

Results and financial situation of firms in 2010

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Introduction

Each year, in the December issue of the Economic Review, the National Bank describes the developments reflected in the annual accounts of non-financial corporations. By the autumn, the Central Balance Sheet Office already has a representative sample of annual accounts for the previous year. The conclusions based on that sample can therefore be fairly reliably extrapolated to the population as a whole.

This article is in four parts. Part 1 gives a brief description of the methodology and the population studied. This year the new IT system at the Central Balance Sheet Office has made it possible to extend the population to companies which file their annual accounts very late. Those companies, which were not previously included in the final statistics, represent only a minority of annual accounts and their economic importance is particularly low, so that the resulting changes to the aggregate statistics are only marginal.

Part 2 presents an extrapolation of the main items in the operating account for the 2010 financial year. In particular, the extrapolations concern value added, staff costs, depreciation and the operating result. Details are given according to company size with a breakdown by the main branches of activity.

Part 3 assesses the financial position of companies in terms of profitability and solvency. For a number of years there has been increasing attention to the distribution of the financial ratios, for the purpose of studying the various population strata. This type of analysis shows, for example, that while the financial independence of most firms is improving, the opposite applies to a significant minority of the population, particularly in the SME

group. Part 3 also presents the results of the financial health model developed by the Bank. This model is useful because it summarises the position of each company in a single value which takes account simultaneously of solvency, liquidity and profitability. On that basis, ten financial health classes have been defined. These classify companies into groups which are stable and uniform in terms of the failure rate observed in the past.

Finally, Part 4 places the analysis of the annual accounts in a regional perspective. The regional breakdown of the annual accounts is based on data from the National Accounts Institute, which give details of employment in firms for each registered office and each operating establishment.

1. Methodology and description of the population

1.1 Methodology

Since the late 1970s the Central Balance Sheet Office has collected the accounts of non-financial corporations. To that end, firms are required to submit their annual accounts using a standard form, no later than seven months after the end of the financial year. The data are then adjusted if necessary to meet the required quality standards. By the autumn, an initial analysis is then possible.

However, every year the population of annual accounts relating to the latest year considered, in this case 2010, is incomplete. The reason is that many sets of annual accounts are filed late or do not pass the arithmetical and

logical checks conducted by the Central Balance Sheet Office. Owing to this bias, the 2010 figures are not directly comparable with those of previous years. To overcome this problem, a constant sample is used. This year's constant sample comprises firms which filed annual accounts for a 12-month financial year for both 2009 and 2010.

The method consists in extrapolating the 2010 results on the basis of developments observed in the constant sample: the 2010 figures are obtained by applying the rates of change in the sample to the final figures for 2009. It is therefore assumed that the movements in the sample are representative of those affecting the population as a whole. As verified in previous editions of this article, that assumption is broadly correct: in the vast majority of cases, the estimates give a good indication of the direction and scale of the actual movements.

This year, in order to ensure that the sample is sufficiently representative, it was drawn on 12 October 2011. It comprises 182 432 companies, or 58 % of the annual accounts filed in 2009. In terms of value added, its representativeness is much higher, being 84 %. The reason for the difference between the two percentages is that it is mainly small or very small firms that are late in filing their accounts. Every year, the coverage rate for large firms is therefore much higher in terms of both the number of companies and the value added. Annex 1 gives details of the composition and representativeness of the sample.

This year a methodological complication has arisen owing to large-scale mergers in the telecommunications sector. Following the integration of the companies taken over, the accounts of the acquiring companies record increases which are largely artificial. Since the pro forma data published are much more stable, it was decided to exclude these companies from the sample because they create a considerable bias in the estimates. That exclusion amounts to considering that the figures of the companies concerned remained unchanged from 2009 to 2010. Only the goodwill resulting from the mergers was taken into account, since it will have a recurrent impact on the depreciations.

1.2 Description of the population studied

The population studied corresponds to all non-financial corporations as defined by the Central Balance Sheet Office. That group contains a very great majority of the annual accounts filed, with the notable exception of a large proportion of the financial sector and insurance companies. Annex 2 sets out the NACE codes of the branches of activity covered. For the past two years, the sectoral distinctions have been based on the NACE-Bel

2008 nomenclature. For the purpose of presentation and interpretation, the structure used in this article differs slightly from the official structure of the nomenclature.

The article also distinguishes between companies according to their size. The distinction is based on the format used for the accounts. Pursuant to the Company Code, small firms not listed on the stock market may use the simplified format whereas large firms and small listed companies are required to use the full format.

On the basis of the Company Code, a firm is considered small if it has not exceeded more than one of the following limits in the past two financial years:

- number of employees (annual average): 50;
 - turnover (excluding VAT): € 7 300 000;
 - balance sheet total: € 3 650 000;
- unless the annual average number of employees exceeds 100⁽¹⁾.

In all other cases, the firm is regarded as large.

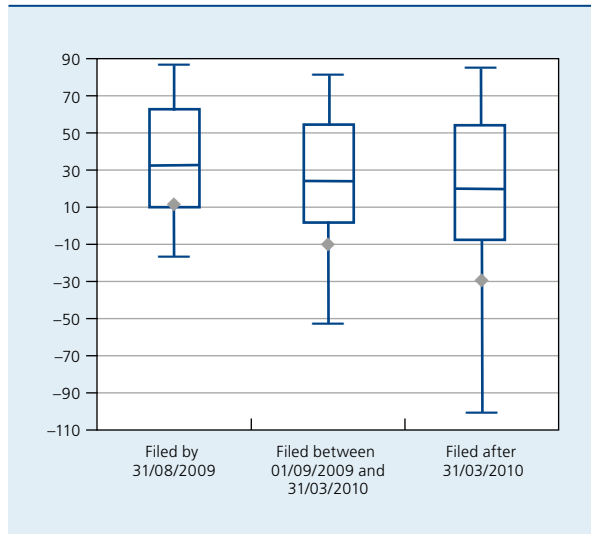
In accordance with the Company Code, companies filing their annual accounts in the full format are regarded as large firms. Other companies, i.e. those filing their annual accounts in the simplified format, are regarded as SMEs.

In the previous editions of this article, the population studied comprised companies which had filed their annual accounts before the statistical cut-off date set by the Central Balance Sheet Office, i.e. generally before the end of March N+2 (for a given financial year N). Following the change in the data processing system, it is now possible to study companies which filed their annual accounts after the cut-off date. The population has therefore been extended to include those companies, for the past as well. The companies thus added represent a minority of annual accounts (less than 1 %) and their economic importance is particularly low (0.1 % of total value added) so that their impact on the statistics is marginal.

However, these companies are of interest in terms of financial analysis since their situation is less favourable overall than that of the other companies. For example, chart 1 presents box plots which show the distribution of the degree of financial independence according to the date of filing the annual accounts for 2008. This shows that the distribution of companies which filed their accounts after 31 March 2010 (i.e. after the Central Balance Sheet Office statistical cut-off date) tends particularly towards seriously

(1) If the financial year is shorter or longer than twelve months, the turnover criterion is calculated pro rata. If the company is linked to one or more companies, the criterion relating to the annual average number of employees is calculated by adding together the average number of employees for all the firms concerned, and the criteria relating to turnover and the balance sheet total are calculated on a consolidated basis. For more information, please refer to the Belgian Accounting Standards Commission notice CNC 2010-5 (www.cnc-cbn.be).

CHART 1 BOX PLOTS OF FINANCIAL INDEPENDENCE ACCORDING TO THE DATE OF FILING THE ANNUAL ACCOUNTS, FINANCIAL YEAR 2008
(in %)



Source : NBB.

negative values : for instance, it is evident that the financial independence of 10 % of these companies is less than -100 %. Consequently, they are far more vulnerable : their failure rate at five years (calculated from the 2005 financial year) is 16 %, compared to 4 % for companies which meet the statutory deadlines for filing their accounts.

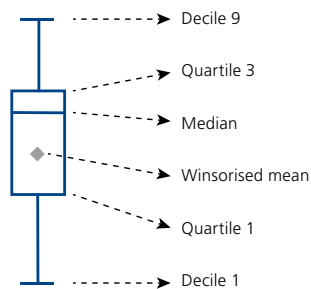
Table 1 describes the population studied. The data for 2010 are given for the record, because as already pointed out they were incomplete when this article went to press. SMEs make up the great majority (296 155 companies in 2009, or 94 % of the total). However, in terms of value added it is the large firms that clearly predominate (over € 120 billion in 2009, or 73 % of the total).

In line with the long-term trend, the number of companies filing annual accounts has continued to rise in recent years, increasing from 273 837 in 2005 to 314 631 in 2009. This net creation of companies is mainly attributable to services (business services, IT activities, real estate, etc.) and construction. In manufacturing industry, the number of companies has grown only very slightly. Generally speaking, the new firms are relatively small entities : for example, in 2009 the companies formed after 1 January

Box 1 – Box plots

A box plot (or box-and-whisker plot) is a graphic representation tool introduced in 1977 by the American statistician, John W. Tukey. Box plots can be used to compare the distributions of different populations, including their dispersion and asymmetry. The box plots presented in this article are to be interpreted as follows :

- the top end of the upper whisker corresponds to the 9th decile ;
- the top of the box corresponds to the 3rd quartile ;
- the line inside the box corresponds to the median ;
- the bottom of the box corresponds to the 1st quartile ;
- the bottom end of the lower whisker corresponds to the 1st decile ;
- the grey dot corresponds to the winsorised mean⁽¹⁾.



(1) Mean calculated on the basis of the distribution winsorised at the 1st and 99th percentiles : for each financial year, values below the 1st percentile are assigned the value of the 1st percentile, while values above the 99th percentile are assigned the value of the 99th percentile. This neutralises the impact of extreme values on the calculation of the mean.

TABLE 1 POPULATION STUDIED
(situation on 12 October 2011)

	2005	2006	2007	2008	2009	<i>p.m. 2010</i>
Number of companies	273 837	283 543	294 730	303 079	314 631	226 708
Large firms	16 377	16 576	17 103	17 794	18 476	16 858
SMEs	257 460	266 967	277 627	285 285	296 155	209 850
Manufacturing industry	21 517	21 757	22 005	21 850	21 941	15 179
Non-manufacturing branches	252 320	261 786	272 725	281 229	292 690	211 529
Value added (€ million)	146 023	154 901	164 973	170 023	164 138	146 506
Large firms	111 613	117 677	122 744	126 154	120 379	117 266
SMEs	34 410	37 224	42 229	43 869	43 760	29 240
Manufacturing industry	45 469	48 286	47 976	46 468	43 301	42 881
Non-manufacturing branches	100 554	106 615	116 997	123 556	120 837	103 626

Source : NBB.

2005 generated value added averaging € 149 000, compared to € 638 000 for companies formed before that date.

The first part of chart 2 shows that the increase in the number of companies is due mainly to the private limited companies. In the last ten complete financial years available, the number of private limited companies has in fact risen by 80 700 units, or 65 %. Over the same period, those companies have constantly made a positive contribution to the creation of value added, including in 2009 (second part of chart 2).

In contrast, the number of public limited companies has hardly risen at all since 2000, and has actually declined since 2005, to a total of 86 300 units in 2009. While public limited companies disappear at a similar rate to private limited companies, far more of the latter are created, and that is the main reason for the divergence between the two forms of company. It should be noted that almost a quarter of the public limited companies which disappear undergo a merger (compared to just 4 % of private limited companies), so that, strictly speaking, they do not go out of business. Moreover, although their number is no longer increasing, public limited companies still have a significant influence on value added in Belgium.

In recent years the number of cooperative societies has continued to diminish, in line with the long-term trend. Cooperatives represent a minority of annual accounts (fewer than 10 000 in 2009), so that their influence on the overall trend is marginal.

Finally, the past decade has brought sustained growth of other legal forms. That trend is due largely to the rise of non-trading partnerships, the number of which has grown from 2 500 in the early 2000s to almost 10 000 today. This form is particularly popular with professionals such as accountants, lawyers, notaries and architects.

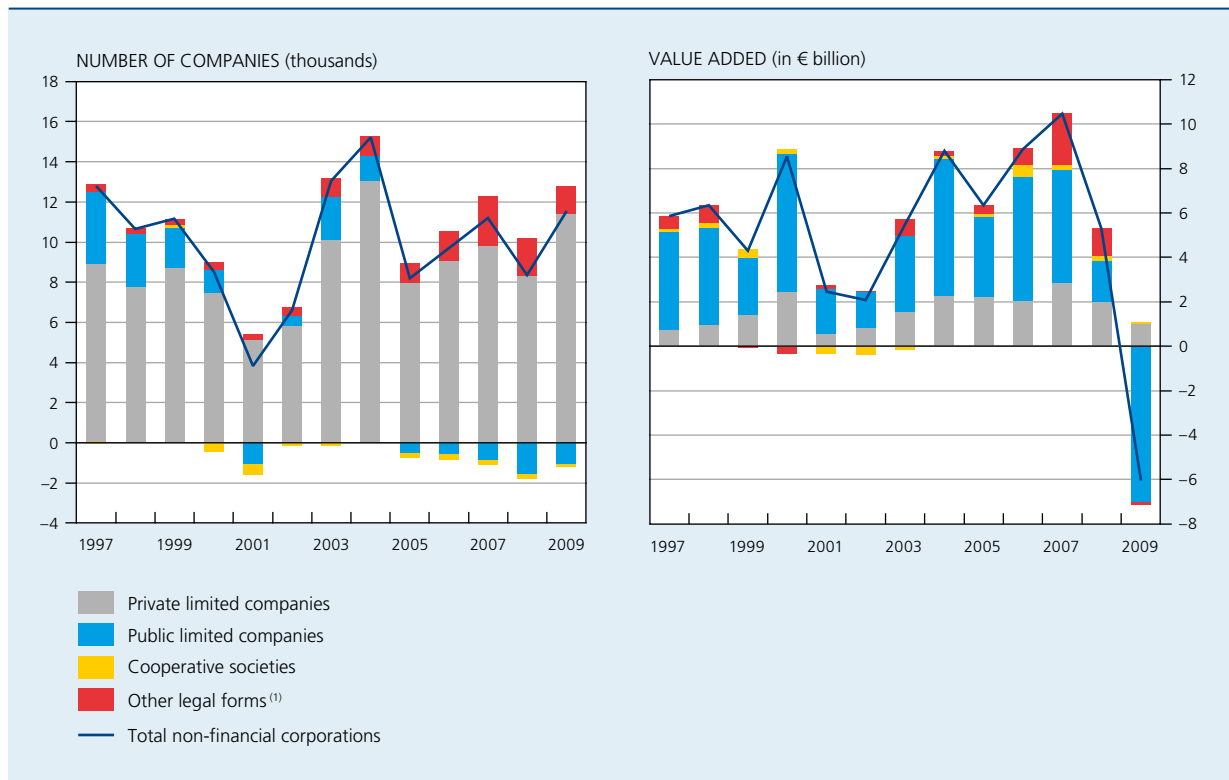
2. Trend in components of the operating result

This section shows how the trend in the components of the operating result relates to general economic developments in 2010. For more details on the latter, see the Bank's Annual Report 2010. The latest developments are also analysed in another article in this Economic Review.

2.1 Economic climate

The economic recovery which began in Belgium in mid-2009 persisted in 2010, as it did in the euro area. GDP recovered from the first quarter of 2010, with growth peaking at 2.9 % in the second quarter. After that, as in other euro area countries, the initial revival in activity lost some of its vigour. Though it contrasts with the decline recorded in the previous year, GDP growth was consequently relatively modest in 2010. At the end of the year, Belgium's GDP was still below the peak attained before the recession, i.e. in the second quarter of 2008. From that point of view, the shock suffered by the economy will have had a more lasting impact than in

CHART 2 NET GROWTH IN THE NUMBER OF COMPANIES AND IN VALUE ADDED, BY LEGAL FORM
(contribution by legal form)



Source: NBB.

(1) Including non-trading partnerships, limited partnerships or partnerships limited by shares, general partnerships, social-purpose companies and state-controlled companies.

the three previous recessions. It should be remembered that the recession which began in 2008 was the worst in sixty years.

The collapse of world trade and the ensuing drastic reduction in inventories were the primary reasons for the recession. The turnaround in the first of these factors initiated the recovery, while the effect of de-stocking declined significantly. These developments were accompanied by the revival of private consumption in 2010, while the scaling down of investment continued, though at a more modest pace than in 2009.

Belgian exporters took full advantage of the world trade recovery which began in mid-2009. The export rebound was supported mainly by the dynamism of demand from the emerging economies, particularly those in Asia. Belgian firms benefited from the vigour of those markets either directly, by exporting their products there, or indirectly, by supplying partners in other countries – particularly in Germany – who themselves deal with Asian customers. The export revival was particularly strong for intermediate products, such as chemicals and iron and

steel. As an annual average, after an 11.3% decline in volume in 2009, exports expanded by 9.9% in 2010. The import profile was fairly similar to that of exports, largely reflecting the fact that production processes are increasingly involving entities located in different countries. In 2010, however, the import growth rate (+8.7%) was well below the growth of exports, owing to the less dynamic domestic demand. Altogether, over the year as a whole, net exports of goods and services contributed almost half of GDP growth, at 1.1 percentage points, after having made a negative contribution in the two preceding years.

De-stocking, which had depressed activity particularly in 2009, eased off considerably in 2010. Over the year as a whole, the contribution of the change in inventories to annual GDP growth was very slightly positive (+0.1%).

The other components of demand played a less noticeable role than foreign trade in the large fluctuations in activity in recent years. In 2010 they were influenced in varying degrees by the financial crisis and the recession, even though they made a positive contribution to growth overall.

Among these components, public spending was the only one to increase in 2009. Public consumption continued to rise in 2010 (+0.2 %), while public investment contracted by 1.8 %. Households, which had seriously curbed their consumption expenditure at the end of 2008 and in early 2009, began spending more again. In 2010 this trend continued so that, on average, household consumption was up by 2.3 % in real terms. Conversely, business investment continued to fall (-1.6 %), albeit more slowly than in 2009. Finally, after two years of decline, household investment in housing recovered somewhat in 2010 (+1.6 %).

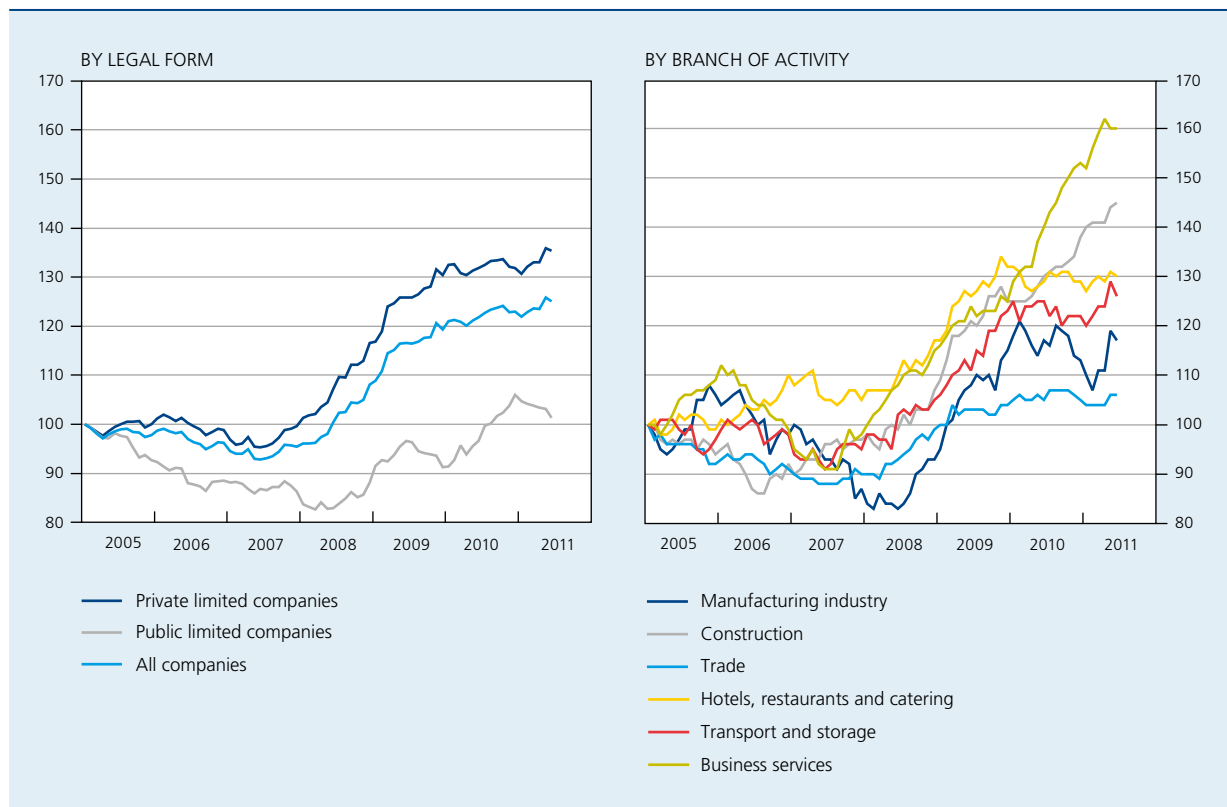
These macroeconomic developments were reflected in the vulnerability of Belgian companies, as is evident from the bankruptcies declared by the commercial courts to the Central Enterprise Data Bank (chart 3). While the number of corporate bankruptcies had increased very sharply in 2008 (+13 %) and 2009 (+10 %), the cyclical upturn slowed the rise in 2010 (+3 %). These variations were largely determined by private limited companies, which represent over 75 % of the bankruptcies recorded in Belgium each month. While all branches of activity had followed the upward trend in 2008 and 2009, that

was not so in 2010: while the number of bankruptcies remained stable or even declined slightly in industry, trade, hotels, restaurants and catering, and transport, the rise persisted at a sustained rate in business services and construction.

It is a little difficult to compare the recent period with the past owing to the implications of the law on business continuity. This law, which came into force on 1 April 2009, replaces judicial administration with new procedures putting greater emphasis on preventive measures. The Central Enterprise Data Bank does not currently identify companies resorting to these procedures, so that the influence of the law on the number of bankruptcies cannot be assessed in detail. In any case, it is known that the new procedures are being much more widely used than judicial administration. Thus, from April 2009 to the end of 2010, 1 878 firms applied for suspension of payment under the new law. That is more than the total number of firms which applied for judicial administration between 1998 and 2009⁽¹⁾.

(1) See Graydon Belgium (2010), *20 maanden wet op continuïteit ondernemingen: een half succes* (www.graydon.be).

CHART 3 NUMBER OF BUSINESS BANKRUPTCIES IN BELGIUM
(12-month moving average, indices January 2005 = 100)



Source : FPS Economy, SMEs Self-employed and Energy, own calculations.

TABLE 2 TREND IN THE MAIN COMPONENTS OF THE OPERATING ACCOUNT
(current prices)

	Percentage changes compared to the previous year					In € million	In % of value added
	2006	2007	2008	2009	2010 e	2010 e	2010 e
Value added	6.1	6.5	3.1	-3.5	6.0	174 039	100,0
Staff costs	4.4	7.3	5.6	-0.1	2.1	99 399	57,1
Depreciation and downward value adjustments ⁽¹⁾	5.4	7.9	6.6	6.1	2.9	31 421	18,1
Other operating expenses	12.7	-8.6	11.9	-4.6	-4.9	10 152	5,8
<i>Total operating expenses</i>	<i>5.3</i>	<i>6.0</i>	<i>6.3</i>	<i>0.8</i>	<i>1.8</i>	<i>140 972</i>	<i>81,0</i>
Net operating result	9.1	8.4	-8.6	-21.6	29.2	33 067	19,0

Source: NBB.

(1) On tangible and intangible fixed assets and start-up costs (item 630).

2.2 General developments in the operating account

The cyclical upturn in 2010 had a favourable impact on the value added of non-financial corporations, i.e. the difference between sales revenues and the cost of goods and services supplied by third parties. Having recorded a fall in 2009 for the first time in over fifteen years, total value added at current prices recovered strongly in 2010 (+6.0%, table 2).

The value added which a firm generates enables it to cover its operating expenses, the surplus being recorded as a net operating result. The latter reflects the routine commercial efficiency of the firm, leaving aside its financing policy and any exceptional items.

Staff costs make up the major part of the operating costs: in 2010 they represented 57.1% of value added. In 2009, for the first time in over ten years, they were down slightly (-0.1%) owing to the reduction in the number of employees on the staff register (-2.1% in full-time equivalents) and the large-scale use of systems permitting some flexibility in the use of labour (such as temporary lay-offs, reductions in overtime, and time credit). In 2010, staff costs began rising again but relatively slowly (+2.1%) in comparison with the pace seen in the pre-recession years. The number of workers showed a similar increase (+1.6%). Recent trends in employment are detailed in another article in this Economic Review (see "The social balance sheet 2010").

After staff costs, the biggest operating expense items are depreciation and downward value adjustments on

tangible and intangible fixed assets and start-up expenses (item 630 in the annual accounts). In 2010 their growth slowed for the third consecutive year (+2.9%), against the backdrop of a renewed decline in business investment. It should be noted that the increase in the amounts of depreciation in 2010 is largely due to the recording of substantial goodwill in the telecommunications sector, following the mergers mentioned in section 1.1. Without these book entries, the amounts recorded under item 630 would have risen by 1.4% between 2009 and 2010.

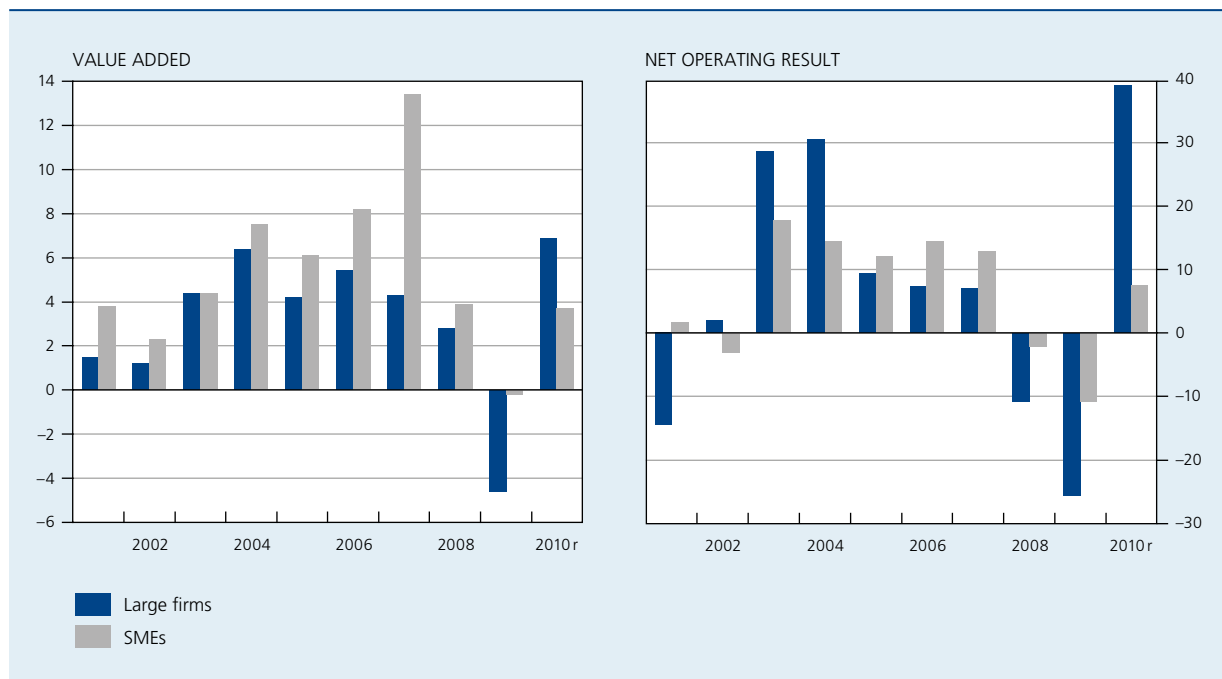
Acquisitions of tangible fixed assets continued to diminish in 2010 (-6.5%), albeit more slowly than in 2009 (-17.6%)⁽¹⁾. As in 2009, this decline concerned the great majority of branches studied. As a result, the investment rate of non-financial corporations (i.e. the ratio between acquisitions of tangible fixed assets and value added) fell sharply in the past two years, from 31.2% in 2008 to 23.2% in 2010, its lowest level in the past ten years. As is also evident from the distribution, this decline occurred throughout the population.

For companies filing full-format accounts, the annex to the annual accounts permits an assessment of the intensity of research and development activities⁽²⁾. Such an assessment may give some indication of the potential

(1) Acquisitions of tangible fixed assets are defined as the sum of the acquisitions of tangible fixed assets (item 8169, including capitalised production costs) and the capital gains on tangible fixed assets acquired from third parties (item 8229), less depreciation and downward value adjustments on tangible fixed assets acquired from third parties (item 8299).

(2) The information is not available for companies filing their annual accounts in the abridged format. Research and development costs mean the costs of research, making and developing prototypes, products, inventions and know-how, useful for the company's future activity (Royal Decree of 30 January 2001).

CHART 4 VALUE ADDED AND NET OPERATING RESULT, BY SIZE OF FIRM
(percentage change compared to the previous year)



Source: NBB.

future growth of firms, and hence of the economy as a whole. In 2010, for the first time in several years, both the number and the percentage of companies involved in research and development contracted: 731 firms (or 4.0% of full-format accounts) recorded capitalised research and development costs in 2010, compared to 785 (4.2%) in 2009. In 2010 the total amount capitalised came to € 3.1 billion⁽¹⁾. In comparison with the long-term trend, the growth of the amounts capitalised was rather weak in both 2009 (+0.2%) and 2010 (+1.8%).

Total operating costs, determined mainly by staff costs and depreciation, increased by 1.8% in 2010 (table 2). In contrast to the two preceding financial years, the rise in operating expenses was therefore considerably less than the increase in value added.

This combination of cost control and a revival in activity produced a strong rebound in the net operating result in 2010 (+29.2%), following a 28% fall during 2008 and 2009 as a whole. Although the level of the operating result recorded in 2010 (€ 33.1 billion) is still below the

pre-recession figure (€ 35.7 billion in 2007), the economic upturn therefore enabled firms to eliminate most of the impact of the crisis on their commercial performance. It must also be said that the net operating result more than doubled between 2001 and 2007.

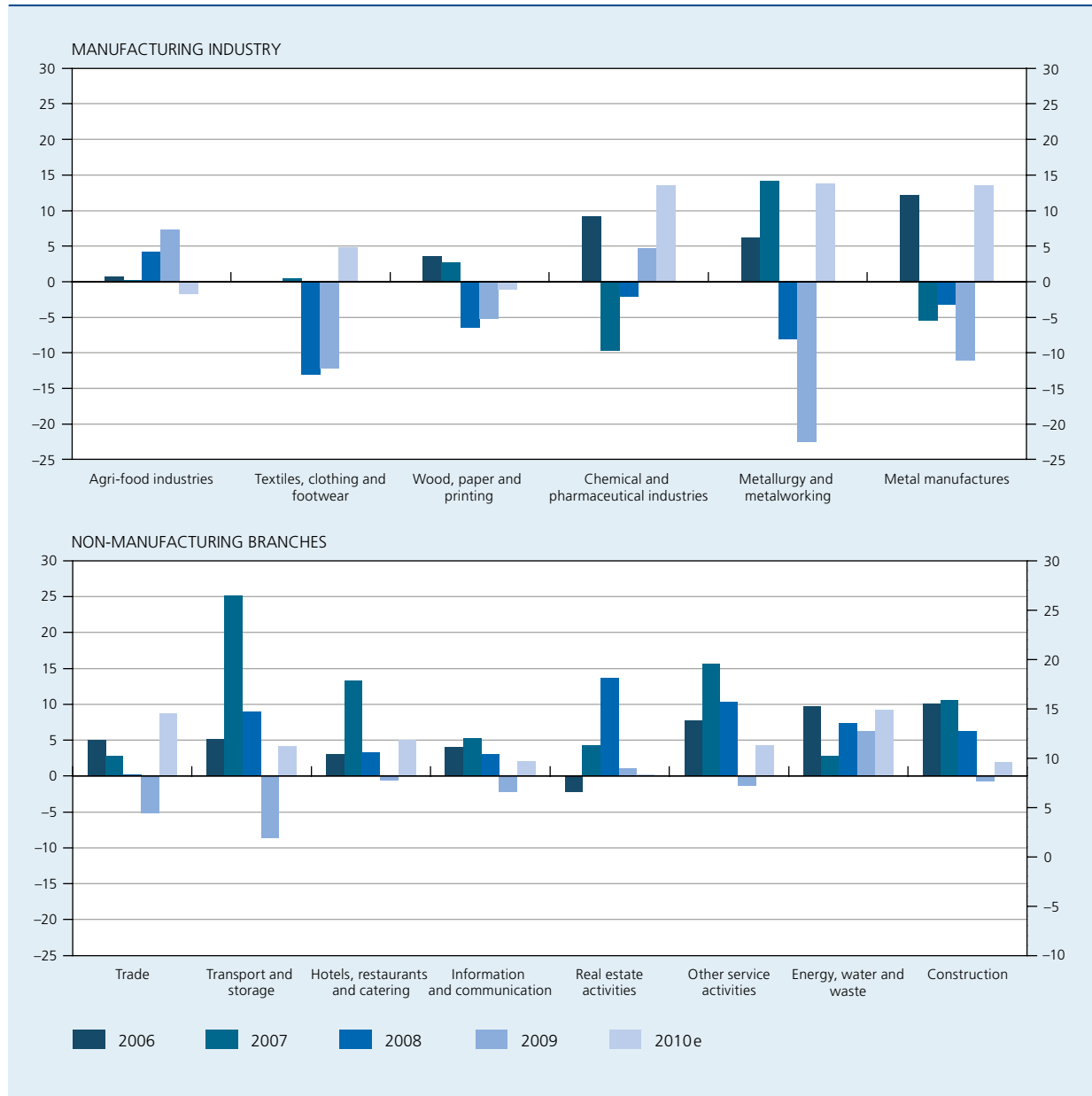
Taking 2008 and 2009 together, the net operating result of large firms contracted by 33.6%, compared to 12.7% for SMEs (chart 4). While large firms were therefore much harder hit by the deteriorating economic conditions, their recovery was also more vigorous once the environment became more favourable: in 2010 the net operating result of large firms surged by 39%, against 7.5% for SMEs. This sensitivity of large firms to the business cycle is due mainly to their stronger focus on industrial activities, which were particularly affected by the fluctuations in world trade in recent years. In 2010, 32% of the value added of large firms came from manufacturing branches, compared to 11% for SMEs.

2.3 Results per branch of activity

This section describes the main developments in the operating account per branch of activity. The figures are presented in Annexes 4, 5 and 6.

(1) Every year the pharmaceutical industry represents more than two-thirds of the amounts capitalised. Moreover, these amounts are concentrated on a small number of firms: the ten companies investing the most in this respect account for over 75% of the total amount.

CHART 5 VALUE ADDED PER BRANCH OF ACTIVITY
(percentage changes compared to the previous year)



Source: NBB.

2.3.1 Manufacturing industry

The collapse of world trade in 2008 and 2009 took a particularly heavy toll on industry. Taking these two years together, value added in manufacturing was down by almost 10%, one of the steepest falls ever recorded since companies began filing their annual accounts with the Central Balance Sheet Office. The most severe falls occurred in metallurgy (-29% between 2007 and 2009), textiles (-24%) and metalworking (-14%), which are

among the branches most geared to exports. Conversely, some branches proved more resilient, being less exposed to external demand, such as the agro-food industry (+12%).

In 2010, value added in manufacturing increased by 8.4%. The strongest improvements were seen in metallurgy (+14% in 2010), chemicals (+14%), and metalworking (+13%), branches which gained direct benefit from the recovery of world trade. This consolidation of

industrial activity was nevertheless insufficient to restore activity to a level comparable to that before the recession: in 2010, value added in the manufacturing branches was still 2.8 % below its 2007 level.

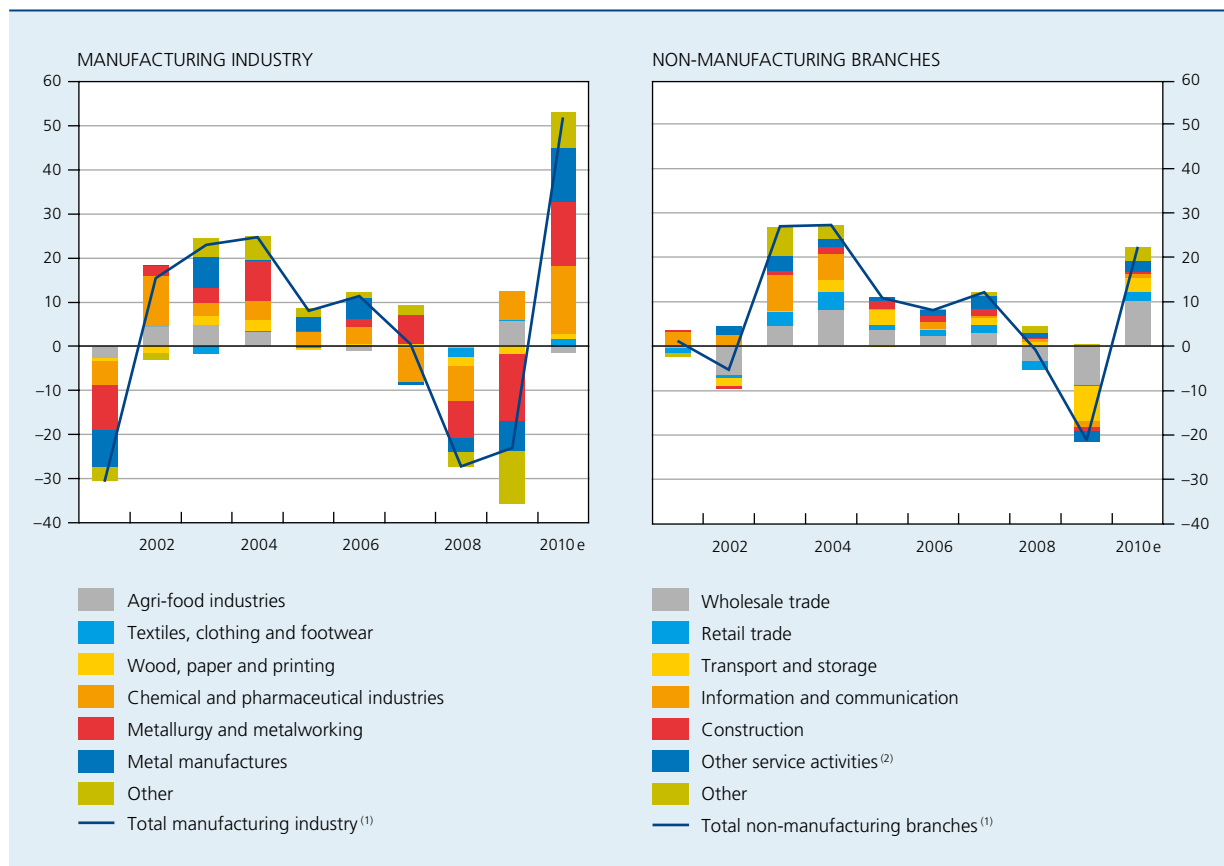
In parallel with this revival in activity, and despite the further marked fall in the number of full-time equivalents (-3 %), staff costs increased by 1.9 % in 2010. Over half of this rise is due to the restructuring costs recorded in the metalworking branch. Depreciation was down for the first time in several years (-0.1 %), as a result of a further fall in acquisitions of tangible fixed assets (-12.2 %). This new decline occurred despite the marked recovery of the capacity utilisation rate as measured by the Bank. After having fallen to a record low in April 2009, that rate picked up steadily thereafter so that, in the final quarter of 2010, it was back to a level close to the average for the past three decades. It therefore seems that manufacturers waited for confirmation of a lasting recovery before proceeding with new investments.

The movements in staff costs and depreciation resulted in a relatively moderate rise in the total operating expenses in 2010 (+1.6 %). Combined with the recovery of value added, this led to a particularly strong surge in the net operating result of the manufacturing branches (+52 %), after two years of steep decline. Almost all branches contributed to this revival in operating performance (chart 6). However, in 2010 the operating result of manufacturing industry was still below its 2007 peak.

2.3.2 Non-manufacturing branches

Overall, being less sensitive to the international environment, non-manufacturing branches proved more resilient to the recession. In 2008, growth of value added slowed down but remained positive (+5.8 %). In 2009 it was negative (-2.2 %) but the fall was much less marked than in industry. Most of this fall was attributable to the transport sector (-8.2 %) and the wholesale trade (-9.6 %), where the contraction of industrial activity had a direct impact.

CHART 6 TREND IN THE NET OPERATING RESULT
(contributions to the annual change in the net operating result, in percentage points, unless otherwise stated)



Source: NBB.

(1) Percentage annual change.

(2) Namely section M ("professional, scientific and technical activities") and N ("administrative and support services") in the NACE-Bel 2008 classification.

In 2010 the total value added of the non-manufacturing branches recovered (+5.2 %). The wholesale trade recorded a particularly vigorous upturn (+11 %), particularly in pharmaceuticals and petrochemicals. Temporary employment and recruitment agencies (+13.5 %) benefited greatly from the demand for labour resulting from the economic recovery. Conversely, growth was weaker in construction (+1.9 %) and in real estate (+0.2 %), but it should be noted that these two branches had been less affected than others by the recession. For one thing, they were supported by the recovery plans implemented by the government. Also, unlike other countries, Belgium did not have to contend with the bursting of a property bubble.

For the first time since 2007, the staff costs of the non-manufacturing branches rose more slowly (+2.2 %) than value added (+5.2 %). After contracting in 2009 (-1.2 %) the number of employees picked up in 2010 (+2.5 %), boosted by temporary employment agencies and more generally by business services. The growth of depreciations slowed significantly (+ 4%), in the context of a further fall in acquisitions of tangible fixed assets.

As a result of these developments, total operating expenses increased more slowly than value added in 2010 (+1.8 %). Consequently, after two years of decline, the operating result of the non-manufacturing branches staged a strong recovery (+22.4 %). Yet as in industry, this revival was not enough to fully offset the losses suffered during the recession.

Overall, in the past three years the fluctuations in the operating account have been less marked in the non-manufacturing branches. However, in view of their weight in the economy, these branches still made the largest contribution to the total variation.

3. Trend in the financial situation of firms

The financial analysis which follows is based on the theory of interpretation of the annual accounts from which several ratios have been borrowed. They are defined in detail in Annex 3.

The financial ratios are presented in the form of global figures and medians. The globalised ratios are obtained by taking the sum of the numerators of all companies and dividing it by the sum of their denominators. The median is the central value in an ordered distribution: for a given ratio 50 % of firms have a ratio above the median and 50 % have a ratio below the median. The two measures

are complementary since they focus on different points of interest. Since it takes account of the weight of each firm in the numerator and in the denominator, the globalised figure primarily reflects the situation of the largest firms. In contrast, by indicating the position of the central firm, the median reflects the picture for the population as a whole: it is in fact influenced equally by every firm, regardless of size.

In the past few years, to gain an idea of the various population strata, the analysis has been extended to cover the whole distribution. The box plot charts thus present not only the medians but also the 1st and 3rd quartiles and the 1st and 9th deciles. Those charts also give the winsorised averages for the 1st and 99th percentiles (the calculation method is explained in box 1). For analysing the ratios, the winsorised average is greatly preferable to the simple average because it is unaffected by extreme values.

3.1 Profitability

In this article profitability is first assessed on the basis of the net return on own funds. This figure, also referred to as return on equity, divides the net result after tax by the equity capital. That ratio indicates the return which shareholders receive after deduction of all expenses and taxes. In order to obtain a representative picture of the recurrent performance of firms, the net return is considered here exclusive of exceptional items.

Over 2008 and 2009 as a whole, the return on equity had dropped sharply, regardless of company size, in both global figures and medians. Taken as a whole, 2010 saw the end of this contraction (chart 7). The globalised ratio of large firms (excluding head office activities) recovered, to reach 7.1 %. On the one hand, the net profit of large firms rose strongly (+8.9 %) after declining for two years. Conversely, the increase in the equity capital (+9.4 %) tended to curb the rise in the ratio. Although small in comparison with previous years, this further increase in the equity capital is in line with a long-term trend towards improved solvency for Belgian companies (cf. below). The globalised ratio of large firms including the "head office activities" (sub-category 70 100 in NACE-BEL 2008) is given for information. This ratio is in fact depressed by the weight of equity capital in this branch which, though it concentrates more than one-third of the own funds of non-financial corporations, represents little more than 1 % of total value added⁽¹⁾. The globalised ratio of SMEs

(1) The "head office activities" branch essentially comprises finance companies which act as an internal banker within a group of companies.

CHART 7 RETURN ON EQUITY EXCLUDING THE EXCEPTIONAL RESULT
(in %)



Source : NBB.

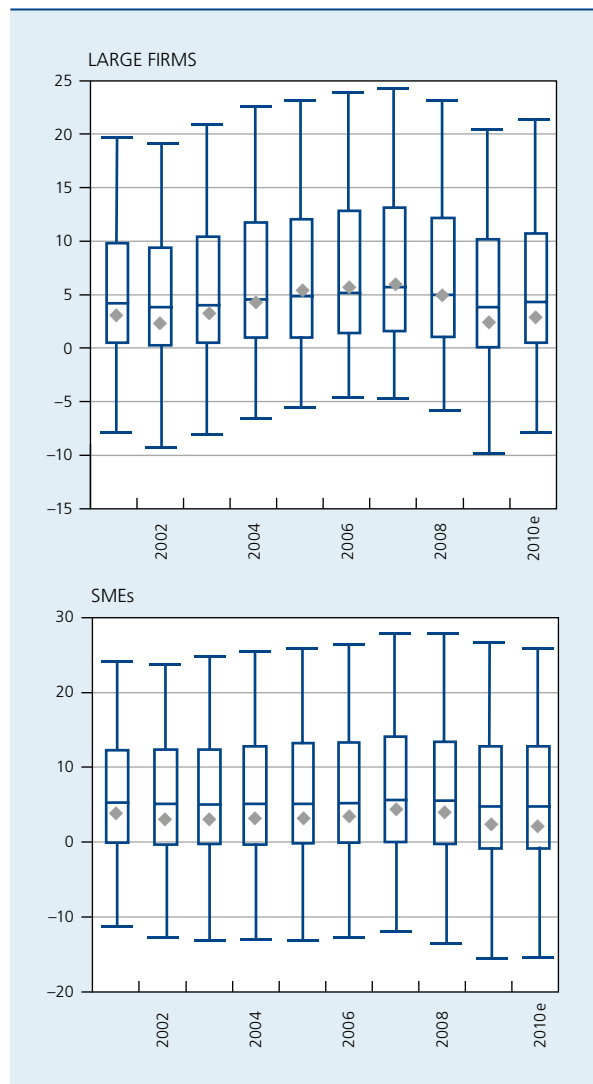
also increased in 2010 to reach 5.3%. Just as in the case of large firms, the increase in the net result was partly absorbed by the expansion of the equity capital.

The pattern presented by the median ratios shows that the decline in profitability was curbed throughout the population as a whole. However, the median increases are still modest, for all sizes of firms. In general, the return on equity in 2010 remained well below the peak levels achieved before the recession.

Furthermore, combined with the cyclical upswing, the improved financial performance encouraged firms to become less conservative in their profit allocation policy. Thus, after falling in 2009, the percentage of firms paying out dividends increased from 12.5% to 13.4%. The amounts paid out were also bigger.

Chart 8 shows the full distribution of the net return on total assets before taxes and debt interest. That ratio is preferable for studying the distribution, since it is available for all firms, unlike the return on equity which can only be calculated where the equity is positive. This ratio

CHART 8 DISTRIBUTION OF THE NET RETURN ON TOTAL ASSETS BEFORE TAX AND DEBT INTEREST
(in %)



Source : NBB.

is independent of the financing structure, and is therefore also known as the “economic return”.

Chart 8 reveals that, over the past decade, the economic cycle has influenced both the most and the least profitable strata of the population. Thus, the generally favourable economic climate from 2003 to 2007 coincided with an upward shift in the entire distribution. This was followed by a downward migration in 2008 and 2009, caused by the deteriorating economic situation, before a recovery in 2010, primarily for large firms. It should be noted that the greater dispersion of SMEs implies a visual narrowing of the differences in the chart relating to those firms.

3.2 Solvency

Solvency concerns the ability of firms to honour their short and long term liabilities. In this article, it is assessed according to three concepts: the degree of financial independence, the degree to which borrowings are covered by cash flow, and interest charges on financial debts. The concept of solvency is fundamental in the financial assessment of a company. It is also at the heart of the financial health model developed by the Bank (see section 3.3).

The degree of financial independence is equal to the ratio between the equity and the total liabilities. If the ratio is high, the firm is independent of borrowings, and that has two positive effects: first, interest charges are low and therefore do not weigh heavily on profits; next, new debts can easily be contracted if necessary, on good terms. The degree of financial independence can also be interpreted as a measure of the financial risk incurred by the firm, since the remuneration of third parties is fixed, in contrast to the firm's results which fluctuate over time.

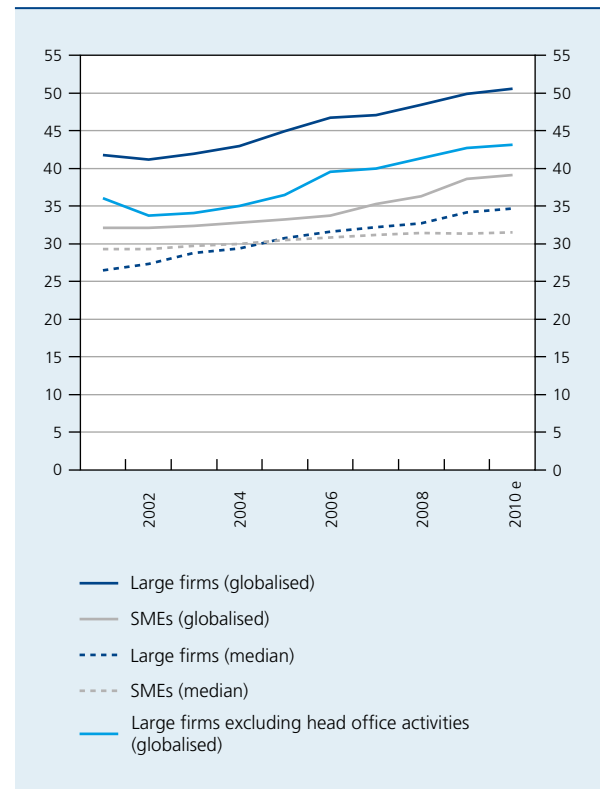
In 2010 the globalised degree of financial independence improved further to 43.1% for large firms (excluding head office activities) and 39.1% for SMEs (chart 9). The upward trend apparent for many years therefore persisted. In the space of ten years, the ratio has risen by more than 7 percentage points for both categories of firms.

Since the 2005 financial year, this long term trend has been encouraged by the introduction of the tax allowance for risk capital ("notional interest"). This measure led to a massive inflow of foreign capital into Belgium in the form of shares in Belgian companies. The foreign counterparties are mainly affiliated companies or companies with capital ties to the target company. If we exclude "head office activities", for which those inflows have been particularly significant, the ratio for large firms thus drops by more than 7 points. However, the year-on-year fluctuations remain much the same.

The upward trend in solvency applied to the entire population studied, as is evident from the medians. In the past ten years the median ratio has in fact gained 8.2 points in the case of large firms, and 2.2 points for SMEs. Since 2008, though the ratio has still risen significantly for large firms (+2.0 percentage points) the rise has been minimal for SMEs (0.07 points).

It must also be said that long-term debts hold an increasingly important position in total debts. In 2001, long-term debts represented 32% of the total debt burden of non-financial corporations, but by 2010 that had risen to 41%. The distribution of the portion of long-term

CHART 9 DEGREE OF FINANCIAL INDEPENDENCE
(in %)



Source: NBB.

debt also moved upwards during that period. While the median remained fairly stable, the third quartile increased from 47.6% in 2001 to almost 52% in 2010. This change in the financing structure can be considered favourable, as it increases the stability of the capital available to firms and limits the liquidity risks associated with short-term debt. Work on the financial health model developed by the Bank has also shown that short-term debt is a much more accurate predictive variable for failure than long-term debt.

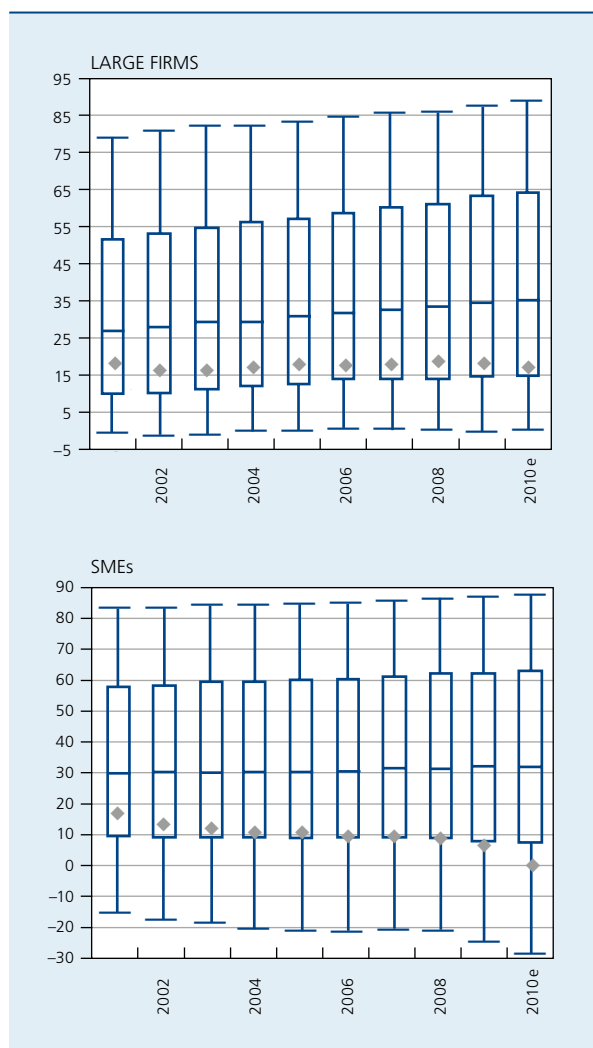
According to the full-format accounts, which permit accurate identification of this type of debt, the amounts which non-financial corporations owe to credit institutions increased in 2010 (+3.0%), following a sharp fall the year before. Over 2010 as a whole, the further decline in bank debt at up to one year (-7.0%) was more than offset by the expansion of bank debt at over one year (+10.3%).

Although chart 9 displays a picture of constantly improving financial independence, that conclusion has to be qualified following examination of the distribution as a whole (chart 10). For large firms, it is evident that the

increase in financial independence primarily benefited the most solvent strata in the population: since 2001, the gain has exceeded 10 points for the 9th decile, compared to just 0.5 points for the 1st decile. In the case of SMEs, the rise in the 9th percentile was smaller (+ 4.1 points), while the 1st quartile declined (-1.8 points) and the 1st decile showed a very sharp fall (-13.4 points). These declines at the bottom end of the distribution indicate that a large proportion of SMEs have moved in the opposite direction to the majority trend.

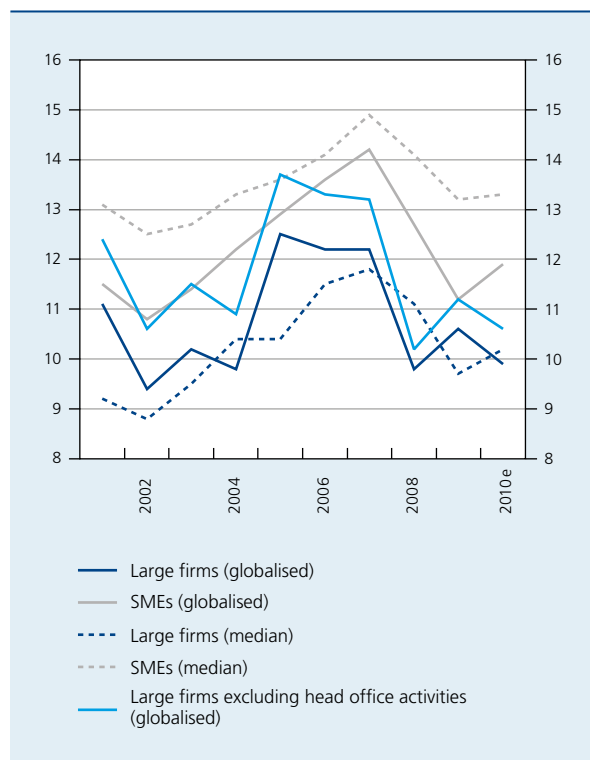
While the winsorised mean is relatively close to the median for profitability, it is at the level of the 1st quartile in the case of financial independence, reflecting a greater dispersion towards the lower values. This situation arises

CHART 10 DISTRIBUTION OF THE DEGREE OF FINANCIAL INDEPENDENCE (in %)



Source : NBB.

CHART 11 DEGREE TO WHICH BORROWINGS ARE COVERED BY CASH FLOW (in %)



Source : NBB.

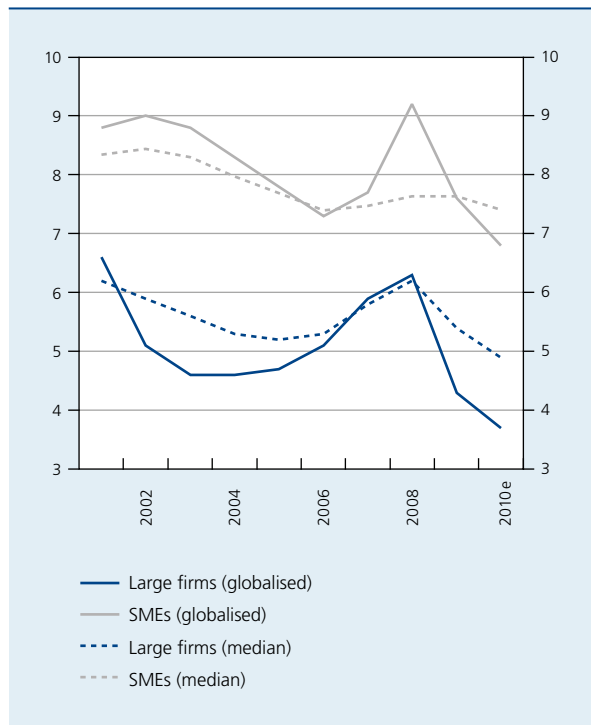
because the financial independence ratio has an upper limit (at 100 %), but no lower limit.

The degree of financial independence and its reciprocal, the debt level, provide a picture of the general equilibrium of the balance sheet figures. That picture is necessary for diagnosing solvency, but it is not sufficient, because it does not permit assessment of the firms' ability to repay their debts, or of the level of charges associated with those debts.

The repayment potential can be measured by the degree to which borrowings are covered by cash flow, i.e. the percentage of debts which the firm could repay by allocating the whole of the year's cash flow to that purpose⁽¹⁾. The inverse of that ratio gives the number of years which it would take to repay all the debts if the cash flow remained constant. The information given by this ratio completes that obtained from the financial independence

(1) The English term cash flow is used to refer to the net flow of liquidity generated by the firm, i.e. the difference between income received and expenses paid out. The cash flow, which thus represents the firm's ability to finance itself, is of vital importance for the firm's development: in particular, the firm can use its cash flow to finance new investments, pay its debts or distribute profits.

CHART 12 AVERAGE INTEREST CHARGES ON FINANCIAL DEBTS
(in %)



Source: NBB.

ratio, as a high debt level may be offset by a high repayment potential, and vice versa.

After having been under stress during the recession, the coverage of borrowings improved slightly in 2010 according to most of the measures studied (chart 11). However, just as in the case of the return on equity, this revival was not enough to restore the pre-recession levels.

It can be said that the globalised ratio for large firms sometimes fluctuates wildly. Thus, during the last two years under review it moved contrary to the general trend. In 2009 the increase in the ratio was due mainly to a large capital gain on the sale of fixed assets in the Agri-food industries. In 2010, a number of intra-group transfers led to the recording of debts to associated companies, counterbalanced on the assets side by cash investments or financial fixed assets.

The average interest charges on financial debts can be used to assess the cost of recourse to external sources of funding. In 2010, the ratio declined once again (chart 12). Over the last two years, the global ratio declined by more than 2 percentage points for both large firms and SMEs. In terms of medians, the decline was more modest,

particularly for SMEs. Overall, the movement in the ratio reflects the reduction in interest rates on bank loans in 2009 and 2010.

3.3 Results of the financial health model

3.3.1 Presentation of the model

In order to assess the financial position of firms, the Bank developed a financial health indicator based on the annual accounts. This indicator is designed as a weighted combination of variables, obtained by means of a model constructed in the same way as a failure prediction model. The model takes the form of a logistic regression discriminating between failing and non-failing companies. The definition of failure is based on a legal criterion, namely that a company is considered to have failed if it has faced bankruptcy or judicial administration in the past.

All the methodological elements underlying the construction of the model can be found in the Bank's Working Paper 213⁽¹⁾.

The goal of the indicator is to summarize the position of each company in a single value which takes account simultaneously of the solvency, liquidity and profitability dimensions. These dimensions are complementary in the establishment of a financial diagnosis, as a high debt level, for example, may be offset by a plentiful cash flow, and vice versa. The indicator also takes account of the companies' age and size, in particular via interaction variables.

The indicator is a strictly financial assessment of companies at a given point in time. The assessment is based on data from the annual accounts, and therefore disregards other fundamental elements such as development prospects, competition, management calibre or shareholders' willingness to provide financial support. In that respect, the indicator should be viewed as one of the elements permitting a comprehensive appraisal of a firm's situation.

The Bank initially aimed to have an indicator for all non-financial corporations filing annual accounts at the Central Balance Sheet Office: more than 300 000 observations for recent financial years. However, preliminary analysis revealed that some companies' data are difficult to interpret in a large-scale statistical model. Much of the preliminary work therefore consisted in determining the contours of a homogenous population, in order to

(1) Vivet D. (2011), *Development of a financial health indicator based on companies' annual accounts*, National Bank of Belgium, Working Paper 213.

guarantee a minimum level of reliability. Thus, the indicator is calculated for companies which meet the following conditions:

- they must pass the logical and arithmetical checks conducted by the Central Balance Sheet Office;
- the balance sheet total must be € 50 000 or more;
- the financial year must be equal to twelve months;
- legal form: public limited company, private limited company or cooperative society;
- conditions regarding content: current assets, borrowings, short-term borrowings and debts at up to one year must be greater than zero.

The population thus defined contains over 200 000 observations for the most recent financial years (234 274 in 2009). It is much larger than the populations examined in most comparable studies. Nevertheless, the model performs very well and the results are stable over time. The size of the population also implies that the results are very widely applicable

On the basis of the indicator, ten financial health classes were defined. Each class is associated with a specific risk level defined by the failure rate at three years observed in the past (table 3). The percentages in the table are calculated on the basis of all the annual accounts for the financial years 2000 to 2007, and therefore relate to failures which occurred between 2001 and 2010. This means that they are independent of the business cycle and very stable over time. In view of the number of observations used for the calculations (almost 1.6 million sets of accounts) they can be interpreted as reliable probabilities.

The failure rate comes to 0.09 in class 1, i.e. the class corresponding to the highest values of the financial health indicator. That rate means that, in the past, fewer than one in a thousand companies in that class failed at a 3-year horizon. The failure rate then increases steadily as we move from class 1 to class 10, what implicitly corresponds to a deterioration in the financial situation. The rate reaches 26.2 % in class 10, i.e. the class corresponding to the lowest values of the indicator. This means that, in the past, over a quarter of class 10 companies failed at a 3-year horizon.

Classes 1, 2, 3 and 4 are associated with below-average failure rates, and therefore correspond to a favourable financial situation. However, the rates are not zero, which means that these classes are not totally risk free. Conversely, classes 6, 7, 8, 9 and 10 are associated with above-average failure rates, and therefore correspond to a situation of vulnerability. That is why belonging to one of these classes can be interpreted as a warning sign, which becomes stronger as we move from class 6 to class 10.

TABLE 3 FAILURE RATE AND DISTRIBUTION OF COMPANIES AMONG THE FINANCIAL HEALTH CLASSES

(collection of annual accounts for the financial years 2000 to 2007, or 1 581 280 observations)

Financial health classes	In % of firms failing within three years	In % of companies belonging to the class
Class 1	0.09	8.42
Class 2	0.23	16.84
Class 3	0.48	15.98
Class 4	0.98	15.95
Class 5	2.45	24.58
Class 6	5.75	11.69
Class 7	10.31	4.65
Class 8	15.51	1.23
Class 9	19.71	0.46
Class 10	26.09	0.21
Total companies	2.37	100.00

Source : NBB.

Finally, class 5 is equivalent to the grey zone mentioned in the previous section. It corresponds to an average failure rate (2.3 %) and is therefore neutral in terms of interpretation.

It should be noted that the failure rates presented in table 13 concern companies in order of filing their annual accounts, and that failure to fulfil that statutory obligation is a warning signal prior to any financial diagnosis. Those rates also concern a specific definition of failure, namely bankruptcy or judicial administration situations at a 3-year horizon. If that horizon is extended to 5 or 10 years, the rates become markedly higher. Table 14 relating to the 1999 financial year shows that, in class 10 for example, the failure rate is 45.4 % at 10 years, compared to 37.3 % at 5 years and 27.8 % at 3 years.

Moreover, apart from bankruptcy, companies belonging to the last classes could be exposed to other undesirable consequences, such as payment default, restructuring, dissolution or liquidation. At a 10-year horizon, if we add to the bankruptcies the cases of companies which have disappeared for any other reason, the business cessation rate exceeds 60 % in class 10 and 50 % in classes 8 and 9. The continuity of companies positioned in the last classes is therefore seriously compromised sooner or later. Most of the companies remaining in business subsequently obtain financial support from their shareholders in the form of loans, capital increases or soaking up of losses.

3.3.2 Financial health

The first part of table 4 presents the distribution of companies among the financial health classes. We can see that, while the percentage of companies in the lowest classes had been constantly declining since 2003, that proportion showed a marked rise in 2008 and 2009 as a result of the recession. Thus, the percentage of companies in classes 7 to 10, i.e. the classes associated with a failure rate of at least 10 %, increased from 5.77 % (or 12 779 companies) in 2007 to 6.69 % (or 15 669 companies) in 2009. Moreover, the percentage of companies in classes 8, 9 and 10 had already risen slightly in 2007, probably because of the economic slowdown which gradually made itself felt from mid-2007.

According to the constant sample, the percentage of companies in the lowest classes declined in 2010, thanks to the

more favourable economic climate. However, as is clear from the last two columns in the table, the sample underestimates the percentage of companies in those classes. In particular, it takes no account of new companies or of companies which are late in filing their annual accounts, which are structurally more vulnerable. The picture for 2010 will therefore have to be confirmed once all the annual accounts are available.

It is also evident that the percentage of companies in the top classes increases in the long term. For instance, the proportion of companies in classes 1 and 2 increased from 24 % in 2003 to almost 31 % in 2009. The reason lies in the trend towards improvement in many ratios in the upper percentiles. Solvency, which is the dominant variable in the financial health model, typifies that trend (cf. chart 10).

The second part of table 4 reveals that the companies regarded as vulnerable are relatively small. For instance,

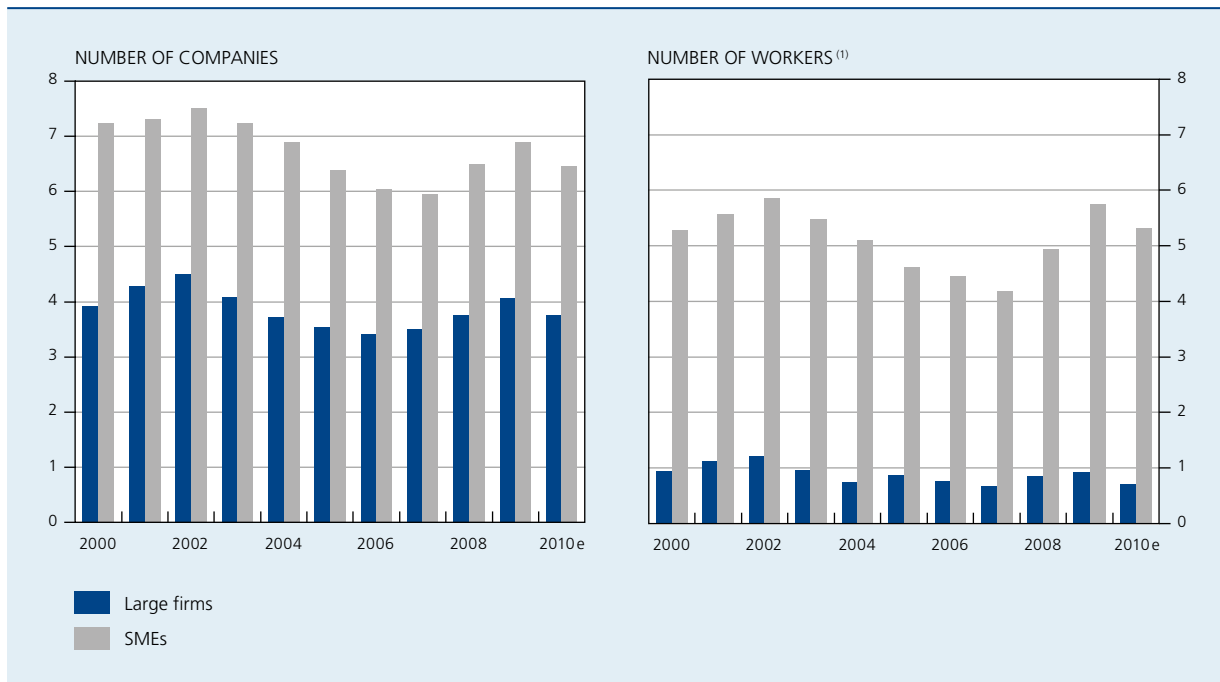
TABLE 4 DISTRIBUTION OF THE POPULATION AMONG THE FINANCIAL HEALTH CLASSES

	2003	2004	2005	2006	2007	2008	2009	Sample	
								2009	2010
In % of the number of companies									
Class 1	7.90	8.44	8.93	9.55	10.38	10.67	11.32	12.82	13.61
Class 2	16.24	16.94	17.64	18.32	18.92	19.02	19.26	20.98	21.65
Class 3	15.61	15.96	16.23	16.45	16.62	16.40	16.05	16.87	17.01
Class 4	16.04	15.88	15.91	15.79	15.64	15.34	14.95	15.04	15.02
Class 5	25.08	24.59	24.03	23.33	22.29	21.87	21.43	20.19	19.41
Class 6	12.12	11.54	11.08	10.69	10.38	10.40	10.30	8.90	8.51
Class 7	4.93	4.72	4.43	4.22	4.10	4.33	4.55	3.68	3.45
Class 8	1.31	1.27	1.16	1.08	1.08	1.22	1.32	1.00	0.86
Class 9	0.50	0.45	0.43	0.41	0.41	0.51	0.54	0.36	0.32
Class 10	0.26	0.21	0.17	0.16	0.18	0.24	0.28	0.17	0.15
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
In % of workers entered in the staff register⁽¹⁾									
Class 1	7.17	7.45	8.02	8.56	8.50	8.32	9.26	9.91	12.83
Class 2	21.70	23.74	23.97	26.15	26.70	26.79	27.20	28.71	27.91
Class 3	21.71	22.09	22.67	22.72	21.66	23.29	20.58	21.78	22.28
Class 4	18.68	19.53	18.78	17.80	19.98	16.95	18.40	18.67	18.58
Class 5	22.55	20.04	19.54	18.28	16.94	17.77	16.92	15.30	14.30
Class 6	5.79	5.02	4.95	4.53	4.41	4.74	5.17	4.09	2.83
Class 7	1.66	1.46	1.45	1.31	1.22	1.43	1.60	1.07	0.90
Class 8	0.45	0.42	0.40	0.37	0.35	0.42	0.49	0.28	0.22
Class 9	0.19	0.15	0.13	0.17	0.15	0.16	0.22	0.11	0.10
Class 10	0.10	0.11	0.09	0.10	0.09	0.13	0.17	0.07	0.05
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: NBB.

(1) Full-time equivalents (item 9087).

CHART 13 SHARE OF COMPANIES AND JOBS IN THE LOWEST FOUR FINANCIAL HEALTH CLASSES, ACCORDING TO SIZE
(in % of the total)



Source : NBB.
(1) Full-time equivalents.

the 6.69 % of companies in classes 7 to 10 in 2009 represented barely 2.47 % of the total number of workers on the staff register, or just over 40 000 jobs. Conversely, the proportion of jobs in the top four classes (i.e. classes in a sound financial position) came to 75 %.

Finally, SMEs are structurally more vulnerable than large firms (chart 13). In 2010, according to the estimates, 6.5% of SMEs were in fact in the lowest four classes, compared to 3.7% of large firms. In terms of jobs, the difference is greater since the proportion was 5.4% for SMEs and 0.7% for large firms. Despite these differences of level, the two categories of companies have followed a similar trend in the past ten years.

3.3.3 Transition matrix

The population concerned by the above statistics is not constant: every year, a number of companies join the population while others leave. In particular, numerous vulnerable companies disappear, contributing to a natural decline in the percentage of companies in the lowest classes. Moreover, the companies remaining in the population may move from one class to another, depending on their financial situation. Transition matrices can be used to study that type of movement.

Table 5 presents the transition matrix for 2008-2009. It compares the situation of the companies in the 2008 and 2009 financial years. The matrix comprises a main matrix showing the companies allocated to a class in 2008 and 2009, i.e. the companies for which an indicator was calculated for both years. The companies for which an indicator is only calculated for 2008 are allocated to the "failure" or "other" column. The "failure" column concerns companies which have disappeared following a failure in the sense defined above. The "other" column concerns companies which have disappeared for any reason other than bankruptcy (liquidation, dissolution, merger by takeover, etc.) and companies whose 2009 accounts do not satisfy the conditions for calculating the indicator. Finally, the last line of the matrix indicates the situation of new entrants, i.e. newly formed companies and pre-existing companies whose annual accounts fail to meet the calculation conditions for 2008 but satisfy them for 2009.

The diagonal of the main matrix indicates the proportion of companies not changing their class from one financial year to the next. It contains 49.6% of the companies in the main matrix. The tri-diagonal corresponds to the companies which have either not changed their class or have moved to an adjacent class. The tri-diagonal contains 86.8% of the companies in the main matrix, which

TABLE 5 FINANCIAL HEALTH CLASSES – TRANSITION MATRIX 2008-2009
(in %)

From / To	1	2	3	4	5	6	7	8	9	10	Bankruptcy ⁽¹⁾	Other ⁽²⁾	Total
1	70.1	19.2	3.5	1.3	0.5	0.1	0.0	0.0	0.0	0.0	0.0	5.2	100.0
2	15.3	55.5	15.6	5.5	2.8	0.5	0.1	0.0	0.0	0.0	0.1	4.7	100.0
3	3.0	24.7	39.3	16.9	8.7	1.2	0.3	0.0	0.0	0.0	0.2	5.6	100.0
4	1.1	8.0	22.2	34.9	22.1	3.6	0.8	0.1	0.0	0.0	0.5	6.6	100.0
5	0.5	2.8	7.2	17.2	46.7	12.6	3.0	0.5	0.2	0.1	1.2	8.2	100.0
6	0.2	0.8	2.0	5.0	27.4	36.3	11.2	2.0	0.6	0.3	2.9	11.3	100.0
7	0.1	0.6	0.9	2.1	11.6	25.9	28.1	7.3	2.3	0.9	5.6	14.6	100.0
8	0.0	0.3	0.6	1.2	6.0	13.6	25.2	17.0	6.1	2.6	9.7	17.7	100.0
9	0.2	0.3	0.5	0.8	4.0	8.1	17.7	17.0	13.0	7.0	11.7	19.7	100.0
10	0.4	0.0	0.4	0.6	3.0	3.9	9.1	14.6	13.1	19.1	16.3	19.6	100.0
New entrants ⁽³⁾	4.4	11.0	13.3	14.9	26.0	16.1	8.9	3.2	1.4	0.8	–	–	100.0

Source: NBB.

(1) Companies disappearing following a failure in the sense defined above.

(2) Companies disappearing for any reason other than bankruptcy (liquidation, dissolution, merger by takeover, etc.) and companies whose 2009 accounts do not satisfy the conditions for calculating the indicator (including companies which have failed to file their accounts).

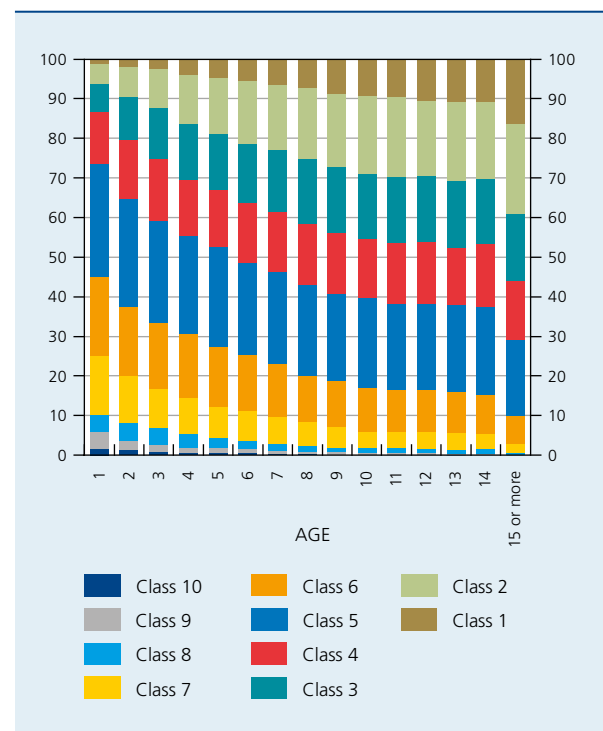
(3) Newly formed companies and pre-existing companies whose annual accounts failed to meet the conditions for calculating the indicator in 2008 but did satisfy them for 2009.

means that the company breakdown is fairly stable from one year to the next. For the record: changes by more than two classes are uncommon; they represent 3.4 % of companies in the main matrix.

The matrix also demonstrates that, every year, numerous companies in the lowest classes leave the model population. For instance, 36 % of the companies in class 10 in 2008 disappeared from the matrix in 2009 (16.3 % owing to bankruptcy, 19.6 % for other reasons), compared to just 5.2 % of companies in class 1. It should also be noted that the economic situation has an impact on the company distribution: in the matrix for 2008-2009, 30.0 % are found to the right of the diagonal (which means that they are moving towards a more vulnerable class or disappearing) compared to 27.6 % in the matrix for 2005-2006, for example.

Finally, it is evident that companies joining the matrix are much more vulnerable than others: 14.2 % of new entrants are in the lowest four classes, against 5.7 % of companies in the main matrix (in 2009). Young companies, which represent around half of the new entrants, have a particular influence on this figure. On this subject, chart 14 shows the distribution of companies among the classes according to age. It indicates that the older the companies, the more likely they are to be in the top classes and therefore the more financially sound they are. The impact of age on vulnerability is particularly marked in the initial years.

CHART 14 DISTRIBUTION OF COMPANIES AMONG THE FINANCIAL HEALTH CLASSES ACCORDING TO AGE⁽¹⁾
(2009, in %)



Source: NBB.

(1) The age is defined as the difference between the closing date and the date on which the company was formed. That difference, expressed as a number of years, is rounded up to the next unit.

4. Regional perspective

This section contains a regional analysis of the results and the financial position of firms. The analysis is based on a breakdown of the annual accounts according to the region where the firms are located. The methodology used for that breakdown is explained in section 4.1. The subsequent sections set out the findings.

4.1 Methodology

The regional breakdown of the annual accounts is based on the data from the National Accounts Institute.

Single-region firms, i.e. companies whose registered office and operating establishment(s) are located in one and the same region, are assigned immediately to a region. In 2009 the population comprised 313 229 single-region firms, or 99.6 % of the firms studied in this article. Most of them are relatively small: almost 60 % of these firms have no workers on the staff register, and their average value added is less than € 400 000.

In 2009 there were 1 402 multi-region firms, i.e. firms located in more than one region, of which 386 were operating in three regions and 1 016 in two. Multi-region firms are generally large businesses: their average value added exceeds € 31 million. For these firms, the annual accounts items were broken down in proportion to the number of jobs in each region, which amounts to assuming that jobs are proportionate to the items in the accounts. Multi-region firms represent just over a quarter of total value added (see below), so that this assumption does not affect the main part of the regional breakdown. The National Accounts Institute also uses the proportional method for compiling the regional accounts.

Chart 15 presents the regional breakdown of the value added obtained following these procedures. In 2010, Brussels firms represented 16.9 % of total value added, of which 10.5 % was generated by single-region firms and 6.4 % by multi-region firms. Flanders represented 62.3 % of the total (47.7 % + 14.6 %) and Wallonia 20.8 % (15.1 % + 5.7 %). Single-region firms, despite their relatively small size, are so numerous that they represent almost three-quarters of total value added. The choice of aggregate considered may significantly alter the regional breakdown: for instance, Brussels represents a much larger share of the balance sheet total (32.2 %), because many firms have their registered office there.

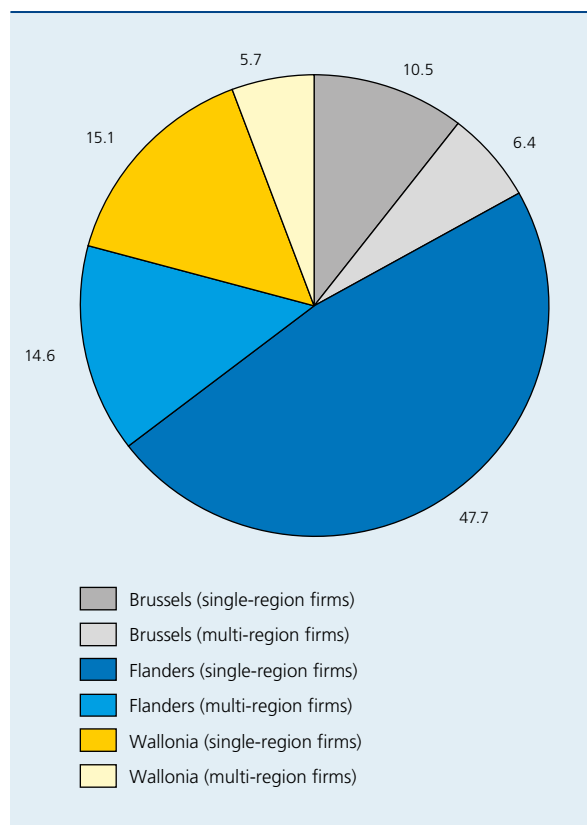
By taking account of each registered office and each operating establishment, it is possible to achieve a better

regional breakdown than just on the basis of registered offices, as such a method in fact implies distortions in the case of multi-region firms, and more particularly an over-estimate of the share allocated to Brussels: if only the registered offices according to the Central Enterprise Data Bank are considered, Brussels represents 27.4 % of value added, Flanders 56.0 % and Wallonia 16.6 %.

The sectoral breakdown of value added reveals certain specific regional characteristics (table 6). Brussels is notable for a strong focus on non-manufacturing branches (over 90 % of value added) particularly telecommunications, IT services, head office activities (“other service activities” group) and real estate. Conversely, construction and activities relating to transport are less developed in the capital.

Flanders and Wallonia are generally more similar to one another in their regional structure, with a much larger proportion of manufacturing industry, in the order of 30 %. Nevertheless, there are still differences of structure between the two regions in several respects. For

CHART 15 REGIONAL BREAKDOWN OF VALUE ADDED IN 2010
(in %)



Source : NBB.

TABLE 6 REGIONAL STRUCTURE OF VALUE ADDED IN 2009
(in % of the total)

	Brussels	Flanders	Wallonia	Belgium
Manufacturing industry	8.6	29.8	30.8	26.4
of which:				
Agri-food industries	1.6	5.0	4.4	4.3
Textiles, clothing and footwear	0.3	1.2	0.3	0.9
Wood, paper and printing	0.5	2.2	2.1	1.9
Chemical and pharmaceutical industries	2.3	6.8	9.8	6.7
Metallurgy and metalworking	0.5	4.0	4.8	3.6
Metal manufactures	2.7	5.6	4.8	4.9
Non-manufacturing branches	91.4	70.2	69.2	73.6
of which:				
Trade	18.2	21.5	20.7	20.7
Transport and storage	4.7	9.8	8.4	8.6
Hotels, restaurants and catering	3.5	1.5	1.6	1.8
Information and communication	17.4	5.2	4.7	7.1
Real estate activities	5.5	2.4	2.1	2.8
Other service activities ⁽¹⁾	21.9	14.8	10.6	15.1
Energy, water and waste	9.3	4.2	6.7	5.6
Construction	4.3	8.0	8.1	7.4
Total	100.0	100.0	100.0	100.0

Source: NBB.

(1) Other service activities include legal and accountancy services, head office and management board activities, architectural and engineering activities, research and development, advertising and market research, leasing and employment-related activities.

example, in the “Chemical and pharmaceutical industries” category, Wallonia is active mainly in pharmaceuticals while Flanders is more involved in basic chemicals. Comparatively speaking, the wholesale trade is also more developed in Flanders, particularly in commodities and industrial products.

Apart from these sectoral differences, it should be noted that the proportion of value added generated by SMEs is lower in Brussels (18%) than in Flanders (29%) and Wallonia (28%). In terms of the number of businesses, on the other hand, Brussels has more very small firms: 35% of Brussels firms generate value added of less than € 10 000, compared to 24% of Flemish firms and 25% of those in Wallonia.

Since these structural differences have a direct influence on the results and financial position of firms, the regional data presented below must be interpreted with caution. In particular, the findings for Brussels firms must be

considered in the light of their specific features, including their great dispersion.

4.2 The main components of the operating account

In recent years, the regions have all seen a similar trend in value added: in the three regions, value added increased steadily from 2001 to 2008, then contracted in 2009 and picked up again in 2010 (table 7).

In the recent period, the wholesale trade has been a major factor in the fluctuations in activity in Brussels. In Flanders and Wallonia, the movements were determined mainly by the manufacturing branches, particularly metallurgy and manufacture of metallic products. In Wallonia, activity was supported by the increase in the sales and margins of the pharmaceutical industry, even at the height of the recession.

TABLE 7 TREND IN THE MAIN COMPONENTS OF THE OPERATING ACCOUNT, BY REGION
(percentage changes compared to the previous year)

	2005	2006	2007	2008	2009	2010 e	In % of value added 2010 e
Brussels							
Value added	3.7	4.8	0.6	4.8	-6.0	6.4	100.0
Staff costs	2.2	-0.3	5.4	3.1	0.7	1.1	51.2
Depreciation and downward value adjustments ⁽¹⁾	0.2	8.5	1.0	5.1	11.4	4.8	18.5
Other operating expenses	4.1	23.4	-25.3	44.7	-5.8	-3.6	11.8
<i>Total operating expenses</i>	2.1	4.7	-0.5	8.6	1.8	1.2	81.5
Net operating result	9.4	5.2	4.5	-7.3	-35.4	36.9	18.5
Flanders							
Value added	5.0	6.3	7.6	2.1	-3.0	5.8	100.0
Staff costs	3.1	5.4	7.5	6.1	-0.3	2.5	57.9
Depreciation and downward value adjustments ⁽¹⁾	4.3	6.1	8.5	6.9	5.5	1.4	18.0
Other operating expenses	7.0	2.0	2.0	-0.4	-5.4	-7.1	4.5
<i>Total operating expenses</i>	3.6	5.3	7.3	5.8	0.6	1.7	80.5
Net operating result	10.3	10.0	8.7	-10.9	-17.9	27.2	19.5
Wallonia							
Value added	4.6	6.6	8.5	4.4	-2.8	6.4	100.0
Staff costs	3.6	5.0	8.0	5.8	0.1	1.8	59.4
Depreciation and downward value adjustments ⁽¹⁾	1.8	0.6	12.6	6.9	3.7	5.8	17.9
Other operating expenses	10.6	32.1	-7.9	1.5	0.5	-0.6	4.9
<i>Total operating expenses</i>	3.6	5.7	7.7	5.7	0.8	2.5	82.2
Net operating result	9.6	10.6	11.9	-1.3	-19.8	29.7	17.8

Source: NBB.

(1) On tangible and intangible fixed assets and start-up costs (item 630).

Owing to its specific characteristics and relatively small size, the Brussels economy is more sensitive to developments concerning certain large firms, which may lead to erratic variations. For instance, the weak growth of Brussels value added in 2007 was due mainly to the significant restructuring in the motor vehicle industry. Brussels is also notable for the greater weight of "other operating expenses" (item 640/8 in the annual accounts), due largely to the excise duty recorded in the fuel trade.

In the three regions, staff costs make up the major part of the operating expenses: in 2010 they represented 51.2 % of value added in Brussels, 57.9 % in Flanders and 59.4 %

in Wallonia. Following a very small rise or even a fall in 2009, staff costs increased again in the three regions in 2010 owing to the rise in the number of workers.

Depreciation is the next biggest operating expense after staff costs: in 2010 depreciation came to between 18 and 19 % of value added, depending on the region considered. Brussels was notable for a large increase in depreciation in 2009, due mainly to investment by Infrabel. In Flanders the increase in depreciation eased from 2008 to 2010, as a result of the slowdown and subsequent contraction of investment in tangible fixed assets. Wallonia recorded a similar pattern in 2008 and 2009, before depreciation picked up again in 2010, a major factor

being the capitalisation of research and development costs in the pharmaceutical industry.

Owing to the changes in staff costs and depreciation, total operating expenses in the three regions rose more slowly than value added in 2010. After falling for two years, the net operating result therefore recovered strongly: +36.9% in Brussels, +27.2% in Flanders and +29.7% in Wallonia. In the past decade, industry has had a much bigger impact on the movement in the operating result in Flanders and Wallonia.

4.3 The financial position of firms

This section presents regional statistics for profitability, financial independence and the results of the financial health model.

To avoid double counting, the statistics for distribution and frequency are based on a majority regional breakdown: to obtain these statistics, multi-region firms are assigned entirely to the region where they record the largest number of jobs. There are very few of these companies (see above), so that the method has negligible impact.

4.3.1 Profitability

In the past decade, the three regions have followed similar trends in profitability. On average, over the period as a whole, Flemish firms of all sizes have recorded higher profitability, whatever the measure considered (chart 16). The difference between Wallonian and Flemish firms has, however, diminished in recent years; in some cases it has even been reversed. This section begins by presenting the results for the return on equity and the return on the operating assets. Points relating to the distribution of the net return on the total assets are then discussed; on that basis it is possible, for instance, to identify certain specific characteristics of the Brussels Region.

4.3.1.1 Return on equity

In globalised terms, over the past ten years, large Flemish firms have enjoyed a higher return on equity. That is due mainly to one company active in oil refining, which receives dividends from a number of foreign subsidiaries. The stakes owned in the latter are financed mainly by bank loans, so that the equity is low in comparison with the dividend income. That is reflected in

a high return on equity which, in view of the amounts involved, has a significant influence on the regional total. Expressed in relation to the total assets rather than the equity, the profitability gap between Flanders and the other two regions is smaller. It should also be noted that the difference between the regions has declined in the past few financial years. In 2010, in particular, the globalised profitability exhibited a much more favourable trend for large Wallonian firms, so that the gap between them and their Flemish counterparts has largely disappeared. The recovery of large Wallonian firms in 2010 is due mainly to the manufacturing branches, namely pharmacy and iron and steel. The stagnation of Flemish and Brussels firms is attributable largely to the decline in the financial results.

In median terms, the difference between large Wallonian and Flemish firms has gradually dwindled to the point where, since 2009, the Wallonian median has matched the level of the Flemish median. In contrast, the gap between the Brussels median and that of the other two regions widened over the same period. The median of large Brussels firms was affected by the downward shift in the distribution of the non-manufacturing branches, including the retail trade, real estate, hotels, restaurants and catering, and construction.

The SME ratio improved in the three regions in 2010, in terms of globalised figures and medians. The global movements tend to be larger for Brussels SMEs, particularly on account of the fluctuations in the wholesale trade and real estate in the capital. After declining slowly throughout the decade, the median of Wallonian SMEs drew level with that of Flemish SMEs in 2009. However, the profitability measure selected influences the findings: the median of the return on the total assets is still higher in Flanders for all sizes of firms.

4.3.1.2 Return on operating assets

Another point of comparison concerns the return on operating assets, namely the ratio between the net operating result and the operating assets. That ratio neutralises the impact of financial factors on corporate profitability. In this article, operating assets are defined in the same way as in Ooghe and Van Wymeersch (2006)⁽¹⁾:

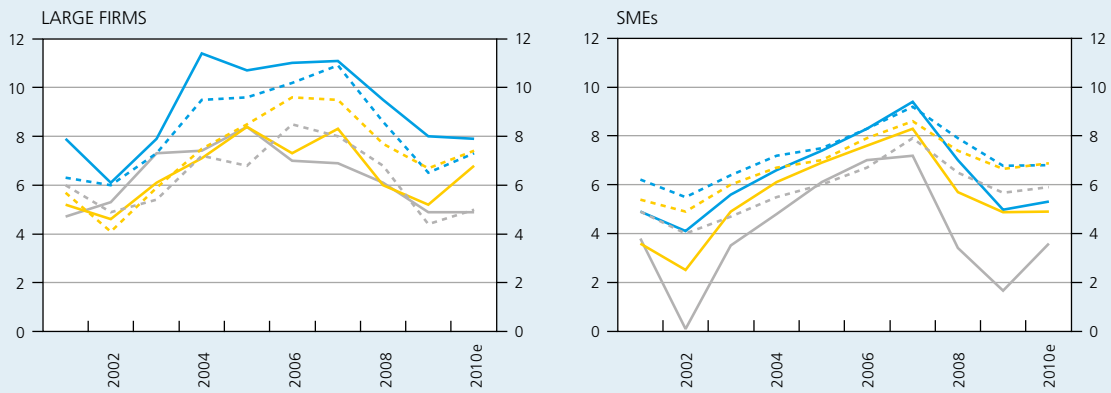
Operating assets = start-up costs + intangible fixed assets + tangible fixed assets + inventories and work in progress + receivables at up to one year + adjustment accounts.

The other assets (financial investments, receivables at over one year, cash investments and liquid resources) are regarded as financial assets and are not included in the ratio's denominator.

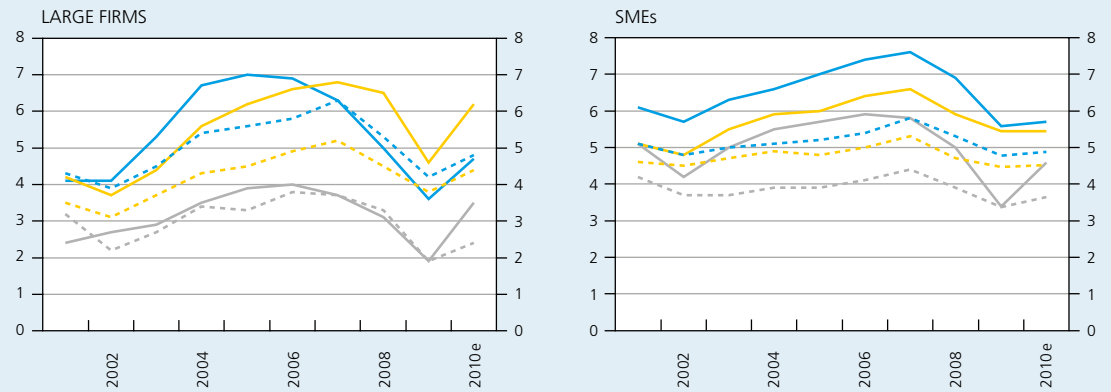
(1) Ooghe and Van Wymeersch (2006), *Handboek financiële analyse van de onderneming*, Intersentia, Antwerp-Oxford.

CHART 16 PROFITABILITY OF FIRMS, PER REGION

RETURN ON EQUITY EXCLUDING EXCEPTIONAL RESULTS ⁽¹⁾
(in %)

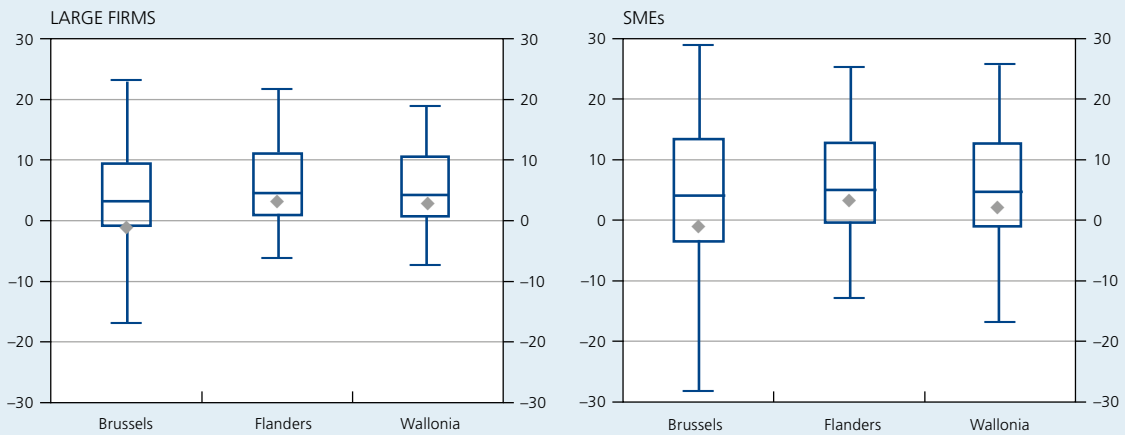


RETURN ON OPERATING ASSETS
(in %)



— Brussels (globalised) - - - Brussels (median)
— Flanders (globalised) - - - Flanders (median)
— Wallonia (globalised) - - - Wallonia (median)

DISTRIBUTION OF THE RETURN ON TOTAL ASSETS BEFORE TAXES AND DEBT INTEREST
(in %, estimates for the 2010 financial year)



Source: NBB.
(1) Excluding head office activities.

Unlike the return on equity, the operating return of large firms recovered strongly in the three regions in 2010. Moreover, since 2007 the global ratio for large Wallonian firms has been higher than that for large Flemish firms. In terms of medians, for both large firms and SMEs, the ratio of Flemish firms has been higher throughout the period under review. However, the gap in relation to Wallonian firms has narrowed in recent years.

4.3.1.3 Distribution factors

The above findings should be read in the light of the total distributions. The third part of chart 16 presents the distribution of the return on the total assets before taxes and debt interest. This ratio is preferable for analysing the distribution as a whole, since it is calculated for all firms.

In general, the Flemish distributions are closer to the higher values, for all sizes of firms. The chart also illustrates the specific feature of the Brussels distributions. On the one hand, they are much more dispersed towards the lower values: in 2010 the 1st decile of SMEs was equal to -28% in Brussels, compared to -13% in Flanders and -17% in Wallonia. But on the other hand, the Brussels distributions are also more dispersed towards the higher values: in 2010 the 9th decile of SMEs reached 29% in Brussels, compared to 25% in Flanders and Wallonia. In short, Brussels has a higher proportion of firms with low profitability, but it also has more highly profitable firms. This greater dispersion is due mainly to the smaller size of Brussels firms and their specialisation in the tertiary sector, two factors which tend to heighten the volatility of the financial ratios.

4.3.2 Degree of financial independence

In the past ten years, financial independence has improved in the three regions for all sizes of firm and regardless of the criterion (chart 17).

In global terms, the biggest rise occurred in large Brussels firms, where the ratio gained almost 11 points in the space of ten years. Brussels benefited especially from the reinforcement of the equity capital in certain corporate head offices based in its territory. The globalised ratio for large firms also increased in the other two regions, but to a lesser extent (+5.4 percentage points in Flanders, +5.0 points in Wallonia).

In the three regions, the upward trend applied to all large firms: since 2001, the median financial independence has increased by 9.2 percentage points in Flanders, 6.2 in Brussels and 5.7 in Wallonia. As a result, the

difference between the Flemish median and the Brussels and Wallonian medians has gradually widened over time. Most of the branches studied contributed to this picture. As in the case of the profitability ratios, the Brussels distribution is much more dispersed, including towards the higher values (second part of chart 17). In particular, in 2010 the third quartile and the ninth decile of large firms were higher in Brussels than in the other two regions.

The globalised ratio for SMEs also exhibited an upward trend: over ten years it gained 7.9 percentage points in Flanders, 7.2 in Wallonia and 2.5 in Brussels. During the past decade as a whole, the global independence of Flemish SMEs has been higher in most of the branches covered; in 2009 it was boosted by a large issue premium recorded in the energy branch. In Brussels and Wallonia, the globalised ratio for SMEs was bolstered in 2007 and 2008 by capital increases in business services and in real estate.

Finally, the median solvency of SMEs recorded a more moderate increase: over a ten-year period it gained 2.9 percentage points in Flanders and 1.7 in Wallonia. In Brussels it remained stable (+0.0 percentage points). In 2010 the Flemish distribution was closer overall to the higher values. Finally, it should be noted that in the three regions the 1st quartile and the 1st decile of SMEs deteriorated in the past decade. A large fraction of the population in each region therefore moved contrary to the majority upward trend. This phenomenon was particularly marked in Brussels.

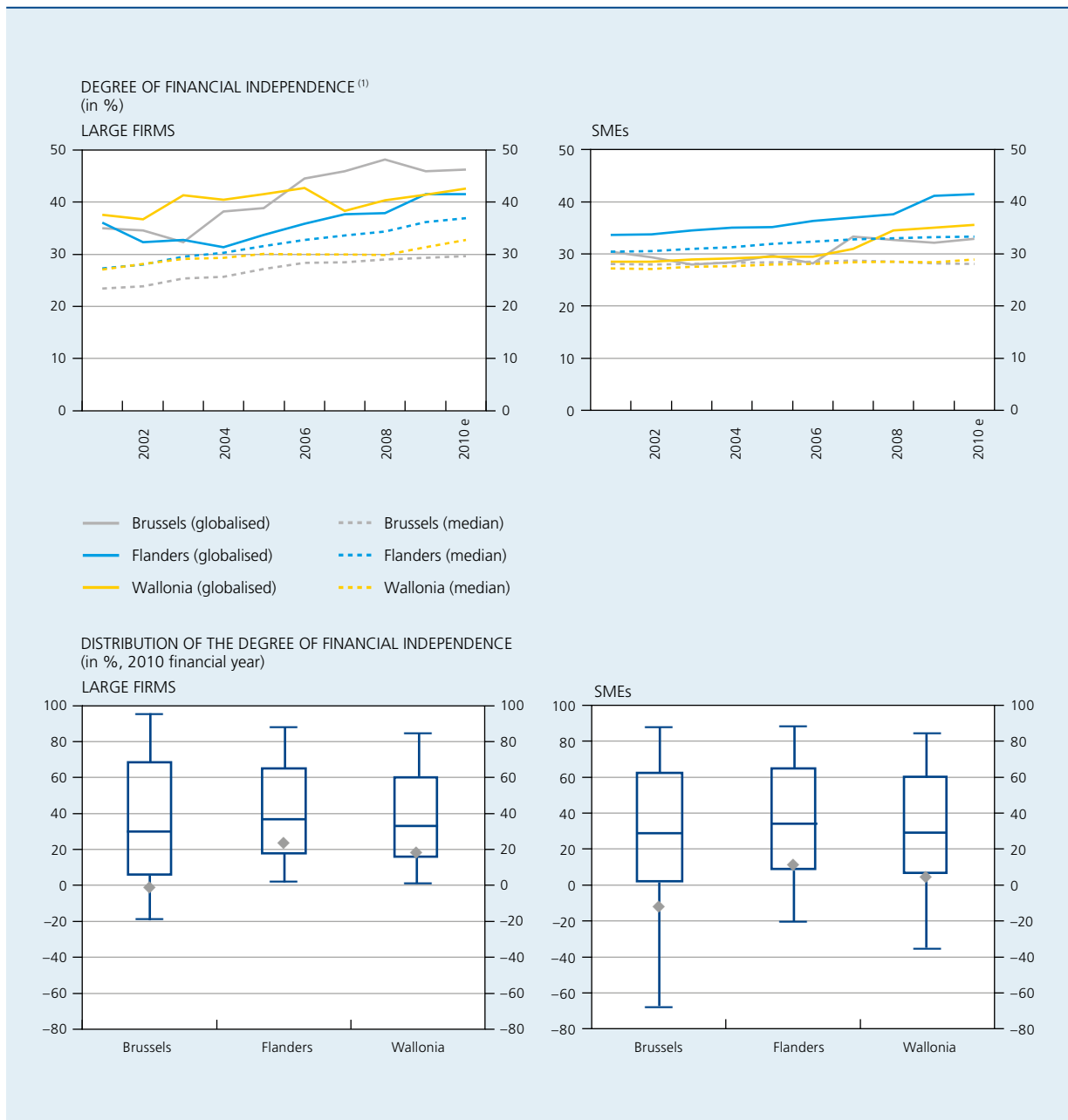
4.3.3 Financial health

Annex 7 shows the distribution of firms across the financial health classes. These are defined in section 3.3.1. The table reveals that the regional trends were similar in recent years. In the three regions, the proportion of firms in the lower classes increased markedly during the recession: between 2007 and 2009 the percentage of firms in classes 7 to 10, i.e. the classes associated with a bankruptcy rate at three years of at least 10%, increased from 7.91% to 8.87% in Brussels, from 5.24% to 6.11% in Flanders and from 6.09% to 7.13% in Wallonia⁽¹⁾. In 2010, according to the constant sample, the percentage of firms in the lowest classes declined in all three regions, as a result of the more favourable economic climate.

For a number of years, the percentage of firms considered sound has been rising in the three regions. Between 2003 and 2009, the proportion of firms in the top two classes,

(1) In Brussels and Wallonia the percentage had already risen slightly in 2007, as a result of the economic slowdown during the second half of 2007.

CHART 17 SOLVENCY OF FIRMS, BY REGION



Source: NBB.
 (1) Excluding head office activities.

i.e. the ones associated with a bankruptcy rate of 0.23 % or lower, increased from 24.37 % to 28.15 % in Brussels, from 25.01 % to 32.12 % in Flanders and from 21.44 % to 27.52 % in Wallonia. According to the constant sample, this upward trend continued in 2010.

Taken as a whole, Flemish firms are generally less vulnerable. However, that finding should be qualified in the light of the differences in the economic structure

between the regions. For example, the distribution among the financial health classes varies according to size. Thus, the proportion of large firms in the lowest four classes is smaller in Wallonia: in 2009 the figure was 6.0 % in Brussels, 3.7 % in Flanders and 3.4 % in Wallonia. The percentage of large firms in the top two classes is higher in Brussels: in 2009 it was 37.1 % in the capital, compared to 35.1 % in Flanders and 33 % in Wallonia.

Conclusion

The cyclical upswing in 2010 had a favourable impact on the operating account of non-financial corporations. After falling in 2009 for the first time in 15 years, total value added at current prices grew by 6% in 2010. At the same time, staff costs recorded a further rise, albeit relatively moderate, while the growth of depreciation slowed for the third year running, against the backdrop of a further decline in investment. Overall, operating expenses increased at a significantly slower pace (+1.8%) than value added.

This combination of cost control and a revival in activity led to a strong surge in the net operating result in 2010 (+29.2%), following a 28% decline over 2008 and 2009 taken together. Although the operating result recorded in 2010 (€ 33.1 billion) is still below the pre-recession peak (€ 35.7 billion in 2007), the improving economic climate therefore enabled firms to wipe out most of the recession's impact on their performance. Moreover, the net operating result had more than doubled between 2001 and 2007. In the last three years considered, the manufacturing branches and large firms recorded larger fluctuations in the operating account owing to their greater sensitivity to foreign demand.

Macro-economic developments also had an influence on the financial position of firms. Following a sharp fall in 2008 and 2009, the return on equity recovered in 2010, in terms of both medians and global figures. Whatever the criterion considered, however, the ratio remained well below the pre-recession peaks. Examination of the overall distribution indicates that the economic conditions influenced both the most profitable and the least profitable strata of the population.

Generally speaking, solvency also improved in 2010. The median and global figures for financial independence increased again, in line with the upward trend of the past fifteen years. Nevertheless, it seems that the rise mainly benefited the most solvent population strata, and numerous firms moved in the opposite direction to the majority trend, particularly in the SME group. The degree to which borrowings are covered by cash flow improved in 2010 according to most of the criteria considered, reflecting an increase in the capacity to repay debts. Finally, the average interest charges on financial debts declined for the second consecutive year. The movement in the ratio reflects the lower interest rates charged on bank loans in 2009 and 2010.

According to the results of the financial health model developed by the Bank, firms became less vulnerable in

2010: after a substantial rise in 2008 and 2009 owing to the recession, the percentage of firms in the lowest financial health classes – i.e. the classes corresponding to a high risk of bankruptcy – declined in 2010. The rise in the number of bankruptcies was much more moderate than in previous years.

The last part of the article places the analysis of the annual accounts in a regional perspective. The regional breakdown is based on data from the National Accounts Institute which give details of employment in firms for each registered office and each operating establishment. Single-region firms, i.e. firms whose registered office and operating establishment(s) are located in one and the same region, are assigned immediately to a region. In the case of multi-region firms, i.e. firms located in more than one region, the items in the annual accounts are broken down in proportion to employment in each region, which amounts to assuming that employment is proportionate to the accounting items.

The sectoral breakdown of value added and the analysis of firm size reveal some specific regional characteristics. In particular, Brussels is notable for a strong focus on services and a higher proportion of small firms. As differences of this type have a direct influence on the findings and the financial position of firms, the statistics should be interpreted with caution.

Overall, in recent years the regional trends in the operating account have been similar. In the three regions, value added increased steadily between 2001 and 2008, before contracting in 2009 then picking up again in 2010. The net operating result recovered strongly in 2010 after two years of marked erosion.

On average, over the past decade as a whole, Flemish firms have been the most profitable, regardless of size or the criterion considered. However, the gap between Wallonian and Flemish firms has narrowed considerably in recent times; in some cases it has actually been reversed. Analysis of the full distributions also shows that while Brussels has a higher proportion of firms with low profitability, it also has more highly profitable firms. This greater dispersion of Brussels firms is due mainly to their smaller size and their specialisation in the tertiary sector, two factors which tend to accentuate the volatility of the financial ratios.

Financial independence improved in the three regions in recent years, for firms of all sizes regardless of the criterion studied. In global terms, the strongest rise occurred in large Brussels firms, which benefited especially from the strengthening of the equity capital in certain corporate head offices. In terms of medians, financial independence

increased faster in Flanders for all sizes of firms. Moreover, as in the case of the profitability ratios, the Brussels distribution is considerably more dispersed. Finally, in each of the regions, the 1st quartile and the 1st decile of SMEs have deteriorated in the past ten years. A significant fraction of the population in each region has therefore moved counter to the majority upward trend.

Annex 1

COMPOSITION AND REPRESENTATIVENESS OF THE CONSTANT SAMPLE 2009-2010

(sample taken on 12 October 2011)

	Firms in the sample 2009-2010	All non-financial corporations in 2009	Representativeness of the sample, in %
Number of companies	182 432	314 631	58.0
Large firms	14 041	18 476	71.2
SMEs	168 391	296 155	56.8
Manufacturing industry	13 012	21 941	58.8
Non-manufacturing branches	169 420	292 690	57.6
Value added (in € million)⁽¹⁾	137 862	164 138	84.0
Large firms	112 208	120 379	93.2
SMEs	25 655	43 760	58.6
Manufacturing industry	40 749	43 301	94.1
Non-manufacturing branches	97 113	120 837	80.4
Total assets (€ million)⁽²⁾	1 171 361	1 424 392	82.2
Large firms	1 044 397	1 208 724	86.4
SMEs	126 963	215 668	58.9
Manufacturing industry	280 120	283 430	98.8
Non-manufacturing branches	891 239	1 140 962	78.1

Source: NBB.

(1) For firms in the constant sample, the value added taken into account is the 2009 figure.

(2) For firms in the constant sample, the balance sheet total taken into account is the 2009 figure.

Annex 2

SECTORAL GROUPINGS

	NACE-BEL 2008 divisions
Manufacturing industry	10-33
of which:	
Agri-food industries	10-12
Textiles, clothing and footwear	13-15
Wood, paper products and printing	16-18
Chemicals and pharmaceuticals	20-21
Metallurgy and metalworking	24-25
Metal manufactures	26-30
Non-manufacturing branches	01-09, 35-82, 85.5 and 9⁽¹⁾
of which:	
Trade	45-47
Transportation and storage	49-53
Accommodation and food service activities	55-56
Information and communication	58-63
Real estate activities	68
Other service activities	69-82
Energy, water supply and waste	35-39
Construction	41-43

(1) Except 64, 65, 75, 94, 98 and 99.

Annex 3

DEFINITION OF THE RATIOS

	Item numbers allocated	
	in the full format	in the abbreviated format
1. Return on equity		
Numerator (N)	9904	9904
Denominator (D)	10/15	10/15
Ratio = $N/D \times 100$		
Conditions for calculation of the ratio:		
12-month financial year		
$10/15 > 0^{(1)}$		
2. Net return on total assets before tax and debt servicing		
Numerator (N)	$9904 + 650 + 653 - 9126 + 9134$	$9904 + 65 - 9126 + 67/77$
Denominator (D)	20/58	20/58
Ratio = $N/D \times 100$		
Condition for calculation of the ratio:		
12-month financial year		
3. Degree of financial independence		
Numerator (N)	10/15	10/15
Denominator (D)	10/49	10/49
Ratio = $N/D \times 100$		
4. Degree to which borrowings are covered by cash flow		
Numerator (N)	$9904 + 630 + 631/4 + 6501 + 635/7 + 651 + 6560 - 6561 + 660 + 661 + 662 - 760 - 761 - 762 + 663 - 9125 - 780 + 680$	$9904 + 631/4 + 635/7 + 656 + 8079 + 8279 + 8475 - 8089 - 8289 - 8485 - 9125 - 780 + 680$
Denominator (D)	$16 + 17/49$	$16 + 17/49$
Ratio = $N/D \times 100$		
Condition for calculation of the ratio:		
12-month financial year		
5. Average interest expense on financial debt		
Numerator (N)	650	$65 - 9125 - 9126$
Denominator (D)	$170/4 + 42 + 43$	$170/4 + 42 + 43$
Ratio = $N/D \times 100$		
Condition for calculation of the ratio:		
12-month financial year		
6. Return on operating assets		
Numerator (N)	9901	9901
Denominator (D)	$20 + 21 + 22/27 + 3 + 40/41 + 490/1$	$20 + 21 + 22/27 + 3 + 40/41 + 490/1$
Ratio = $N/D \times 100$		
Condition for calculation of the ratio:		
12-month financial year		

(1) Condition valid for the calculation of the median but not for the globalised ratio.

Annex 4

TABLE 1 LARGE FIRMS – COMPONENTS OF THE OPERATING ACCOUNT
(in € million, current prices)

	2006	2007	2008	2009	2010 e
Value added	117 677	122 744	126 154	120 379	128 661
Staff costs	(–) 66 685	70 119	74 034	73 465	74 852
Depreciation and downward value adjustments ⁽¹⁾	(–) 17 158	18 294	19 610	20 964	21 675
Other operating expenses	(–) 8 977	7 736	8 784	8 297	7 606
<i>Total operating expenses</i>	92 820	96 149	102 427	102 726	104 132
Net operating result	24 857	26 595	23 727	17 653	24 529

Source: NBB.

(1) On tangible and intangible fixed assets and start-up costs (item 630).

TABLE 2 SMES – COMPONENTS OF THE OPERATING ACCOUNT
(in € million, current prices)

	2006	2007	2008	2009	2010 e
Value added	37 224	42 229	43 869	43 760	45 377
Staff costs	(–) 19 352	22 168	23 384	23 870	24 547
Depreciation and downward value adjustments ⁽¹⁾	(–) 7 856	8 702	9 173	9 576	9 746
Other operating expenses	(–) 1 954	2 259	2 400	2 373	2 546
<i>Total operating expenses</i>	29 162	33 129	34 957	35 819	36 840
Net operating result	8 062	9 099	8 912	7 941	8 538

Source: NBB.

(1) On tangible and intangible fixed assets and start-up costs (item 630).

TABLE 3 MANUFACTURING BRANCHES – COMPONENTS OF THE OPERATING ACCOUNT
(in € million, current prices)

	2006	2007	2008	2009	2010 e
Value added	48 286	47 976	46 468	43 301	46 954
Staff costs	(–) 27 149	28 064	28 620	27 240	27 747
Depreciation and downward value adjustments ⁽¹⁾	(–) 8 199	8 041	8 339	8 396	8 386
Other operating expenses	(–) 2 465	1 350	1 850	1 770	1 872
<i>Total operating expenses</i>	<i>37 814</i>	<i>37 455</i>	<i>38 809</i>	<i>37 407</i>	<i>38 005</i>
Net operating result	10 472	10 521	7 658	5 894	8 949

Source: NBB.

(1) On tangible and intangible fixed assets and start-up costs (item 630).

TABLE 4 NON-MANUFACTURING BRANCHES – COMPONENTS OF THE OPERATING ACCOUNT
(in € million, current prices)

	2006	2007	2008	2009	2010 e
Value added	106 615	116 997	123 556	120 837	127 084
Staff costs	(–) 58 887	64 223	68 798	70 095	71 652
Depreciation and downward value adjustments ⁽¹⁾	(–) 16 816	18 956	20 443	22 144	23 035
Other operating expenses	(–) 8 466	8 645	9 333	8 900	8 280
<i>Total operating expenses</i>	<i>84 168</i>	<i>91 824</i>	<i>98 575</i>	<i>101 138</i>	<i>102 967</i>
Net operating result	22 447	25 174	24 981	19 700	24 118

Source: NBB.

(1) On tangible and intangible fixed assets and start-up costs (item 630).

Annex 5

VALUE ADDED PER BRANCH

(in € million, current prices)

	2006	2007	2008	2009	2010 e
Manufacturing industry	48 286	47 976	46 468	43 301	46 954
of which:					
Agri-food industries	6 305	6 316	6 583	7 065	6 947
Textiles, clothing and footwear	1 884	1 891	1 644	1 443	1 513
Wood, paper products and printing	3 380	3 471	3 250	3 082	3 048
Chemicals and pharmaceuticals	11 812	10 672	10 444	10 928	12 403
Metallurgy and metalworking	7 222	8 238	7 569	5 867	6 676
Metal manufactures	9 930	9 393	9 095	8 083	9 176
Non-manufacturing branches	106 615	116 997	123 556	120 837	127 084
of which:					
Trade	34 834	35 825	35 937	34 060	37 023
Transportation and storage	11 374	14 244	15 528	14 170	14 747
Accommodation and food service activities	2 600	2 946	3 044	3 027	3 180
Information and communication	11 048	11 629	11 987	11 705	11 951
Real estate activities	3 893	4 062	4 617	4 668	4 678
Other service activities	19 701	22 778	25 147	24 813	25 882
Energy, water supply and waste	7 794	8 014	8 609	9 151	9 990
Construction	10 403	11 501	12 226	12 144	12 369
Total	154 901	164 973	170 023	164 138	174 039

Source : NBB.

Annex 6

OPERATING RESULT PER BRANCH

(in € million, current prices)

	2006	2007	2008	2009	2010 e
Manufacturing industry	10 472	10 521	7 658	5 894	8 949
of which:					
Agri-food industries	1 317	1 272	1 240	1 686	1 603
Textiles, clothing and footwear	301	312	94	108	204
Wood, paper products and printing	672	732	523	392	463
Chemicals and pharmaceuticals	3 275	2 493	1 649	2 153	3 075
Metallurgy and metalworking	1 366	2 023	1 152	-8	834
Metal manufactures	1 703	1 625	1 288	767	1 495
Non-manufacturing branches	22 447	25 174	24 981	19 700	24 118
of which:					
Trade	7 976	9 117	7 800	5 529	7 952
Transportation and storage	1 330	1 642	1 913	-41	578
Accommodation and food service activities	157	209	188	63	174
Information and communication	2 967	3 054	3 193	2 880	3 063
Real estate activities	1 471	1 489	1 779	1 627	1 478
Other service activities	3 150	3 753	4 067	3 472	3 947
Energy, water supply and waste	2 231	2 223	2 471	2 768	3 392
Construction	1 774	2 177	2 223	1 990	2 096
Total	32 919	35 694	32 639	25 594	33 067

Source: NBB.

Annex 7

DISTRIBUTION OF THE POPULATION AMONG THE FINANCIAL HEALTH CLASSES, BY REGION

(in % of the number of firms)

	2003	2004	2005	2006	2007	2008	2009	Sample	
								2009	2010
Brussels									
Class 1	8.87	9.50	9.81	10.40	11.11	11.03	11.07	13.58	14.40
Class 2	15.50	16.06	16.61	16.95	17.26	17.38	17.08	19.48	20.29
Class 3	14.19	14.27	14.54	14.94	14.52	14.74	14.65	15.98	16.06
Class 4	15.08	14.82	15.08	14.40	15.01	14.26	14.04	14.26	14.22
Class 5	24.48	24.30	23.60	23.48	22.03	22.23	22.21	20.07	19.20
Class 6	13.20	12.99	12.65	12.22	12.15	12.09	12.08	9.83	9.78
Class 7	6.03	5.60	5.59	5.50	5.58	5.55	6.04	4.75	4.34
Class 8	1.67	1.59	1.34	1.43	1.47	1.75	1.84	1.37	1.18
Class 9	0.60	0.63	0.54	0.48	0.61	0.66	0.69	0.47	0.36
Class 10	0.38	0.25	0.22	0.18	0.25	0.32	0.30	0.21	0.16
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Flanders									
Class 1	8.14	8.72	9.32	9.96	10.83	11.20	12.00	13.11	13.86
Class 2	16.88	17.60	18.39	19.19	19.82	19.77	20.12	21.47	22.22
Class 3	15.89	16.39	16.59	16.78	17.10	16.86	16.37	16.93	17.08
Class 4	16.18	15.92	15.95	15.93	15.51	15.31	14.87	14.96	14.97
Class 5	24.61	24.03	23.47	22.64	21.76	21.28	20.85	20.02	19.21
Class 6	11.66	11.04	10.47	10.06	9.74	9.82	9.68	8.64	8.21
Class 7	4.69	4.48	4.12	3.91	3.72	3.98	4.16	3.50	3.22
Class 8	1.22	1.18	1.10	1.00	0.98	1.09	1.18	0.89	0.79
Class 9	0.50	0.44	0.41	0.38	0.37	0.48	0.49	0.33	0.31
Class 10	0.25	0.21	0.16	0.15	0.17	0.22	0.27	0.16	0.14
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Wallonia									
Class 1	6.61	7.00	7.31	7.90	8.67	8.94	9.51	11.32	12.21
Class 2	14.82	15.59	16.13	16.61	17.31	17.81	18.01	20.12	20.45
Class 3	15.68	15.73	16.16	16.37	16.43	16.00	15.90	17.20	17.34
Class 4	16.23	16.39	16.25	16.21	16.37	16.06	15.70	15.78	15.69
Class 5	26.82	26.37	25.87	25.21	23.92	23.35	22.69	20.89	20.27
Class 6	12.84	12.11	11.89	11.63	11.20	11.10	11.06	9.28	8.84
Class 7	4.98	4.88	4.60	4.38	4.35	4.65	4.83	3.70	3.75
Class 8	1.35	1.34	1.23	1.09	1.15	1.31	1.44	1.15	0.93
Class 9	0.44	0.40	0.41	0.42	0.42	0.54	0.58	0.39	0.36
Class 10	0.24	0.19	0.15	0.17	0.16	0.24	0.27	0.17	0.17
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: NBB.