p.), whereas the contribution of *Construction* (-1.5 p.p.) and *Other Services* (-0.9 p.p.) was smaller. The latter raised its contribution to total NFCs' employment (+0.9 p.p.) and number of enterprises (+0.7 p.p.). *Construction*, in turn, also lost relevance across the other indicators: number of enterprises (-0.4 p.p.) and number of employees (-1 p.p.).

In 2011 *Other Services* was therefore the sector with the largest share of enterprises (46%) and employees (41%) in NFCs (Chart 1), mainly due to:

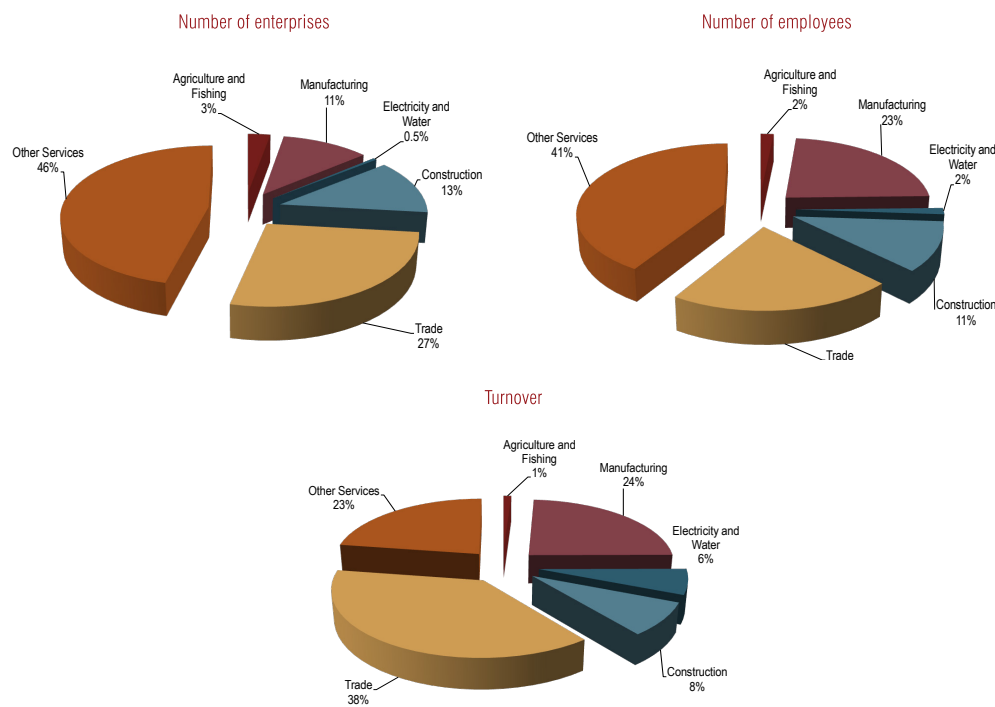
- activities in Section M – *Professional, scientific and technical activities*, including management consultancy, legal, engineering and other activities, and those of Section I – *Accommodation and food service activities*, each representing 10% and 9% of total NFCs.
- activities in Section N – *Administrative and support service activities*, including temporary work activities, followed by Section I – *Accommodation and food service activities*, each representing 10% and 7% of the total number of employees in NFCs.

In terms of NFC turnover, *Trade* had the highest weight (38%), followed by *Manufacturing* (24%), which in 2011 exceeded *Other Services* (23%). Within *Manufacturing*, the most relevant activities were related to Divisions 19 – *Manufacture of coke and refined petroleum products* and 29 – *Manufacture of motor vehicles, trailers and semi-trailers*, in which turnover grew by 19% and 18% respectively from 2010, contributing jointly with 5% to total NFCs' turnover (19% of the turnover generated by *Manufacturing*).

⁵ A definition of the economic activity sectors used in this Study is detailed in the Annex.

Chart 1

NFC STRUCTURE (2011)



By **size class**⁶, the structure registered in previous years remained unchanged in 2011, with the large majority of the enterprises (99.7%) being micro, small or medium-sized (Table 1). The large enterprise class, although maintaining its relative weight in terms of number of enterprises in 2011 (0.3%), gained relevance in both the number of employees (+1 p.p.), and turnover (+2.2 p.p.).

Microenterprises were the dominant size class across all economic activity sectors considered, with its weight increasing in all of them, although by less than 1 p.p. in some cases. *Manufacturing* and *Electricity and water* were the sectors where this size class had a lower relative weight, reaching nonetheless 69% and 71%, respectively.

In what regards the number of employees, small and medium-sized enterprises (SMEs) dominated, both in the NFC aggregate and across most economic activity sectors. The exceptions were *Electricity and water* and *Other Services*, where large enterprises were predominant (50% and 41% respectively). However, the relative weight of SMEs in terms of the number of employees declined in 2011 in most sectors, in contrast with microenterprises and large enterprises.

... and microenterprises and SMEs (99.7% of NFCs in Portugal), even though large enterprises gained relevance in terms of turnover and number of employees

Microenterprises dominated in all economic activity sectors, but SMEs aggregated the largest employment share

⁶ A definition of the size classes used in this Study is detailed in the Annex.

Table 1

SIZE CLASS STRUCTURE (2011)								
Indicator	Analysis dimension	Total	By economic sector					
			Agriculture and Fishing	Manufacturing	Electricity and Water	Construction	Trade	Other Services
Number of enterprises	Microent.	88.1%	90.7%	69.4%	70.5%	85.9%	89.8%	92.2%
	SME	11.6%	9.3%	29.8%	26.7%	13.9%	10.0%	7.5%
	Large enterprises	0.3%	0.1%	0.8%	2.8%	0.2%	0.2%	0.3%
Number of employees	Microent.	26.3%	43.2%	13.7%	4.9%	31.8%	35.7%	27.1%
	SME	43.6%	51.9%	63.8%	44.8%	50.4%	40.4%	31.8%
	Large enterprises	30.0%	4.8%	22.4%	50.3%	17.8%	23.8%	41.1%
Turnover	Microent.	14.5%	38.4%	5.4%	1.8%	17.4%	18.1%	19.3%
	SME	40.3%	55.1%	43.5%	19.7%	44.7%	41.8%	37.9%
	Large enterprises	45.2%	6.5%	51.1%	78.5%	37.9%	40.1%	42.8%

Note: Figures in blue correspond to positive changes (above 1 p.p.) compared with 2010. In contrast, figures in red indicate negative changes (below -1 p.p.).

Considering turnover, large enterprises stood out contributing more than SMEs to the NFC aggregate—by around 5 p.p. (+ 4 p.p. from 2010). This larger contribution spanned across almost all economic activity sectors, especially in *Manufacturing*, where large enterprises represented more than 51% of turnover, rising by over 3 p.p. from 2010. Large enterprises also show significant increases in *Construction* and *Trade* (+ 2 p.p.), but nonetheless continued to show a more relevant position in *Electricity and Water*, aggregating 79% of this sector's turnover.

Regarding **geographical location**⁷, enterprise head offices were clearly concentrated in the Lisbon and Oporto districts: 46% of total NFCs and around 59% of total turnover (Table 2).

Other Services and *Trade* were the activities with the highest number of enterprises in every district. In terms of the number of employees and turnover, however, *Manufacturing* gained relevance, exceeding both *Other Services* and *Trade* in some districts, such as Oporto, Braga, Aveiro and Setúbal. In this field, the most important activities were related to Divisions 25 – *Manufacture of fabricated metal products, except machinery and equipment* and 29 – *Manufacture of motor vehicles, trailers and semi-trailers* in Aveiro and Setúbal, Divisions 13 – *Manufacture of textiles* and 14 – *Manufacture of wearing apparel* in Braga, and also Divisions 31 – *Manufacture of furniture*, 10 – *Manufacture of food products* and 11 – *Manufacture of beverages*, in Oporto.

Lisbon and Oporto districts stood for 46% of NFCs and 59% of the respective turnover

In spite of the higher relative weight of *Other services* activity sector, *Manufacturing* stood out in Oporto, Braga, Aveiro and Setúbal

⁷ Geographical location refers to the district where the enterprise head office is located.

Table 2

District Weight in total NFCs	Indicator		
	Number of enterprises	Number of employees	Turnover
Lisbon 28.2% of the number of enterprises 35.1% of the number of employees 43.1% of turnover	Other Services (57.1%)	Other Services (57.7%)	Trade (38.1%)
	Trade (25.4%)	Trade (22.8%)	Other Services (29.8%)
Oporto 17.6% of the number of enterprises 18.5% of the number of employees 15.9% of turnover	Other Services (43.8%)	Other Services (33.9%)	Trade (40.5%)
	Trade (28.6%)	Manufacturing (28.7%)	Manufacturing (24.7%)
Braga 7.5% of the number of enterprises 8.0% of the number of employees 5.6% of turnover	Other Services (34.0%)	Manufacturing (47.9%)	Manufacturing (42.0%)
	Trade (27.0%)	Other Services (18.4%)	Trade (31.9%)
Aveiro 6.4% of the number of enterprises 6.7% of the number of employees 5.5% of the turnover	Other Services (35.0%)	Manufacturing (54.0%)	Manufacturing (54.9%)
	Trade (29.2%)	Other Services (20.3%)	Trade (27.0%)
Setúbal 6.2% of the number of enterprises 4.7% of the number of employees 5.6% of turnover	Other Services (48.1%)	Other Services (41.7%)	Manufacturing (45.8%)
	Trade (26.1%)	Manufacturing (22.0%)	Trade (29.8%)
Other districts 34.1% of the number of enterprises 27.0% of the number of employees 24.2% of turnover	Other Services (43.0%)	Other Services (36.6%)	Trade (42.0%)
	Trade (27.1%)	Manufacturing (22.8%)	Manufacturing (24.0%)

Note: The two most important economic sectors are identified for each district, according to the indicator in each column.

In what concerns **legal nature**⁸, a large majority of NFCs had been set up as private limited companies (89%), whereas public limited companies represented only 6%. In terms of the number of employees, private limited companies were still predominant (59%), but their contribution to total NFC turnover was lower than that of public limited companies (42% and 52% respectively). Vis-à-vis 2010, the share of public limited companies grew slightly (1 p.p.) in both employment and turnover, in contrast to private limited companies.

Public limited companies stood for 6% of NFCs and aggregated 52% of their turnover

Finally, in terms of **enterprise maturity**⁹, enterprises established for less than ten years were the most relevant (around 52% of the enterprises in 2011). This was the predominant type of enterprise in most economic activity sectors, especially *Electricity and water* where approximately two-thirds of the enterprises were under ten years of age (Table 3).

In general, enterprises established for less than ten years were predominant; *Manufacturing and Trade* were the only exceptions ...

However, regarding employment and turnover, older enterprises were predominant. In effect, 75% of the turnover generated by NFCs in 2011 was associated with enterprises in activity for more than ten years, whom also had registered the highest share of employees (69%). *Manufacturing* stood out with 81% of employees and 85% of turnover within enterprises established for more than ten years.

⁸ Considering the numerous categories included in national regulations for the classification of enterprises by legal nature, this *Study* highlights only public limited companies and private limited companies, whereas the remaining legal natures were aggregated under a single category named 'other legal natures'.

⁹ The enterprise maturity corresponds to the age of the enterprise at the analysis reference date. In order to define relatively homogeneous groups, three maturity classes were built: up to and including ten years; more than ten and up to and including 20 years; and more than 20 years.

... whereas in terms of employment and turnover older enterprises were the most relevant

Table 3

STRUCTURE BY MATURITY CLASSES (2011)								
Indicator	Maturity classes	Total	By economic sector					
			Agriculture and Fishing	Manufacturing	Electricity and Water	Construction	Trade	Other Services
Number of enterprises	Up to 10 years	51.7%	52.9%	37.9%	67.0%	51.7%	49.1%	56.2%
	More than 10 and up to 20 years	28.1%	25.2%	30.1%	25.0%	32.0%	26.4%	27.7%
	More than 20 years	20.3%	21.8%	32.0%	8.0%	16.3%	24.5%	16.1%
Number of employees	Up to 10 years	30.8%	41.9%	19.0%	26.1%	35.1%	27.5%	37.7%
	More than 10 and up to 20 years	28.4%	25.5%	25.0%	46.6%	29.0%	28.7%	29.3%
	More than 20 years	40.8%	32.6%	56.0%	27.4%	35.9%	43.8%	33.0%
Turnover	Up to 10 years	25.0%	37.1%	14.7%	35.3%	30.7%	24.4%	31.7%
	More than 10 and up to 20 years	28.5%	25.1%	21.0%	45.1%	21.1%	30.1%	32.1%
	More than 20 years	46.4%	37.8%	64.3%	19.6%	48.2%	45.5%	36.2%

Nota: Shaded areas indicate the highest values in each "sector/indicator" data point.

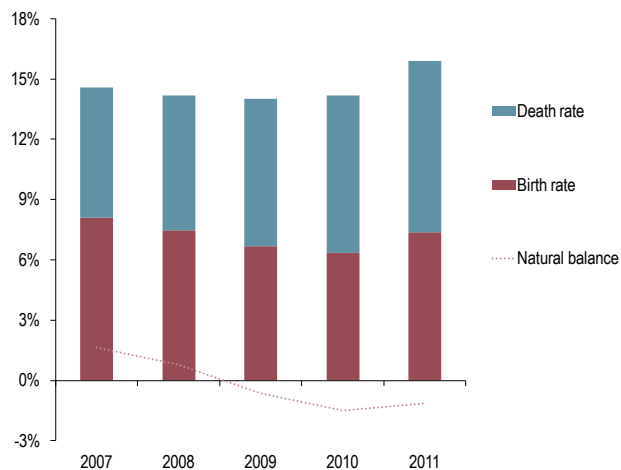
2.2 Dynamics

In 2011, the number of NFCs contracted again (natural balance of -1.2%)

The NFC population contracted during 2011 (-1.2%), with enterprises' death rate exceeding the birth rate for the third consecutive year. Nonetheless, the natural balance improved slightly from 2010 (-0.3 p.p.), as a result of the higher birth rate growth (+1 p.p.), when compared with the death rate (+ 0.7 p.p.) (Chart 2).

Chart 2

NFCs' DEMOGRAPHIC INDICATORS

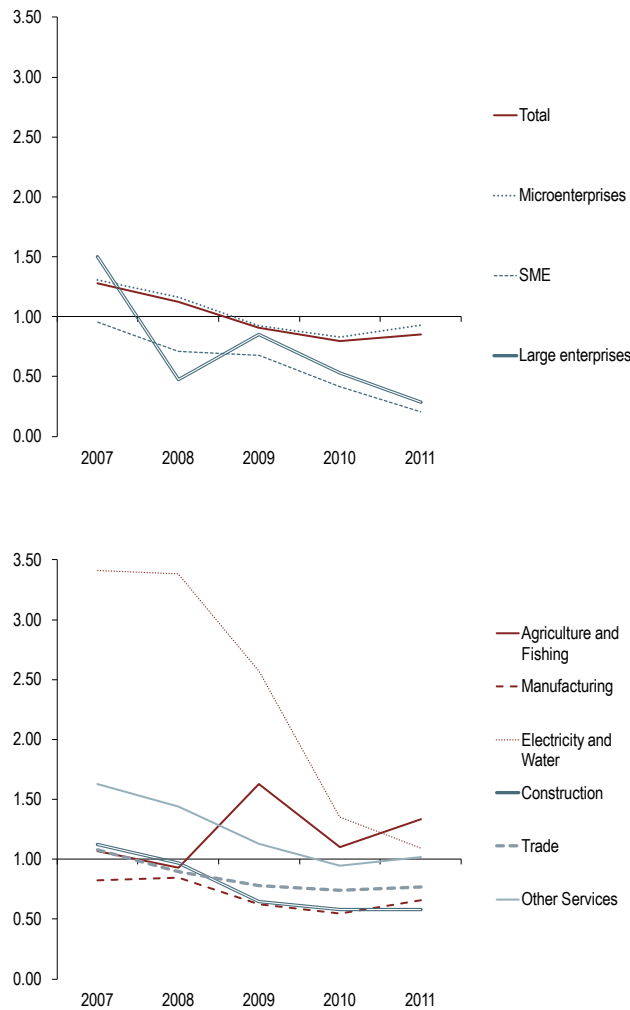


The decline in the number of enterprises reached all size classes, but was more notorious within SMEs and large enterprises. These two classes have seen a deterioration of this situation since 2009, whereas microenterprises improved slightly in 2011 (Chart 3). Due to the high number of microenterprises, this size has determined the evolution of the NFCs as a whole.

Microenterprises showed a higher birth/death ratio ...

Chart 3

BIRTH/DEATH RATIO



Note: Where the birth/death ratio is equivalent to one, it means that enterprises created are equivalent in number to enterprises terminated in a given year

At the level of economic activity sectors, *Agriculture and fishing*, countering the evolution registered in NFC as a whole, has posted birth/death ratios above one since 2009. Until 2010 that expansion was supported by Divisions 01 – *Crop and animal production, hunting and related service activities* and 02 – *Forestry and logging*, whereas in 2011 the contribution of Division 03 – *Fishing and aquaculture* was also positive (Table 4).

...as well as *Agriculture and fishing*

Electricity and water was another expanding sector, albeit at a smaller scale than in previous years. *Other Services* has shown a trend similar to that of NFCs as a whole; however, as the natural balance was closer to parity, the relative share of this sector in the NFCs' total population rose in 2011. In spite of the overall deceleration, some activities within *Other Services* had higher birth/death ratios (exceeding 2): Divisions 53 – *Postal and courier activities*, 74 – *Other professional, scientific*

and *technical activities*, 51 – *Air transport*, 75 – *Veterinary activities*, 61 – *Telecommunications* and 86 – *Human health activities*.

Construction had the lowest birth/death ratio...

Among the economic activity sectors where the number of enterprises declined, *Construction* had the worst birth/death ratio in 2011 (0.6). Table 4 shows that this situation was broadly based across the different activities in this sector, continuing the trend observed since 2009, when none of the Divisions comprised within *Construction* had birth/death ratios above one, standing even at figures below 0.5 in Division 42 – *Civil engineering* and more recently in Division 41 – *Construction of buildings (development of building projects)*.

... while some manufacturing activities improved slightly

Regarding *Manufacturing*, although the birth/death ratio remained below one, there was a slight trend reversal in 2011. The analysis by Division of the Portuguese Classification of Economic Activities – 3rd Revision (CAE-Rev.3) shows that this reversal was mainly due to the behaviour registered within the activities associated with Divisions 11 – *Manufacture of beverages*, 15 – *Manufacture of leather and related products*, 33 – *Repair and installation of machinery and equipment* and 19 – *Manufacture of coke and refined petroleum products* (even though, in the latter case, the number of enterprises in question was not significant).

Table 4

BIRTH/DEATH RATIO (CAE REV. 3 DIVISION)													
Sector	Div.	2007	2008	2009	2010	2011	Sector	Div.	2007	2008	2009	2010	2011
Agriculture and Fishing	01						Trade	45					
	02							46					
	03							47					
Manufacturing	05						Other Services	49					
	06							50					
	07							51					
	08							52					
	09							53					
	10							55					
	11							56					
	12							58					
	13							59					
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	15							61					
	16							62					
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	18							68					
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29						80							
30						81							
31						82							
32						85							
33						86							
35						87							
36						88							
Electricity and Water	37						90						
	38						91						
	39						92						
Construction	41						93						
	42						94						
	43						95						
						96							

Legend: The Division codes correspond to those in CAE Rev. 3 (please go to <http://www.ine.pt/xportal/xmain?xpgid=caerev3&xpid=INE>). The birth/death ratios were grouped in 4 brackets, where each bracket is identified by one colour:

	- Over 1.25;
	- From 1 to 1.25;
	- From 0.5 to 1; and
	- Below 0.5.

3 ECONOMIC AND FINANCIAL ANALYSIS

3.1 Economic environment

The growing pressure of international financial markets on Portuguese sovereign debt, due to the spreading of the sovereign debt crisis in the euro area and international investors' fears about the sustainability of public finance and Portuguese external debt, has led to the formalisation of a request for financial assistance from the European Union, euro area Member States and the International Monetary Fund in April 2011.

Portugal's GDP declined by 1.7% in 2011

The year 2011 was therefore marked by the adoption of measures to adjust the macroeconomic and other structural imbalances of the Portuguese economy. This was part of a vast programme of economic and financial assistance which was designed to give back the economy the necessary conditions for its sustained growth and ensure its financing through international investors in the near future. As a result of the implementation of these measures, the Portuguese economy was anticipated to contract in the short term. In 2011, in fact, economic activity in Portugal receded 1.7%, after 1.4% growth in 2010. The strong declines in public and private consumption and in investment were dampened by the dynamics of the balance of foreign trade operations, with favourable countercyclical developments that contributed to a decline in the Portuguese economy's external financing needs (Table 5).

At the end of the first half of 2012 GDP had declined by 2.8% year on year

In 2012 data suggests a fall in the output in the first half of the year of around 2.8%, year-on-year. The latest estimates by Banco de Portugal point to a GDP fall of 3% in 2012 as a whole¹⁰.

Table 5

GDP AND KEY COMPONENTS <i>Annual growth rate</i>					
	2008	2009	2010	2011	2012 (first half-year)
GDP	0.0%	-2.9%	1.4%	-1.7%	-2.8%
Private consumption	1.3%	-2.3%	2.1%	-4.0%	-5.7%
Public consumption	0.3%	4.7%	0.9%	-3.8%	-2.9%
Gross fixed capital formation	-0.3%	-8.6%	-4.1%	-11.3%	-14.3%
Exports	-0.1%	-10.9%	8.8%	7.5%	6.1%
Imports	2.3%	-10.0%	5.4%	-5.3%	-5.9%

Source: INE and Banco de Portugal

3.2 Activity and profitability

3.2.1 Turnover¹¹

NFC's turnover declined by 5% in 2011

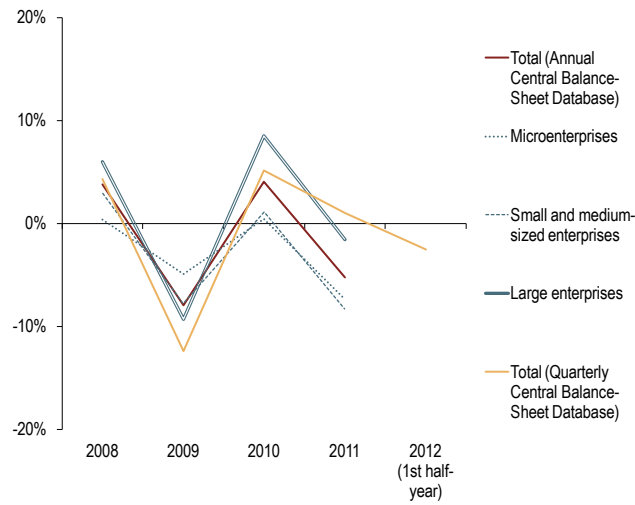
According to annual data from the Central Balance Sheet Database, NFCs' turnover declined by 5% in 2011, having increased by close to 4% in 2010. The decline registered in 2011 was nonetheless smaller than that of 2009 (8%). Preliminary information from the same database (obtained from the Quarterly Survey of Non-Financial Corporations) suggests this deceleration trend has further extended into the first half of 2012 (Chart 4).

¹⁰ For further information on economic performance in Portugal, please refer to Banco de Portugal's *Annual Report* as well as the *Economic Bulletin* published quarterly. Both publications are available at: <http://www.bportugal.pt>.

¹¹ 'Box 1 | External market importance on non-financial corporations' activity' provides complementary information on the external market's weight on the activity of NFCs resident in Portugal'.

Chart 4

TURNOVER | Annual growth rate



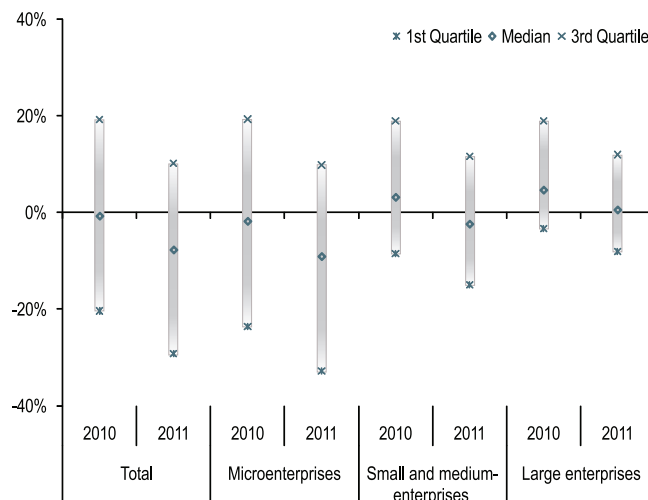
By enterprise size, there was a decrease in its respective turnover in all size classes in 2011. However, while for large enterprises this decrease was slightly over 1%, for microenterprises and SMEs it was more significant (7% and 8% respectively).

All size classes and economic activity sectors contributed to this decline

The analysis of individual data demonstrates that the negative development registered by NFCs' activity was broadly based across most enterprises (Chart 5); nonetheless, there is a relationship between turnover growth and enterprise size. In effect, more than half of the microenterprises and SMEs saw a decline in turnover. Within large enterprises, the value representing over half the enterprises in the class (i.e. the median) was 1%. Compared with the previous year, the situation deteriorated in all size classes in 2011, and the median value for the distribution of turnover growth rates declined from -2% to -9% in microenterprises, from 3% to -2% in SMEs and from 5% to 1% in large enterprises.

Chart 5

TURNOVER | Quartile distribution of the annual growth rate



By economic activity sector, turnover's decrease was especially relevant in *Construction*, *Trade* and *Other Services* (Table 6). In *Construction*, after negligible growth in 2010 (1%), turnover declined by almost 19% in 2011. Turnover in *Trade* and *Other Services* decreased by 5% and 10% respectively. In *Other Services* the largest falls were seen in Sections J – *Information and communication*, L – *Real estate activities* and R – *Arts, entertainment and recreation* (with turnover declines of 23%, 24% and 31%, respectively).

Agriculture and fishing had the highest share of enterprises with turnover growth ...

In contrast, turnover in *Manufacturing* grew (4%), although decelerating from 2010 (8%). Turnover in *Agriculture and fishing* and *Electricity and water* also grew (by close to 2%), and the latter was the only activity where turnover grew more in 2011, when compared with 2010 (+1 p.p.). Nevertheless, the share of enterprises with turnover growth fell considerably in this economic activity sector (50% in 2011, compared with 70% in 2010), which means that turnover growth in *Electricity and water* was due to a small group of enterprises particularly significant within the sector.

... while Trade registered the opposite, followed closely by Construction

In this field, turnover increased in only 37% of the enterprises in Portugal (48% in 2010). The break in this percentage was broadly based across all economic activity sectors except *Agriculture and fishing*. In *Trade* and *Construction* the weight of enterprises with turnover growth was smaller, standing at around 33%.

Table 6

TURNOVER Annual growth rate								
Analysis dimension	Year	Total	By economic sector					
			Agriculture and Fishing	Manufacturing	Electricity and Water	Construction	Trade	Other Services
Turnover's growth rate	2010	4.0%	4.1%	7.6%	0.5%	0.9%	6.7%	-0.9%
	2011	-5.3%	1.9%	4.4%	1.6%	-18.9%	-5.4%	-10.4%
Number of enterprises with growth	2010	48.3%	51.9%	51.1%	70.0%	44.9%	47.1%	48.7%
	2011	37.2%	52.8%	41.3%	49.8%	34.0%	32.7%	38.7%

3.2.2 Operating costs¹²

Operating costs declined by 4% in 2011

In 2011 enterprises' operating costs declined by 4%, after a growth of similar magnitude in 2010 (Chart 6). This performance in 2011 closely followed that of turnover (-5%), with contributions from all operating cost components, albeit at different levels.

Employee costs fell by 6% from 2010, but supplies and external services contracted the most (9%)

In this field, it should be mentioned the flexibility Employee costs have showed to the decline in activity levels. In effect, this component, after having shown lower flexibility in reflecting changes in enterprises' activities in recent years, when compared with other cost components, declined by 6% from 2010. In terms of the other items, Supplies and external services decreased the most (9%) and CoGS the least (1%). Preliminary data of the Central Balance Sheet Database for the first half of 2012 indicate that the declining trend of operating costs has continued.

By size class, the decrease in operating costs was particularly relevant in microenterprises and SMEs, with 6% and 7% falls respectively. All items in these size classes declined considerably, whereas in large enterprises CoGS increased by around 6%. In contrast, large enterprises saw the most significant falls in Supplies and external services (11%) and Employee costs (7%).

¹²The "operating costs" aggregate aims to draw a parallel with what the Official Chart of Accounts has defined as so, aggregating the most relevant items of the previously established concept: Cost of Goods Sold and Materials Consumed (CoGS), Supplies and external services and Employee costs.

At economic activity level, the negative change in enterprises' operating costs was the result of the evolution registered in *Construction, Other Services* and *Trade*, in line with the decline in turnover. Operating costs in these sectors decreased by 15%, 9% and 5% respectively, with negative contributions from all cost components.

The negative change in operating costs was associated with *Construction, Other Services* and *Trade*, in line with activity

Chart 6

OPERATING COSTS | Annual growth rate



Operating costs had positive evolutions in the remaining economic activity sectors, especially in *Manufacturing* (6%), as a result of a 11% growth in CoGS. These represented, in the same year, approximately two-thirds of the operating costs in this sector (Table 7). The other operating cost items in this sector, however, declined, in particular Employee costs (3%). In this respect, the following stood out: Divisions 10 – *Manufacture of food products*, 14 – *Manufacture of wearing apparel* and 29 – *Manufacture of motor vehicles, trailers and semi-trailers*, as they had positive developments in turnover (4%, 3% and 16% respectively, compared with 2010), in spite of the reduction on their respective Employee costs.

Agriculture and fishing was the only sector in which all operating cost items increased, especially CoGS (5%) and Supplies and external services (3%), given that Employee costs increased only marginally.

Table 7

OPERATING COSTS | Structure (2011)

Item	Total	By enterprise size			By economic sector					
		Micro-enterprises	Small and medium-sized enterprises	Large enterprises	Agriculture and Fishing	Manufacturing	Electricity and Water	Construction	Trade	Other Services
CoGS	58.4%	53.5%	55.2%	63.0%	53.3%	66.4%	77.5%	25.5%	81.2%	15.7%
Supplies and External Services	26.3%	28.4%	27.8%	24.2%	30.0%	19.0%	16.7%	54.7%	10.6%	54.6%
Employee Costs	15.3%	18.1%	17.0%	12.8%	16.7%	14.5%	5.8%	19.8%	8.2%	29.8%

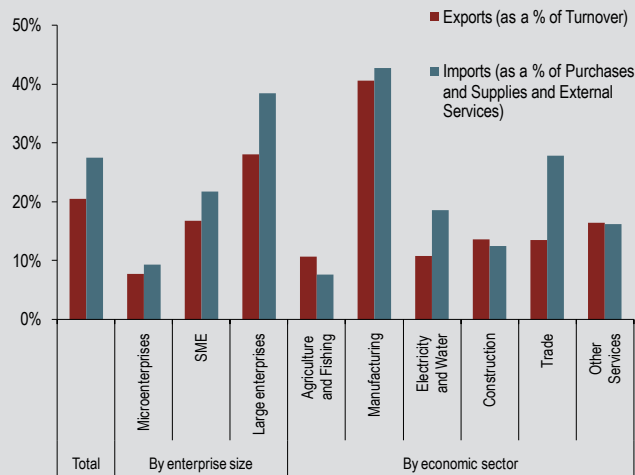
BOX 1 | EXTERNAL MARKET IMPORTANCE ON NON-FINANCIAL CORPORATIONS' ACTIVITY

This Box evaluates the share of the external market on the operating activity of enterprises in Portugal, based on IES data¹³. In 2011 exports of goods and services increased by 6%, decelerating significantly when compared with growth in 2010 (14%). Due to the decrease registered in enterprises' activity, however, the weight of the external market increased in enterprise turnover (21%, compared with 18% in 2010).

As in previous years, enterprises' exports of goods and services were directly proportional to enterprises' size classes: 8% in microenterprises, 17% in SMEs and 28% in large enterprises (Chart 1.1). The growth in this weight, when compared with 2010, was larger in SMEs and large enterprises (around 2 p.p.) than in microenterprises (1 p.p.).

Chart 1.1

EXPORTS AND IMPORTS OF GOODS AND SERVICES (2011)



By economic activity sector, *Manufacturing* continued to have the largest weight of exports in turnover (41% in 2011), with the external market contribution rising by 2 p.p. from 2010. In addition, *Trade* also registered a significant increase from 12% in 2010 to over 13% in 2011.

Regarding imports in 2011, 27% of enterprises' goods and services acquisitions in Portugal had their origin abroad (similar to the share registered in 2010), while imports declined by 2%. As was the case of exports, imports also show a proportionality relation between the degree of interaction with the abroad and enterprise size. While among microenterprises only 9% of purchases and supplies and external services were made outside Portugal, among SMEs this percentage rose to 22% and among large enterprises to 38%.

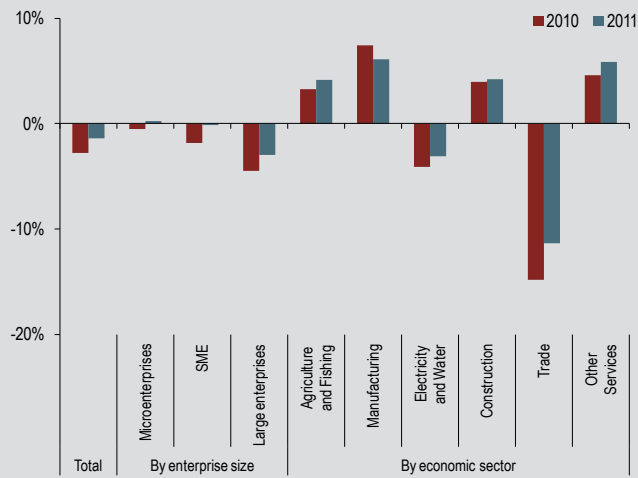
By economic activity sector, *Manufacturing* continued to lead: the share of purchases and supplies and external services from the abroad stood at 43%, corresponding to an increase of 3 p.p. from 2010. Next was *Trade* with the second highest share (28%), in spite of a fall (2 p.p.) from 2010.

In what concerns the balance of goods and services transactions with the external markets, imports exceeded exports by an amount equivalent to more than 1% of overall turnover. Results for 2011, however, correspond to an improvement of more than 1 p.p. from the previous year (Chart 1.2).

¹³Data reported by enterprises within the scope of IES submissions regarding exports and imports of goods and services are subject to quality control by Banco de Portugal, especially through comparison with balance of payments data. Nevertheless, this control does not guarantee that final data from each enterprise in IES are fully coincident with corresponding data in international trade statistics

Chart 1.2

GOODS AND SERVICES TRANSACTIONS WITH THE EXTERNAL MARKETS (BALANCE IN 2010 AND 2011)

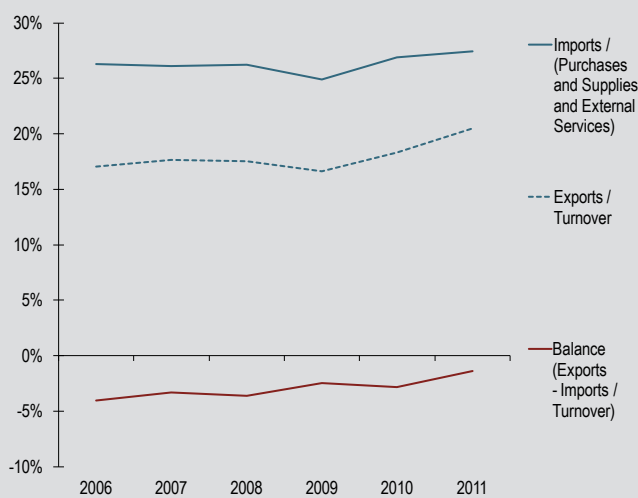


By enterprise size, in 2011 all classes contributed to an improvement in the external balance, with microenterprises posting, for the first time, a positive balance, yet marginally.

By economic activity sector, *Trade* and *Electricity and water* remained with a negative balance, although smaller by 4 p.p. and 1 p.p. respectively from that of 2010. *Manufacturing*, in spite of its positive balance, was the only sector registering a negative trend (the weight of its external trade balance in turnover was of 6% in 2011, compared with 8% in 2010). Developments in the balance of goods and services transactions with the external markets, characterised by declining deficit, reveal the growing weight of exports in Portuguese enterprise's turnover, which is reflected through the converging trend of indicators on imports and exports (Chart 1.3).

Chart 1.3

GOODS AND SERVICES TRANSACTIONS WITH THE EXTERNAL MARKETS (2006 TO 2011)



EBITDA declined by 29% in 2011, after having increased by 14% in 2010

3.2.3 EBITDA¹⁴

NFCs' EBITDA declined 29% in 2011, after having increased 14% in 2010 (Table 8). The evolution registered in 2010 was greatly influenced by the rise in income from the sale of Portugal Telecom's stake in the Brazilian enterprise *Vivo*¹⁵, taking into account the corresponding base-year effect. In any case, the drop in total EBITDA in 2011 was also largely determined by developments in the operating margin, which shrank by 20%.

Preliminary data from the Central Balance Sheet Database suggest that EBITDA's growth rate continues to be negative in 2012.

Table 8

EBITDA Annual growth rate										
Year	Total	By enterprise size			By economic sector					
		Micro	SME	Large enterprises	Agric. and Fishing	Manufacturing	Elect. and Water	Constr.	Trade	Other Services
2010	14.2%	14.1%	-13.2%	36.1%	14.3%	5.1%	3.4%	-11.5%	0.8%	33.1%
2011	-29.4%	-48.0%	-22.0%	-28.0%	-20.9%	-8.7%	-3.0%	-63.7%	-7.0%	-47.2%

However, the decline in the share of enterprises with growth in EBITDA was not particularly significant (1 p.p.)

The review of enterprise's data shows that, notwithstanding the unfavourable developments of EBITDA in 2011, the relative number of enterprises with growth in EBITDA did not decline as significantly. Indeed, Table 9 shows that the share of enterprises with growth in EBITDA in 2011 declined by only 1 p.p. from 2010.

In 2011 all size classes under review contributed to the negative evolution of aggregate EBITDA. The decline in microenterprises reached 48% (14% growth in 2010), whereas in SMEs EBITDA fell 22% (13% decline in 2010). Large enterprises, however, were the group with the greatest EBITDA growth rate reversal, declining 28% in 2011, after having grown 36% in 2010.

Nevertheless, the share of SMEs which registered an increase in its EBITDA grew 2 p.p. in 2011 from 2010. In microenterprises and large enterprises that share declined 1.6 p.p. and 2.6 p.p. respectively.

Table 9

EBITDA Share of enterprises with annual growth										
Year	Total	By enterprise size			By economic sector					
		Micro	SME	Large enterprises	Agric. and Fishing	Manufacturing	Elect. and Water	Constr.	Trade	Other Services
2010	46.4%	47.3%	41.1%	48.5%	51.9%	45.4%	53.8%	44.8%	46.0%	47.0%
2011	45.4%	45.7%	43.1%	45.9%	49.7%	44.8%	49.7%	43.3%	44.0%	46.5%

¹⁴ EBITDA stands for Earnings Before Interest, Taxes, Depreciation and Amortisation. It corresponds to profit and loss for the year plus costs related to interest, taxes, depreciation and amortisation.

¹⁵ This operation had consequences for the developments of total NFCs, particularly in large enterprises and the *Other Services* sector.

By economic activity sector, EBITDA's decrease span across all activities. At this point it is important to add the following additional information:

- *Construction's* EBITDA deteriorated, from an 11% fall in 2010 to one of over 63% in 2011.
- EBITDA in *Other services*, which in 2010 had grown sharply (33%), declined by around 47% in 2011.
- The less significant EBITDA's declines were registered in *Trade* and *Electricity and water*, standing, however, at 7% and 3% respectively.

The fall in EBITDA extended to all economic sectors and enterprise size classes

At sectoral level, the strong fall in EBITDA was not the result of a significant increase in the number of enterprises posting negative variation of this indicator. Therefore, although the share of enterprises with growth in EBITDA declined across all economic activity sectors under review, the most relevant change did not exceed 4 p.p. (*Electricity and water*).

Notwithstanding the particularly negative development of EBITDA in *Other Services*, this economic activity sector, together with *Manufacturing*, were the ones where the share of enterprises with EBITDA's growth deteriorated the least from 2010 (negative change below 1 p.p.). Behind this situation were activities in Section H – *Transportation and storage*, where the weight of enterprises with EBITDA's growth increased 2 p.p., reaching 45% in 2011.

Construction continued to be the sector with the smallest share of enterprises with EBITDA's growth (43%). At the opposite end, *Agriculture and fishing* and *Electricity and water* had the largest share of enterprises with growth in EBITDA (50%).

Construction continued to be the sector with the smallest share of enterprises with growth in EBITDA

3.2.4 Return on equity¹⁶

Enterprises' return on equity declined by 7 p.p. to 3% in 2011, with a strong contribution from large enterprises, which registered a decrease of 11 p.p. (to 10%) from 2010¹⁷. Return on equity among microenterprises declined 5 p.p. (to -1%) and in SMEs 4 p.p. (to 0.3%). For the first time in the period under analysis, microenterprises' average return was negative in 2011 (Chart 7).

NFC's return on equity declined by 7 p.p. in 2011, to 3%

Preliminary data from the Central Balance Sheet Database for the first half of 2012 point to a further decline in enterprises' return on equity.

The decline in return on equity was broadly based across all activity sectors (Table 10), particularly to the -12 p.p. variation in *Construction* (return on equity at -9% in 2011) and -11 p.p. decrease in *Other Services* (marginally positive return on equity). The change in *Other Services* was largely due to the performance of enterprises in Section J – *Information and communication*, where this indicator declined by 39 p.p. (as a result of the transaction mentioned in section 3.2.3 EBITDA, which had an influence on the level of return on equity in 2010), standing at -1% in 2011. In *Other Services*, only Sections M – *Professional, scientific and technical activities* and N – *Administrative and support service* had positive return on equity (7% and 2% respectively).

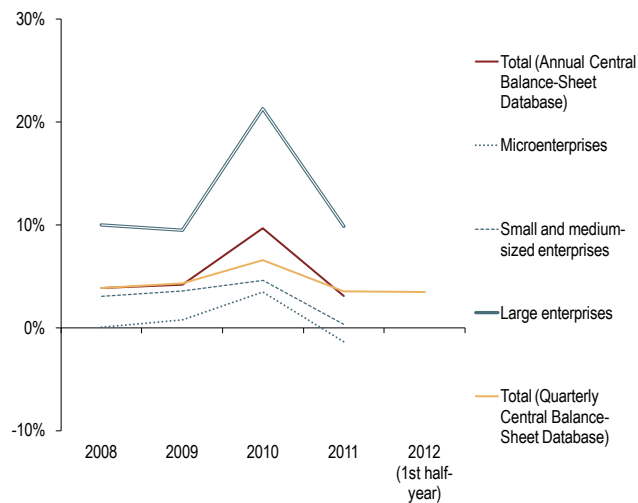
Return on equity declined in all activity sectors...

¹⁶ Return on equity was calculated as the year's total profit to equity ratio and measures return on equity invested by shareholders. Note that return on equity calculated on an individual basis, as mentioned in 'Central Balance Sheet Database Study | 6, December 2011 – *New Enterprise and Sector Tables: Adjustment to the Accounting Standards System*', is only carried out on enterprises with positive equity levels.

¹⁷ As was mentioned in what regards EBITDA, the return on equity level was also affected in 2010 by the sale of *Portugal Telecom's* stake in the Brazilian enterprise *Vivo*, through the revenue obtained by enterprises from *Portugal Telecom Group*.

Chart 7

RETURN ON EQUITY



Despite the fall in average return, *Electricity and water* maintained the highest level of return on equity in 2011 (12%), followed by *Trade* (7%) and *Manufacturing* (5%).

Table 10

RETURN ON EQUITY								
Analysis dimension	Year	Total	By economic sector					
			Agric. and Fishing	Manu-facturing	Elect. and Water	Constr.	Trade	Other Services
Weighted average	2010	9.6%	1.8%	7.2%	15.2%	3.5%	8.3%	11.4%
	2011	3.1%	-1.4%	5.0%	12.4%	-8.7%	6.9%	0.6%
Number of enterprises with positive profitability (*)	2010	65.8%	63.1%	71.2%	66.5%	63.6%	68.8%	63.5%
	2011	62.7%	60.7%	67.5%	62.5%	58.2%	65.0%	61.6%

(*) Calculated only for enterprises with positive equity.

Notwithstanding this evolution, calculating the proportion of enterprises with positive return on equity reveals that most enterprises had positive return on equity in 2011, even though this proportion declined from 2010 (-3 p.p., standing at 63% in 2011). This was felt throughout all economic activity sectors, especially *Construction* (-6 p.p.), *Trade*, *Electricity and water* and *Manufacturing* (-4 p.p.). In *Other Services*, in spite of the evolution of its overall return on equity, the proportion of enterprises with positive return on equity declined only 2 p.p.

... although it was positive in most enterprises

The proportion of enterprises with negative equity rose from 25% in 2010 to 27% in 2011

Finally, the exclusion of enterprises with negative equity accounted for a quarter of all enterprises (Table 11). Indeed, in 2011, 27% of the enterprises had negative equity, corresponding to a 2 p.p. increase from 2010 and a deterioration of the expansion trend of this indicator. The rise in this weight was particularly notorious in *Construction* (3 p.p.), although the highest share of enterprises in this situation was registered in *Trade*, where 30% of the enterprises showed capital shortage in 2011. In *Other Services*, where this situation was seen in 28% of the enterprises, Sections S – *Other service activities* (52%), I – *Accommodation and food service activities* (42%), P – *Education* and R – *Arts, entertainment and recreation* (39%) stood out.

Table 11

ENTERPRISES WITH NEGATIVE EQUITY							
Year	Total	By economic sector					
		Agriculture and Fishing	Manufacturing	Electricity and Water	Construction	Trade	Other Services
2010	25.4%	21.9%	22.1%	19.4%	19.8%	27.7%	26.8%
2011	27.2%	22.5%	23.7%	21.1%	22.5%	29.7%	28.2%

BOX 2 | ANALYSIS BASED ON DEVELOPMENTS ON ENTERPRISES' NUMBER OF EMPLOYEES¹⁸

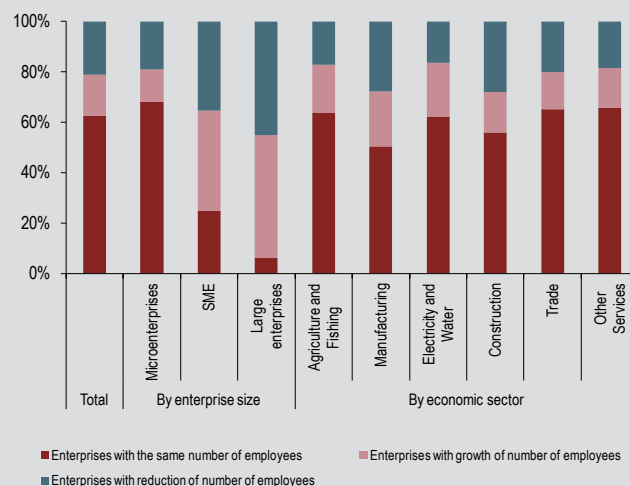
Among the various impacts of Portuguese economic activity contraction, unemployment is particularly noteworthy since, according to Statistics Portugal's official data, it has reached 15% of the labour force at the end of the first half of 2012.

Declining employment in enterprises may be assessed through data from the Central Balance Sheet Database, due to its impact on the decline in the Number of Employees. According to data from Banco de Portugal's Central Balance Sheet Database for 2011, NFCs' number of employees declined by 4% from 2010. This decline in enterprises' number of employees was largely due to the termination of enterprises, given that, when considering active enterprises as a whole in both years (representing 92% of active enterprises in 2011), the fall in the number of employees stood at around 1%.

Reviewing with some detail the group of active enterprises in 2010 and 2011, it can be concluded that, even in view of an adverse environment, a very significant share of the enterprises maintained (63%) or even increased (16%) the number of employees (Chart 2.1).

Chart 2.1

STRUCTURE OF THE ENTERPRISES, CONSIDERING CHANGES IN THE NUMBER OF EMPLOYEES (2011)



The proportion of enterprises with variation in the number of employees (increase or decrease) has grown according to their size, with only 6% of large enterprises maintaining in 2011 the same employee number as in 2010. In contrast, in all economic sectors, most enterprises maintained the number of workers in 2011. However, *Manufacturing* stands out due to its weaker stability, with only 50% of the enterprises maintaining the number of employees. This activity also shows the largest share of enterprises raising the number of employees (22%) and, together with *Construction* (28%), is where more enterprises have cut the number of workers.

The situation in *Manufacturing* is justified by the heterogeneity of the activities covered. Thus, in this sector, highly expansionary activities, such as those of Division 15 – *Manufacture of leather and related products*, in which 42% of the enterprises increased their number of employees in 2011, coexist with activities with an opposing trend, such as those within Division 23 – *Manufacture of other non-metallic mineral products* and 32 – *Other manufacturing* where one third of the enterprises reduced the number of employees.

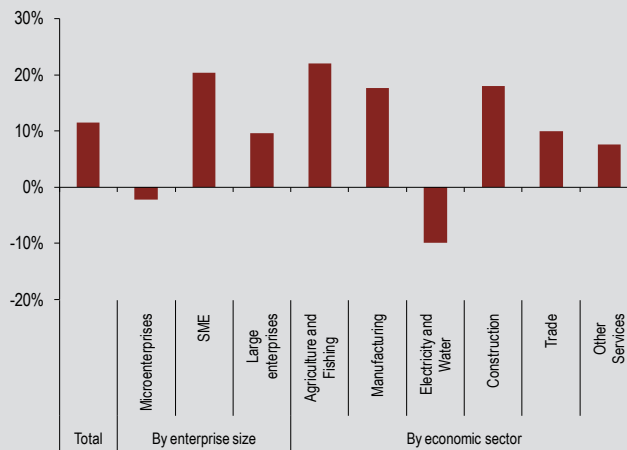
¹⁸The 'number of employees' concept used in this Box does not fully coincide with the 'employment' concept used in official statistics. The number of employees used by the Central Balance Sheet Database is based on the reports of enterprises and covers only the part of the labour force that is employed in non-financial corporations (which means that, for instance, sole proprietors or employees in other institutional sectors other than non-financial corporations are excluded).

Based on a set of economic and financial indicators, a comparison was made between the enterprises where the number of employees remained unchanged or increased and the enterprises where it declined in 2011. A few significant trends were identified.

In what regards turnover (Chart 2.2) the enterprises that clearly maintained/increased the number of employees were those with positive changes in turnover (except the group of microenterprises and enterprises in the *Electricity and water* sector). Turnover in these enterprises increased by 4%, but fell by 7% in enterprises where the number of employees declined.

Chart 2.2

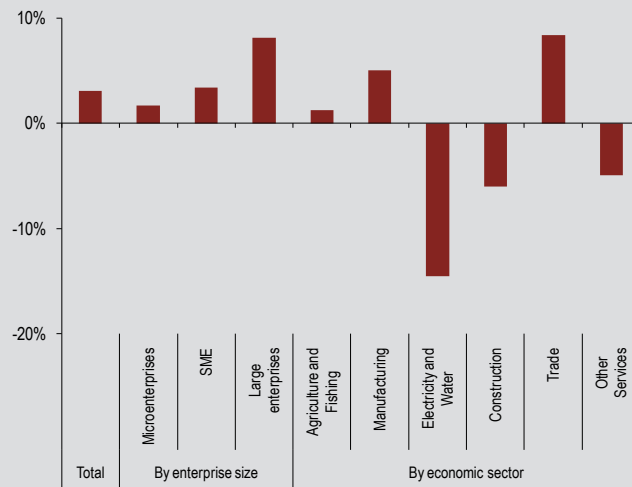
TURNOVER | Annual growth rate differential (2011)



Note: The differential is obtained from the difference between the value of the indicator for enterprises where the number of employees increased or remained unchanged and the value of the indicator for enterprises where the number of employees declined, calculated in every size class/economic sector. A positive value means that the indicator of the former is higher.

The range of enterprises where the number of employees had positive or no changes were also more open to international trade, as is shown by the stronger exports in turnover. This result may be seen in all enterprise size classes and in *Manufacturing, Trade and Agriculture and fishing* (Chart 2.3).

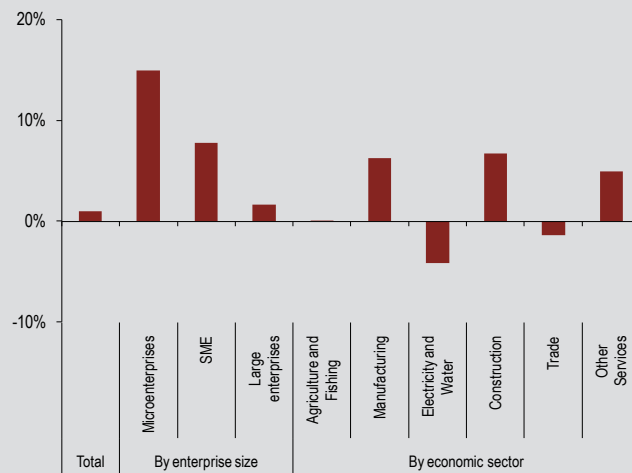
Chart 2.3

SHARE OF EXPORTS IN TURNOVER | *Differential (2011)*

Note: The differential is obtained from the difference between the value of the indicator for enterprises where the number of employees increased or remained unchanged and the value of the indicator for enterprises where the number of employees declined, calculated in every size class/economic sector. A positive value means that the indicator of the former is higher.

Return on equity was also different in both enterprise groups, with a better positioning reached by enterprises where the number of employees increased or remained unchanged (Chart 2.4). The sole exceptions were *Electricity and water* and *Trade*, in which the enterprise group where the number of employees declined had higher return on equity.

Chart 2.4

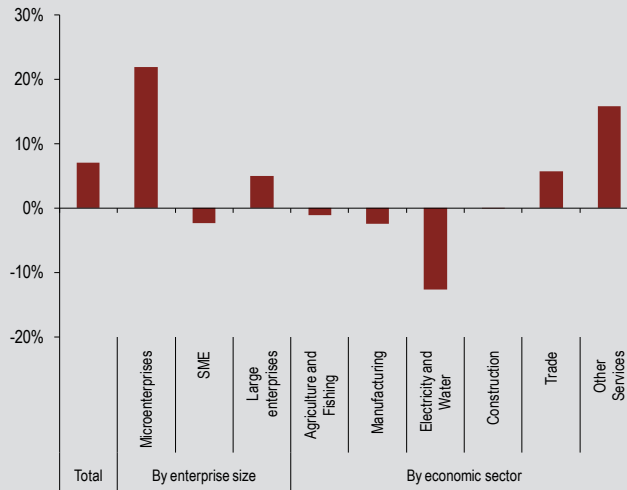
RETURN ON EQUITY | *Differential (2011)*

Note: The differential is obtained from the difference between the value of the indicator for enterprises where the number of employees increased or remained unchanged and the value of the indicator for enterprises where the number of employees declined, calculated in every size class/economic sector. A positive value means that the indicator of the former is higher.

In terms of the financial situation, the capital ratio stood at 36% in enterprises where the number of employees increased or remained unchanged, compared with 29% in the enterprises where the number of employees declined. The results, however, diverged somewhat among size classes and economic sectors (Chart 2.5).

Chart 2.5

CAPITAL RATIO | Differential (2011)

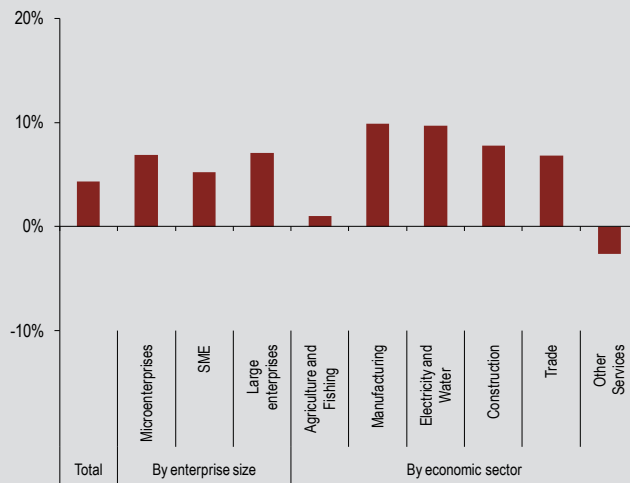


Note: The differential is obtained from the difference between the value of the indicator for enterprises where the number of employees increased or remained unchanged and the value of the indicator for enterprises where the number of employees declined, calculated in every size class/economic sector. A positive value means that the indicator of the former is higher.

Concerning the evolution of credit from banks, results indicate that enterprises where employment declined are those that obtained less banking credit in Portugal. In effect, credit obtained by these enterprises from resident credit institutions at the end of 2011 fell by around 5% from the end of 2010, but by only 1% in enterprises where the number of employees increased or remained unchanged. This situation is broadly based across all size classes and economic sectors, except *Other Services* (Chart 2.6).

Chart 2.6

LOANS FROM RESIDENT CREDIT INSTITUTIONS | Annual growth rate differential (2011)



Note: The differential is obtained from the difference between the value of the indicator for enterprises where the number of employees increased or remained unchanged and the value of the indicator for enterprises where the number of employees declined, calculated in every size class/economic sector. A positive value means that the indicator of the former is higher.

In short, data available through enterprise reporting to the Central Balance Sheet Database of Banco de Portugal show that the main cause for the declining number of employees in enterprises was the termination of enterprises themselves, and not a cut in employees in active enterprises. In spite of the adverse economic situation, a significant percentage of enterprises in Portugal managed to maintain or even to increase the number of employees in 2011. These enterprises are usually characterised by higher activity growth, increased international openness and higher return on equity, associated with improved access to credit from the resident banking system in Portugal.

3.3 Financial situation

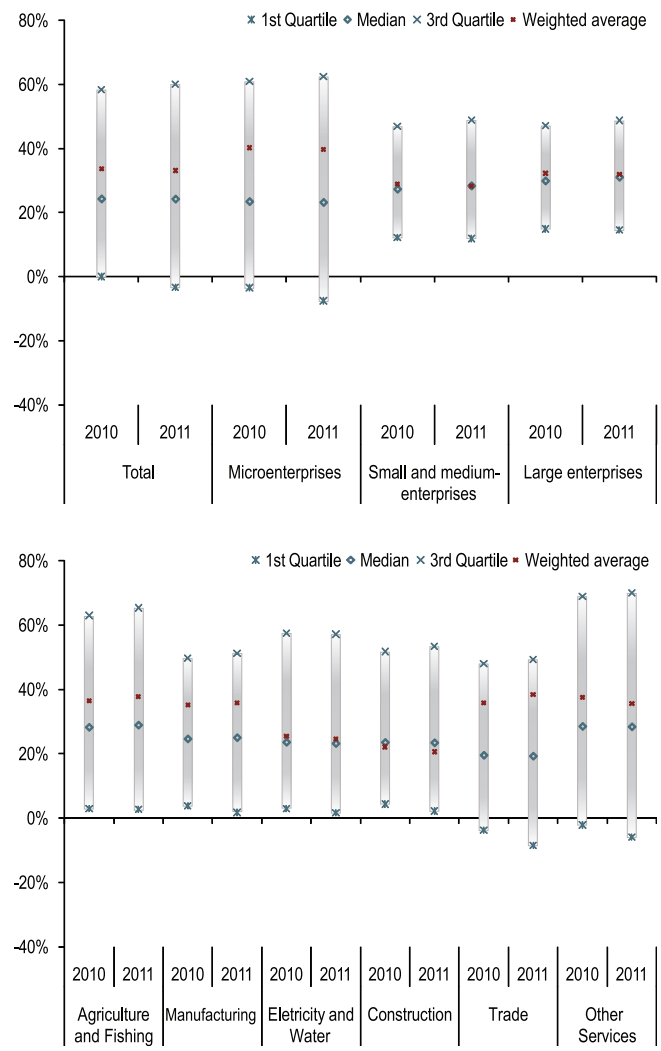
3.3.1 Financial structure

NFCs' capital ratio stood at 33% in 2011, a decline of nearly 1 p.p. from 2010 (Chart 8). This decline, albeit marginal, was also registered in all size classes. However, the distribution of the values observed in each enterprise shows an increasing dispersion of results for both total enterprises and within each size class.

Enterprises' capital ratio declined by 1 p.p. from 2010, standing, on average, at 33%

Chart 8

CAPITAL RATIO | *Quartile distribution and weighted average*



The increased heterogeneity of the results among enterprises reveals that, in spite of the decline in the capital ratio in average terms, all aggregates saw a small number of enterprises expanding their capital ratio.

Nevertheless, it is clear that the capitalisation of most enterprises in Portugal fell sharply in 2011. Indeed, the capital ratio was below 25% (the median) in half the enterprises, whereas more than 25% of the enterprises had negative equity (the level associated with the first quartile was -3% in 2011, indicating liabilities in excess of assets in these enterprises).

Nevertheless, the capital ratio was below 25% in half the enterprises

Microenterprises continue to be the size class with the largest proportion of assets financed by equity (40%), even though these results have been influenced by a small number of enterprises with very high equity levels (the average value of the capital ratio remained 17 p.p. above the median). This was also the class where the largest dispersion of results was registered in 2011, with the interquartile range attaining 70 p.p. (65 p.p. in 2010).

SMEs and large enterprises maintained the most homogenous results (interquartile ranges of 37 p.p. and 34 p.p. respectively). The average result is also more representative of the situation in most enterprises within these classes, given that their value (28% in SMEs and 32% in large enterprises) is extremely close to the median (28% and 31% respectively).

In terms of economic activity sectors, and in contrast to the trend shown by the whole enterprise aggregate, the average capital ratio rose in *Trade, Agriculture and fishing* and *Manufacturing* (by 3 p.p. in the former, and 1 p.p. in the other two sectors) (Chart 8). In turn, *Other Services* and *Construction* saw a decline of 2 p.p. in the average capital ratio.

Construction continued to be the sector with the lowest average capital ratio (21%)

Construction maintained its position as the sector with the lowest capital ratio (21%). *Trade* and *Other Services*, however, were the sectors where more enterprises had negative capital ratio levels, reflecting the higher share of enterprises with negative equity. These were also the sectors where the average capital ratio value was higher (38% in *Trade* and 36% in *Other Services*). This is explained, on the one hand, by the relevance of a subgroup of highly capitalised enterprises and, on the other hand, by the increased diversity of situations incorporated by these aggregates.

Financial debt and trade credits represented over two thirds of NFCs' debt...

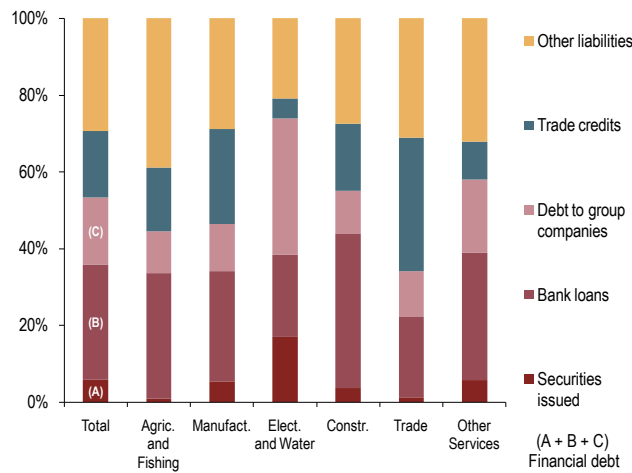
As a result of the above, debt continued to play a key role in financing enterprise's activity in 2011, a situation which justifies a more detailed analysis of its characteristics and recent developments. Chart 9 sets out the sources of external financing in 2011 and shows that financial debt and trade credits together amounted to over two-thirds of the sources of NFCs external financing. However, the relative importance of each of these components differs among the various economic activity sectors.

Trade credits were particularly relevant in *Trade* (35%) and *Manufacturing* (25%), while their share in *Electricity and water* was no greater than 5%. Financial debt, in turn, represented over half the financing of *Electricity and water* (74%), *Other Services* (58%) and *Construction* (55%).

By financial debts' components, bank loans were the most important financing source in all sectors, and their share in liabilities ranged from 21% in *Trade* to 40% in *Construction*. Debt to group companies ranged between 11% in *Agriculture and fishing* and *Construction* and 35% in *Electricity and water*. Debt securities were particularly relevant in *Electricity and water* (17%), whilst in *Trade* and *Agriculture and fishing* its share stood at around 1%. Other liabilities were more important in *Agriculture and fishing* (39% of its total liabilities), and were largely driven by debt to shareholders.

Chart 9

LIABILITIES STRUCTURE (2011)



Note: This refers to the set of interest bearing debt obtained through issuing debt securities, debt from banks and other financial institutions and debt from group companies. The analysis excludes liability components considered eminently related with accounting procedures, such as deferrals and provisions. Thus, "Other liabilities" includes debt to the Public Administration and other public entities, debt to shareholders and other current liabilities and accounts payable.

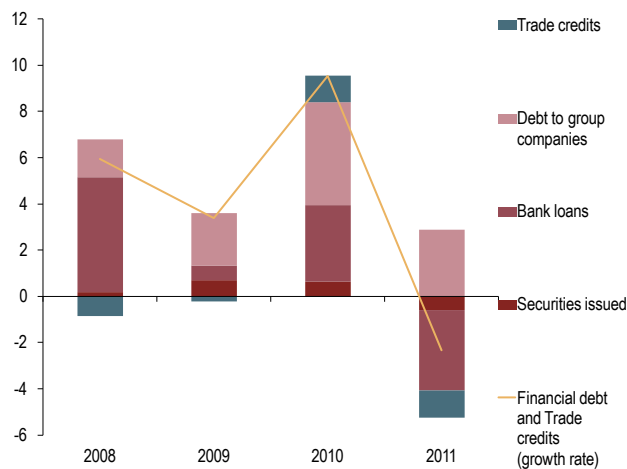
Even though these structures have remained virtually unchanged, the share of bank loans declined by 1 p.p. in *Manufacturing*, *Construction* and *Other Services*, which was offset by a growth in debt to group companies.

The financial debt and trade credit aggregate contracted by 2% in 2011 (9% growth in 2010), with only debt to group companies evolving positively (14% growth). Trade credits (-5%) and bank loans and debt securities (-8%) fell most sharply (Chart 10).

... having contracted by 2% in 2011, with trade credits decreasing by 5% and bank loans and debt securities declining by 8% from 2010

Chart 10

EVOLUTION OF FINANCIAL DEBT AND TRADE CREDIT | Annual growth rate (%) and contributions (p.p.)



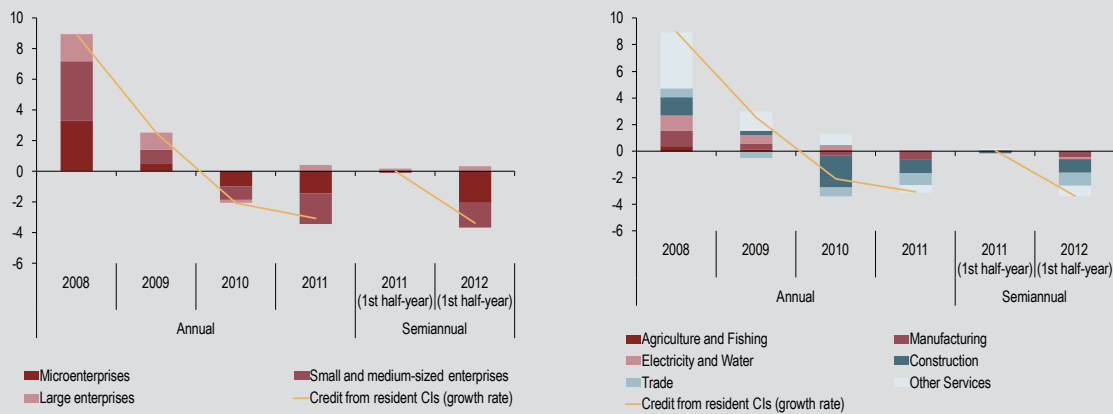
BOX 3 | LOANS FROM RESIDENT CREDIT INSTITUTIONS – CHARACTERISATION BASED ON THE CENTRAL CREDIT REGISTER¹⁹

Notwithstanding their downward trend, loans from credit institutions (CIs²⁰) continue to represent one of the enterprises' main financial debt components (in 2011, it represented 56% of financial debt and around 30% of liabilities). Data from Banco de Portugal's Central Credit Register makes it possible to analyse in more detail the component related with loans from CIs resident in Portugal. In 2011, this represented around 85% of total loans obtained by enterprises from CIs (90% in 2010) and involved 64% of the enterprises (66% in 2010).

At the end of the first half of 2012 credit granted by resident CIs had fallen by 3% from the end of 2011, continuing the behaviour registered at the end of 2010 and 2011 (2% and 3% respectively). The 2012 contraction was driven by SMEs and microenterprises, as large enterprises, similarly to 2011, continued to benefit from an increase in credit (of around 2%), even though slightly less than in 2011 (3%) (Chart 3.1).

Chart 3.1

EVOLUTION OF CREDIT FROM RESIDENT CREDIT INSTITUTIONS | Growth rate (%) and contributions (p.p.) – at end of period



The decline in credit at the end of the first half of 2012 was broadly based across all economic activity sectors, especially in *Trade* (-7%) and *Construction* (-5%). In *Trade*, 2012 represents the fourth consecutive year of credit decrease.

The increase in enterprises' non-performing loans ratio²¹, registered since 2008, has accelerated very significantly in the most recent period (Chart 3.2). At the end of the first half of 2012 this ratio was close to 10%, after having reached 7% at the end of 2011. The acceleration of this indicator in the first six months of 2012 was particularly expressive in microenterprises (+4 p.p.), reaching 15%. The ratio has deteriorated in SMEs by 3 p.p. to 9%, whereas in large enterprises it has also increased slightly, although this group had lowest non-performing loans ratio (2%).

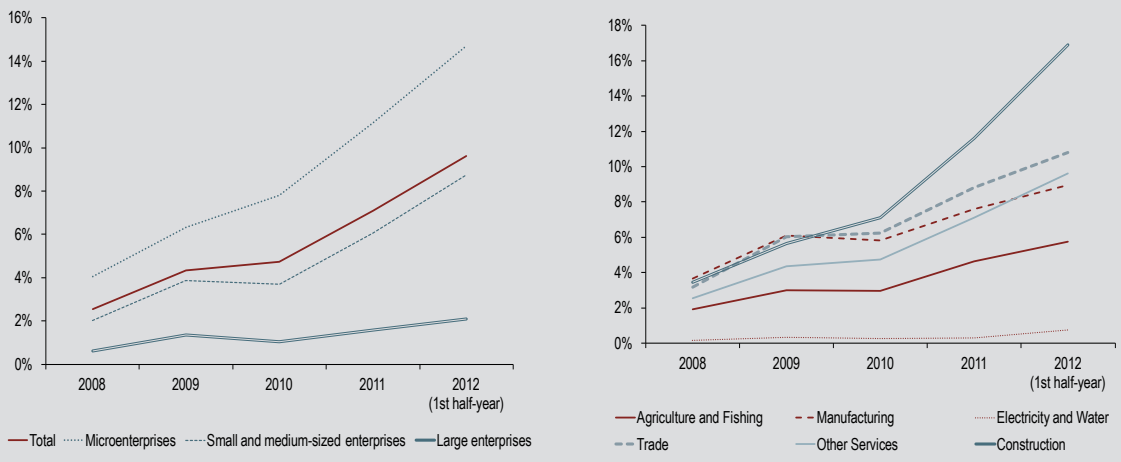
¹⁹ The Central Credit Register is a database managed by Banco de Portugal, which gathers information provided by participating entities (credit-granting resident institutions) regarding credit granted. For further information, please refer to Supplement 1/2005 to Banco de Portugal's Statistical Bulletin, *A New Source for Monetary and Financial Statistics: the Central Credit Register*.

²⁰ 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. Over 95% of credit granted by resident credit institutions to NFCs in 2011 came from banks.

²¹ The non-performing ratio, also known as the credit overdue ratio, is based on information on credit granted by resident credit institutions in the Central Credit Register of Banco de Portugal, by calculating the ratio of the amount of credit overdue to total credit obtained. Credit is deemed to be overdue when the respective repayments are not paid on the due payment dates. Credit customers may be in default as regards the principal and/or interest and other expenditure. In the case of principal this is deemed to have taken place once the maximum period of 30 days after maturity has elapsed without settlement; and in the case of interest and other expenses, once the due date for settlement has passed.

Chart 3.2

NON-PERFORMING LOANS RATIOS (at end of period)

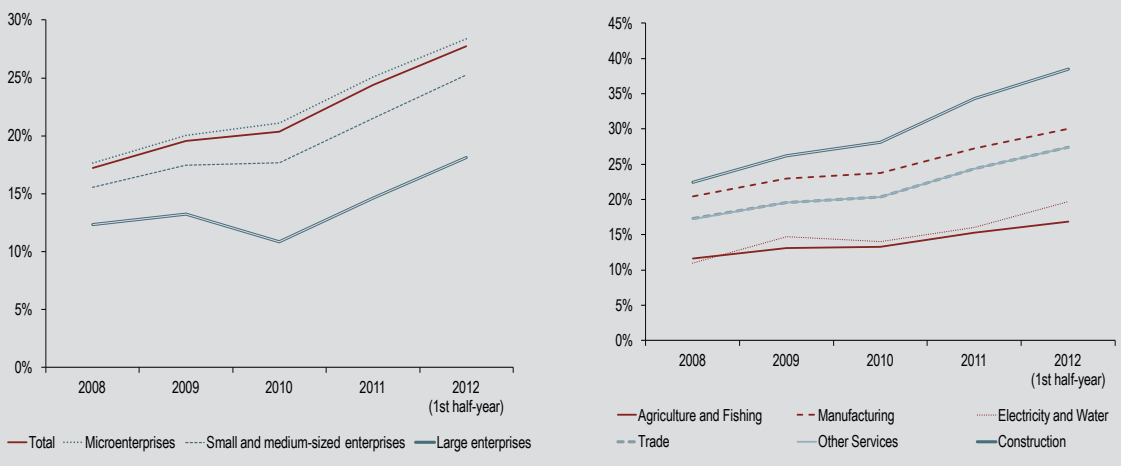


Similarly to what happened in 2011, all economic activity sectors registered an increase in its non-performing loans ratio in 2012. Accordingly, *Construction* continues to stand out, with a non-performing loans ratio close to 17%, which stands for a growth above 5 p.p. from the end of 2011. *Trade* and *Manufacturing* are the following sectors with the highest non-performing loans ratio (11% and 9% respectively). *Electricity and water* maintained the lowest ratio (0.7%), despite an increase in the first half of 2012.

To the non-performing loans ratio observed at the end of the first half of 2012 contributed almost 28% of the enterprises receiving credit from resident CIs, which compares with 24% at the end of 2011 and 17% at the end of 2008 (Chart 3.3). The percentage of non-performing enterprises rose in all size classes: by 4 p.p. in SMEs and large enterprises (to 25% and 18% respectively) and by 3 p.p. in microenterprises (to 28%).

Chart 3.3

NON-PERFORMING ENTERPRISES (at end of period)



At the end of the first half of 2012, by economic activity sector, *Construction* continued to be the activity with the highest share of non-performing enterprises (38%) and also where it increased more markedly (4 p.p. from the end of 2011). At the other end, *Agriculture and fishing* had the lowest increase in this indicator, and was the activity where non-performing enterprises represented the lowest percentage (17%).

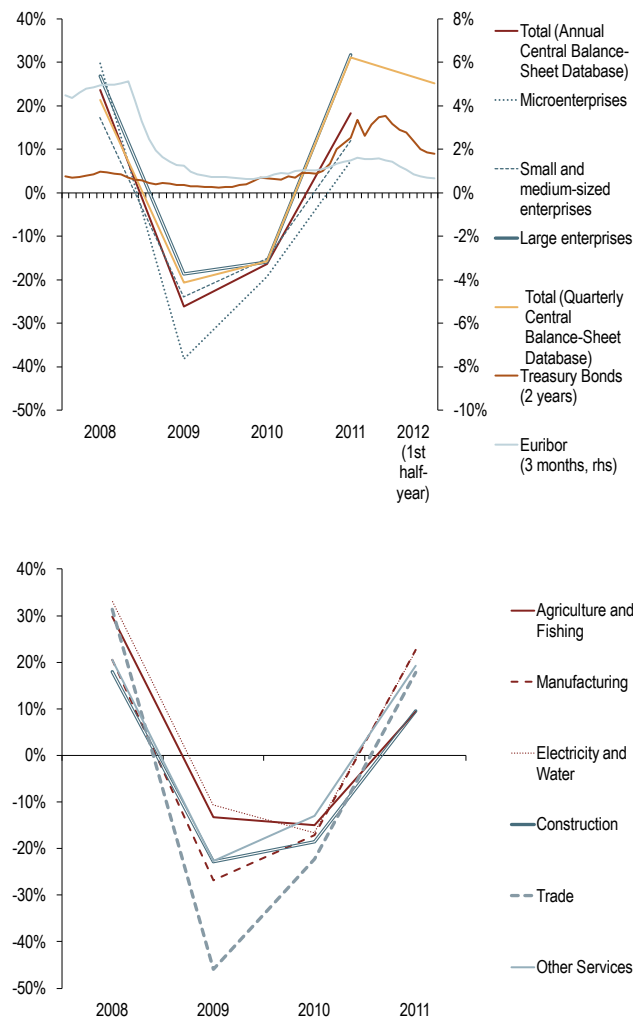
Interests paid by enterprises grew by 18% from 2010, when it had declined by 16%

3.3.2 Financial costs and solvency

According to information from the Central Balance Sheet Database for 2010, and in spite of the constraints associated with the sovereign debt crisis in the euro area, the increase in the risk premium had no immediate effect on interests paid by enterprises. In 2011, however, the situation changed and interests paid grew significantly: by 18% from 2010, when it had declined by 16% (Chart 11). Preliminary data from the Central Balance Sheet Database for the first half of 2012 suggest that the upward trend of interests paid will continue.

Chart 11

INTEREST PAID | Annual growth rate and market interest rate



The deterioration in interests paid was particularly relevant within large enterprises and the *Manufacturing* and *Electricity and Water* economic activity sectors

In 2011 all size classes saw a reversal in the trend of interests paid, which was particularly worth mentioning within large enterprises. In this group of enterprises interests paid increased by 32% versus the same period in the previous year, while in microenterprises and SMEs they rose 7% and 12% respectively.

Concerning economic activity sectors, the intensification of interests paid was particularly marked in *Manufacturing* and *Electricity and water*, increasing 23% and 22% respectively.

Through the combination of interests paid and EBITDA it is possible to evaluate the financial pressure on enterprises, which has increased considerably in 2011, after the fall in 2010. Therefore,

in 2011, the proportion of EBITDA consumed by interests payments reached 28%, an increase of 11 p.p. from 2010. Considering the period under review, the fall observed in the two previous years was reversed in 2011, as financial pressure resumed the level of 2008.

The increasing financial pressure has been especially felt by microenterprises (+25 p.p.), although it has also increased significantly in SMEs and large enterprises (10 and 9 p.p. respectively). In 2011 larger enterprises maintained the best level of interests covered by EBITDA, while the differential widened vis-à-vis the other classes (Chart 12).

By economic activity sectors, financial pressure on *Construction*, which was already considerable in 2010, increased significantly in 2011 (130% in 2011 and 43% in 2010). Interests paid by enterprises in *Construction* exceeded the amount of EBITDA generated, chiefly due to the sharp contraction the sector's activity. *Other Services*, in turn, had the second worst deterioration in this indicator (18 p.p.), as a result of activities related to *Construction*, particularly in Section L – *Real estate activities*, where this ratio rose 79 p.p. from 2010, reaching 132%, exceeding the value observed in *Construction*.

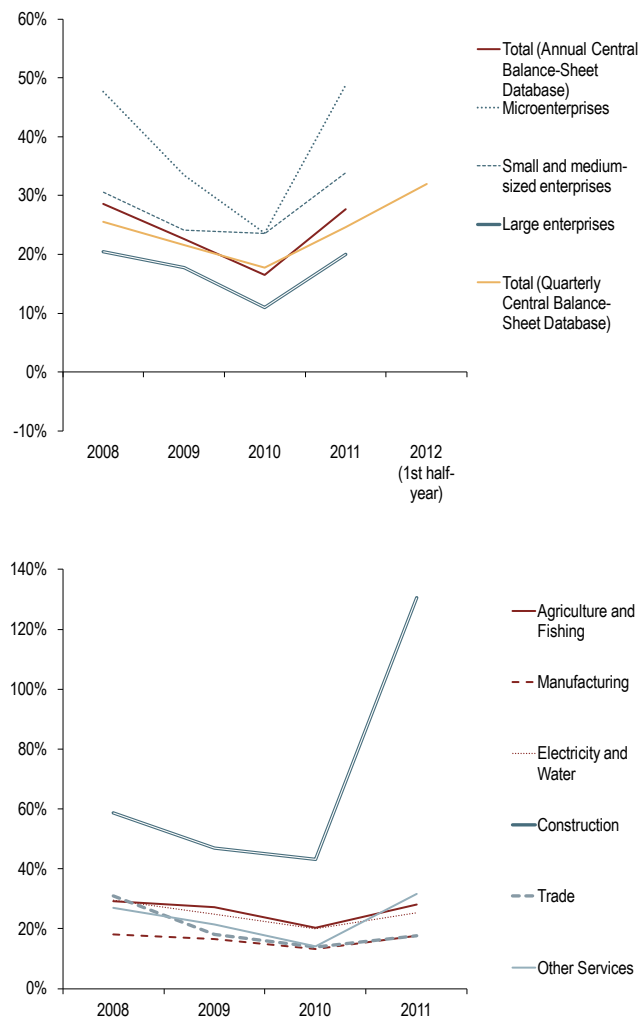
In spite of a broadly based deterioration across all sectors, *Manufacturing* and *Trade* maintained the lowest financial pressure levels (18%), and were also the activities where this indicator deteriorated the least in 2011 (4 p.p.).

In combination with the fall in EBITDA, growth of interests paid led to an increase in the financial pressure on NFCs

Interests paid by enterprises in *Construction* exceeded the amount of EBITDA generated (financial pressure of 130%)

Chart 12

WEIGHT OF INTEREST IN EBITDA



BOX 4 | CREDIT OBTAINED THROUGH DEBT SECURITIES ISSUES – CHARACTERISATION BASED ON THE SECURITIES STATISTICS INTEGRATED SYSTEM²²

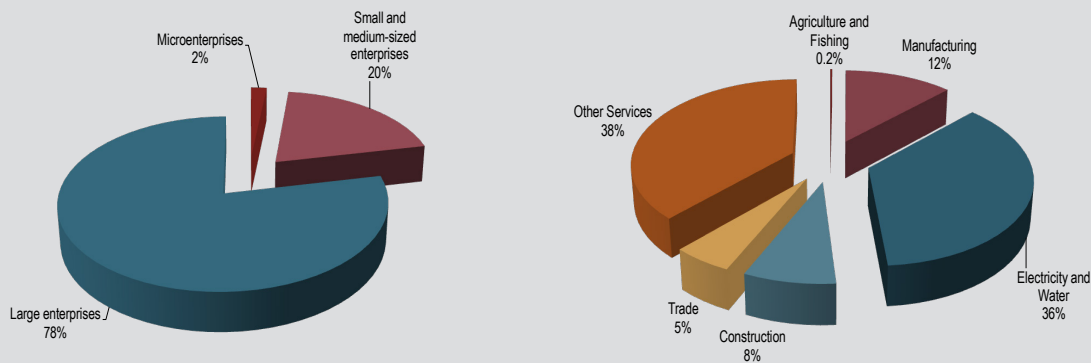
In 2011 financing obtained through issue of debt securities represented 11% of enterprises' financial debt (6% of total liabilities). Information available from Banco de Portugal's Securities Statistics Integrated System offers a detailed description of this source of financing, with a focus on the most recent information for 2012.

The total amount of enterprise financing by debt securities grew 7% at the end of the first half of 2012, compared with the end of the same period in the previous year, reaching over € 22.5 billion (1% growth at the end of 2011 from 2010).

Large enterprises were the size class that used this type of financing the most, and were responsible for 78% of total securities issued at the end of the first half of 2012 (76% in 2011 and 69% in 2010). SMEs represented 20% and microenterprises only 2%, denoting the lesser importance of this type of financing for smaller enterprises (Chart 4.1). From 2011 onwards the proportion of SMEs in total securities issued declined, after a period of sustained growth.

Chart 4.1

FINANCING THROUGH DEBT SECURITIES (position at the end of the first half of 2012)



By economic activity sector, *Other services* (in particular Section J – *Information and communication*, H – *Transportation and storage* and M – *Professional, scientific and technical activities*) and *Electricity and water* were responsible for nearly 74% of the total amount issued. In terms of importance, *Manufacturing* (12%) and *Construction* (8%) follow. This structure has remained largely unchanged from 2011, aside from a slight increase in the contribution of *Electricity and water* (2 p.p.), offsetting *Other Services* (-1 p.p.).

With regard to the maturity of the securities, the relative proportion of short-term issues continued to increase, having grown by 1 p.p. at the end of the first half of 2012 from its value at the end of 2011, reaching 65% of the total issued. These issues continue to be more relevant in large enterprises as a whole, where they represented 71% of total debt securities issued, rising by 1 p.p. from late 2011. At the end of the first half of 2012, as also at the end of 2011, the other size classes showed relative balance between the proportion of short-term and long-term issues, even though it is still possible to perceive some decline in the predominance of short-term issues vis-à-vis the end of 2011 (-5 p.p. in microenterprises and -3 p.p. in SMEs).

²² The Securities Statistics Integrated System is an information system managed by Banco de Portugal relating to securities issues and portfolios, on a 'security-by-security' and 'investor-by-investor' basis. For further information, please refer to Supplement 2/2008 to Banco de Portugal's Statistical Bulletin, *Securities Statistics: Integrated System Features and Main Results*.

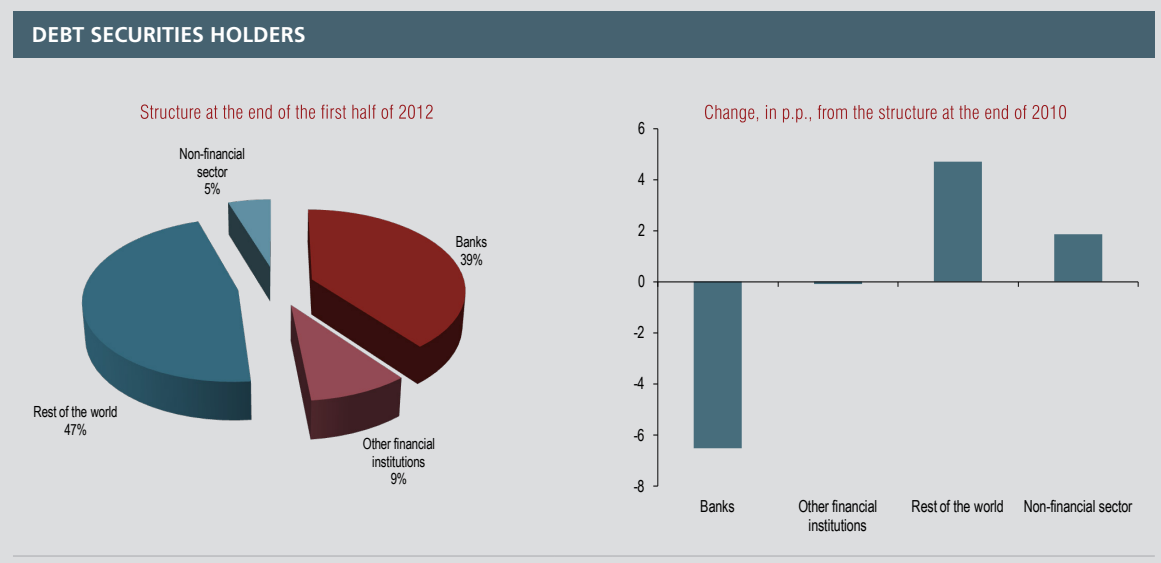
By economic activity sector, *Electricity and water* had short-term debt securities representing 77% of the total for the sector at the end of the first half of 2012, remaining unchanged from the end of 2011, after an increase of 11 p.p. from the end of 2010 (Table 4.1). *Agriculture and fishing*, however, had the greatest relative proportion of securities with maturity up to one year (95%). *Other Services* had the lowest proportion of short-term issues (53%).

Table 4.1

SHARE OF SHORT-TERM DEBT IN TOTAL DEBT SECURITIES ISSUED (at end of period)			
Economic activity sector	2010	2011	2012 (1 st half-year)
Agriculture and Fishing	94.2%	94.2%	94.8%
Manufacturing	67.7%	66.6%	66.3%
Electricity and Water	66.5%	77.6%	77.1%
Construction	67.9%	63.4%	62.8%
Trade	63.0%	59.7%	59.9%
Other Services	54.5%	51.7%	53.2%
Total	61.7%	63.9%	64.7%

Analysis of the holders of debt securities issued by the enterprises offers an insight into which institutional sectors granted financing to enterprises by this means²³. At the end of the first half of 2012, the resident banking system held 39% of total debt securities issued by enterprises, and its proportion had declined by 7 p.p. from the end of 2010. This decrease in security financing by resident banks was offset by an increase in the importance of entities non-resident in Portugal (abroad) (5 p.p.), which at the end of June 2012 held 47% of debt securities of enterprises, and the non-financial sector (2 p.p.), which on the same date held 5% of the total (Chart 4.2).

Chart 4.2



By security maturity, resident banks held 47% of short-term debt securities at the end of the first half of 2012, which was similar to the proportion held by non-resident entities (46%). The main holder of long-term debt securities was the rest of the world (45%), followed by resident banks (28%) and other financial institutions (16%).

²³ Unlike the securities issues analysis, this component includes securities issued by holding enterprises classified in Section K of CAE-Rev.3 - *Financial and insurance activities*.

Trade credit stood for 17% of enterprises' liabilities in 2011

NFCs' days payable outstanding and days sales outstanding declined in 2011, as in 2010

Average days sales and payable outstanding within microenterprises and SMEs continued to be higher than those within large enterprises

3.3.3 Trade credit financing

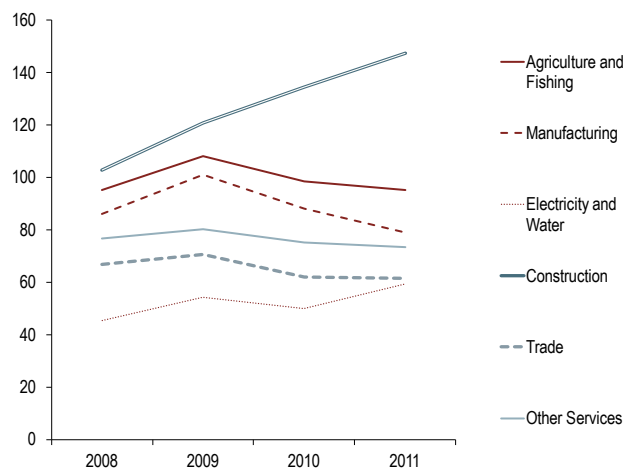
Trade credit financing followed closely the developments in enterprise's activity, declining by 5% in 2011, after having risen by 4% in 2010. In 2011, this type of financing represented 17% of total enterprise's liabilities.

In the current economic context, it is important to highlight trade credit flows as an important indicator of financial pressure on enterprises. Growing average days sales outstanding leads to cash difficulties for enterprises, which will grow in importance in tandem with their inability to increase the days payable outstanding to suppliers or to obtain resources from other lenders, namely banks.

The decrease since 2009 in average days sales outstanding and average days payable outstanding levels continued in 2011 (Chart 13 and Chart 14). On average, days payable outstanding reached 84 days (85 in 2010), while days sales outstanding came to 76 days (78 in 2010).

Chart 13

DAYS SALES OUTSTANDING | Days



In 2011, in terms of size classes, and in what concerns days sales outstanding, microenterprises (97 days) and SMEs (92 days) maintained values significantly above those posted by large enterprises (54 days). In microenterprises, average days sales outstanding increased by around 2 days. Average days payable outstanding also showed large disparities among size classes (119 days in microenterprises,

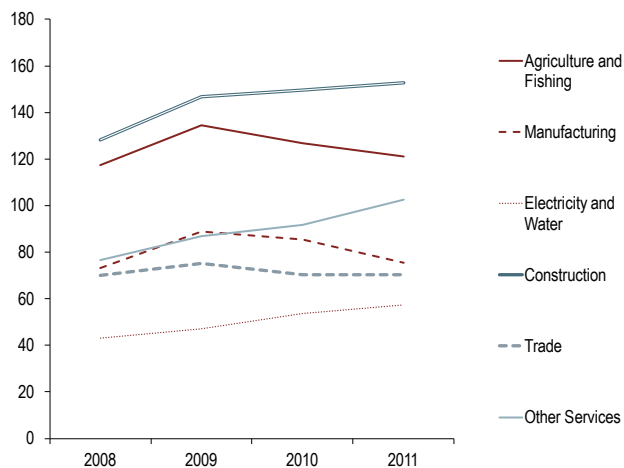
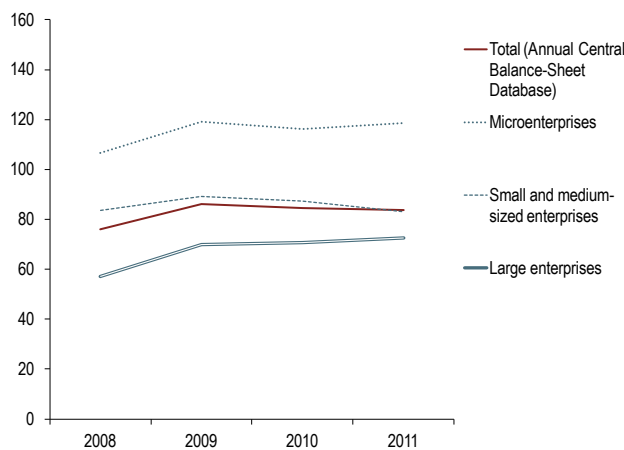
83 days in SMEs and 73 days in large enterprises), albeit narrower between SMEs and large enterprises. At this level, average days payable outstanding expanded in microenterprises (2 days) and large enterprises (2 days), in contrast to SMEs, where it fell by 4 days.

By economic activity sector, average days sales outstanding and average days payable outstanding declined in *Manufacturing* and *Agriculture and fishing*. In contrast, *Construction* followed the trend observed since 2007, with an increase in average days sales outstanding (+13 days) and in average days payable outstanding (+3 days). These developments led to a deterioration of the differential between *Construction* and the other sectors. In 2011 average days sales outstanding in *Construction* stood at 147 days and average days payable outstanding reached 153 days. *Electricity and water* maintained the lowest average days outstanding in 2011 (59 for days receivable and 57 for days payable), in spite of a significant increase, particularly in average days sales outstanding (+9 days). *Trade* follows *Electricity and water*.

Average days sales outstanding and average days payable outstanding worsened in *Construction* (to 147 days and 153 days respectively)

Chart 14

DAYS PAYABLE OUTSTANDING | Days

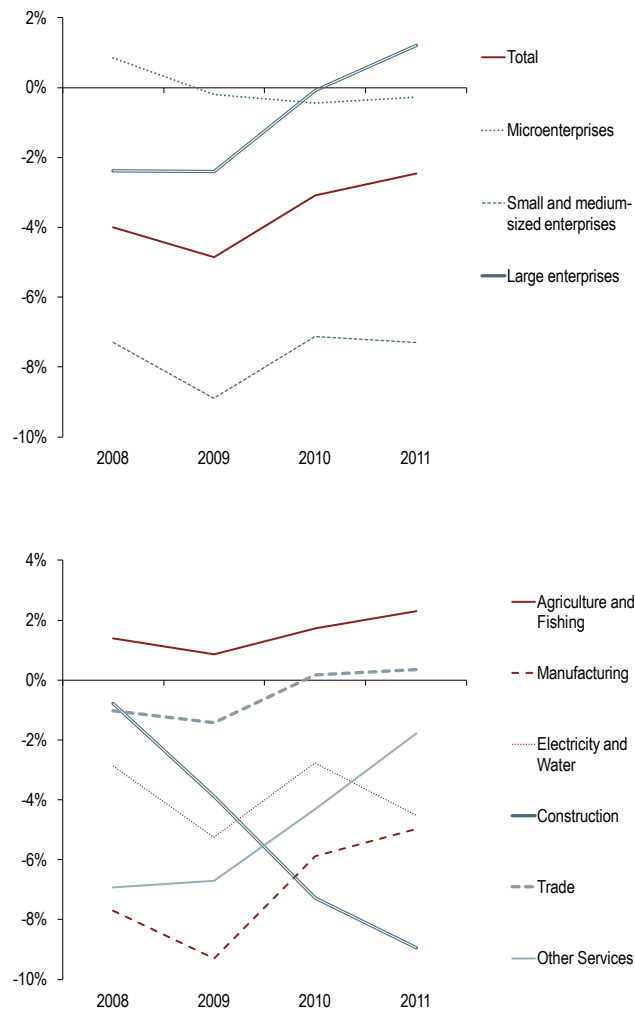


Information on average days outstanding sheds light on the time delay of sales and payables in the enterprises' trade credit. To complement this analysis and evaluate how enterprises finance themselves through this type of credit, a net indicator of trade credit financing was calculated, consisting of the relationship between accounts payable and accounts receivable versus turnover

(Chart 15). A negative value implies that accounts receivable are higher than accounts payable, meaning that overall the enterprise is financing its clients; a positive value implies that accounts payable is higher than accounts receivable and thus the enterprise is obtaining financing through its suppliers.

Chart 15

NET TRADE CREDIT FINANCING | % of turnover



Note: Net trade credit financing was calculated using the difference between accounts payable and accounts receivable.

NFCs, in net terms, were not financed through trade credits ...

In the 2008-2011 period, the indicator calculated for NFCs ranged between -3% and -5%. This means that enterprises, in net terms, were not financed through trade credits. Nevertheless, in 2011, this differential narrowed (by around 0.6 p.p.), particularly due to the behaviour of large enterprises.

Indeed, in 2011, for the first time during the whole period under analysis, large enterprises reached a favourable differential between accounts payable and account receivable. This indicates that large enterprises are obtaining short-term financing from their suppliers. On the other hand, in SMEs that differential has been negative, and therefore it is not an alternative financing source. In 2011 it represented 7% of turnover, reflecting a deterioration of 0.2 p.p. from 2010.

By economic activity sector, focus is again on *Construction*, with a significant deterioration in net trade credit financing, which had a negative balance of 9% of its turnover. Behind this result was the abovementioned increase in days sales outstanding, in addition to the disparity between the growth rate of accounts receivable and accounts payable (in 2011 accounts receivable fell by 11%, while accounts payable declined by nearly 14%).

In contrast, *Manufacturing*, *Other Services*, *Trade* and *Agriculture and fishing* saw favourable developments in this indicator in 2011. However, only *Agriculture and fishing* and *Trade* were able to obtain net trade credit financing (2% of turnover in the former and 0.4% in the latter). In *Agriculture and fishing* this favourable position has been constant during the period under review, whereas in *Trade* it was favourable for the second year running in 2011.

In *Other Services* this indicator accelerated sharply, but, albeit negative, it stood close to balance. This was particularly due to developments in Section Q – *Human health and social work activities* (14 p.p. growth, with accounts payable exceeding accounts receivable by an amount equivalent to 26% of turnover generated, thus continuing a tendency observed since 2008). Nevertheless, this indicator also improved in other Sections associated with *Other Services*.

... even though large enterprises and enterprises in *Agriculture and fishing* and *Manufacturing* had higher accounts payable balances than that of its accounts receivable

METHODOLOGICAL SUMMARY

Capital ratio: Ratio between equity and total assets.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization): Earnings before interest, taxes, depreciation and amortisation. The new accounting standard (SNC - *Sistema de Normalização Contabilística*, Accounting Normalisation System) ended the concept of extraordinary expenses and revenues, and also stopped allowing unambiguous identification of financial components. Thus the decision was taken to use the EBITDA definition as under the Accounting Normalisation System, adjusting the data reported under the old standard (POC - *Plano Oficial de Contabilidade*, Official Chart of Accounts) where possible, for the 2006-2009 period.

Economic sector: To simplify the analysis, in general, some sections of the Portuguese Classification of Economic Activities – 3rd Revision (CAE-Rev.3) were aggregated, by associating activities with similar characteristics. The following aggregates were thus formed: *Agriculture and fishing* (Section A); *Manufacturing* (Sections B and C); *Electricity and water* (Sections D and E), *Construction* (Section F), *Trade* (Section G) and *Other Services* (Sections H to S, except Sections K and O). As a result, this analysis excludes enterprises classified in Section O – *Public administration and defence; compulsory social security*, Section T – *Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use*, and Section U – *Activities of extraterritorial organisations and bodies* of CAE-Rev.3, as they are not included in the NFC institutional sector. It also excludes the enterprises classified in Section K – *Financial and insurance activities* which groups together non-financial holding enterprises (with the SGPS denomination) not involved in subsidiary management, which, despite still belonging to the NFC sector (as regulated under ESA 95), were not analysed in this Study due to their very specific characteristics that set them apart from the other NFCs.

Quartile distribution: In order to calculate quartiles, the enterprise values for the indicator under analysis are considered 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 lower value for that indicator, and only 25% show a higher value). The interquartile range (obtained as the difference between the third and first quartiles) provides an indication of distribution dispersion. For further details on the calculation of these statistical measures, please refer to the Central Balance Sheet Study | 6, December 2011 – *New Enterprise and Sector Tables: Adjustment to the Accounting Standards System*.

Return on equity: Ratio between net income for the year and equity. As both items (numerator and denominator) may be positive or negative, at individual level, the indicator is only calculated in situations where equity is positive.

Size of enterprise: enterprises were grouped into three classes: microenterprises, small and medium-sized enterprises (SMEs) and large enterprises. The criteria for this classification were taken from the European Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises. According to this Recommendation, microenterprises are defined as enterprises which employ fewer than ten persons and whose annual turnover and/or balance sheet total does not exceed EUR 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 EUR 50 million and/or an annual balance sheet total that does not exceed EUR 43 million. Large enterprises are any enterprises which are not classified above.

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