

A Work Project, presented as part of the requirements for the Award of a Master Degree in
Finance from the NOVA – School of Business and Economics

Financial Reporting about Provisions
Evidence from Portuguese Listed Companies

João Guilherme de Almeida Cruz # 327

A Project carried out on the Finance and Reporting area, under the supervision of:

Leonor Ferreira

Date

June 4th, 2012

Abstract

This project provides evidence about the practices of financial reporting regarding provisions namely presentation, recognition, measurement and disclosure in the consolidated annual reports in 2010 and 2009 of Portuguese non-financial companies listed in the Euronext Lisbon. Moreover it updates the findings of previous literature, analyzes the compliance with IAS 37 and identifies its main issues. The findings suggest that there exists room for improvement of provisions reporting in Portugal, as requirements are in some cases not followed in full and there is unclear information, so the research recommends to regulators, preparers and users in order to address those issues.

Key words: Provisions; IAS 37; financial reporting; Euronext Lisbon

1. Introduction

Over the years, international and national accounting standards have been updated to assure an integrated, competitive and attractive European Market, without material statement errors and frauds that could be easily committed with the purpose of manipulating earnings (Lev, 2003), in order to ensure the comparability of the financial statements in the present and previous years according to IAS 1. These changes have recently occurred in Portugal with the shift from local GAAP, *Plano Oficial de Contas* (POC), to *Sistema Normalização Contabilísticas* (SNC), which follows the International Accounting Standards (IASB¹) and EU regulation. Since 2005, EU listed companies have been applying international accounting standards for consolidated accounts, a measure agreed to in 2002 and regulated by EC number 1606/2002.

For Elliot and Elliot (2012) “accountancy is the art of communicating financial information about a business entity” highlighting the necessity of studying the standards as those could be used in such a strategic way to get a higher net income since provisions are costs to the present exercise (Hopwood, 2007). Nowadays world economies are facing up hard times so the credit restrictions imposed by the European Central Bank are demanding new and different acts from all the players involved. Because they have to rebalance their accounts and find new sources of capital. The crisis on the financial markets we constantly hear and read about in the news, on comments and reviews about possible bailouts that may emerge is the motivation of this study².

¹ The International Accounting Standards Board (IASB) is the standard setting body which is responsible for the development and publication of the International Financial Reporting Standards (IFRS).

² My current work at Moore Stephens & Associados SROC S.A have helped me to apply concepts on this study.

All those changes could modify the financial reports which are useful information for preparers (accountants and auditors) and users (such as shareholders and managers) and thus, it is important to analyze how Portuguese listed companies in 2010 and 2009 present, recognize, measure, and disclose in the financial statements *Provisions, contingent liabilities and contingent assets* as defined by IAS 37³.

This research provides evidence on the current financial reporting practices about provisions by Portuguese companies listed in the Euronext Lisbon, updating the findings of previous literature and analyzes the compliance with IAS 37 and its main issues. It is organized as follows. Section 2 presents the key concepts about *provisions*, terminology and the regulatory framework. Section 3 covers the literature review on the adoption of IAS 37. Section 4 states the research questions and describes the methodology and samples while section 5 shows and discusses the results, and recommendations. Finally, section 6 summarizes the main outcomes, concluding remarks, limitations and suggestions for further research.

2. Conceptual framework: What is a provision?

According to Stolowy and Lebas (2006), a *provision* is a category of liability, and it has to be the first concept defined in order to understand and establish a comparison with other concepts defined in IAS. A liability is usually a real and certain obligation.

³ IAS is the acronym for International Accounting Standard. IAS 37 excludes financial instruments (which are covered by IAS 39), non-onerous executor contracts, insurance company policy liabilities and items covered by other IAS such as obligations arising from construction contracts on IAS 11, obligations for current or deferred income taxes (which should follow on IAS 12, lease obligations (regulated by IAS 17) and to pension and other employed benefit obligations (regulated by IAS19). [IAS 37.1].

Provisions differ from other liabilities (e.g. trade payables) due to the uncertainty concerning the timing or amount of the future expenditure required in settlement and at least, in fact, companies take provisions by reducing current income and setting up a corresponding reserve as a liability. The increase in the degree of uncertainty justifies two additional definitions: *accrued liabilities*, and *contingent liabilities*. An **accrued liability** is an obligation in which the cause is real, the timing almost certain as this obligation has values in year T and accrued the rest to T+1 and his value uncertain as it could depend, for instance, on interest rates. On the contrary **contingent liabilities** (assets) are recognized as possible but uncertain obligations or present obligations that are not recognized because the amount estimated is not reliable or there is not a probable transfer of economic benefits in the settlement, being the outflow (inflow) the only difference between both⁴. Table 1 summarizes their differences.

Table 1: Provisions and related concepts (source: Stolowy and Lebas (2006) – p. 411

Type of liability	Timing	Amount or value	Causality principle
Liability – Strick sense	Certain	Certain	Real and Present
Accrued liability	Almost certain	Uncertain	Real and Present
Provision	Uncertain	Uncertain	Real and Present
Contingent liability	Uncertain	Uncertain	No present obligation

Focus only on provisions, the unique characteristic known is the cause since this obligation derives from past events. As for the amount and the timing, both are uncertain as they are based on estimates that could be miscalculated and due to that and to the interests of the company they can be recognized as a current or non- current obligation but without any kind of certainty.

⁴ *Contingent assets* are recognized as possible but uncertain obligations or present obligations that are not recognized because the amount estimated is not reliable or there is not a probable transfer of economic benefits in the settlement.

3. Accounting framework: Regulation under IAS 37

This section covers a brief description of the main regulation about financial reporting of provisions, namely IAS 37, which companies with securities listed in EC regulated markets have been adopting in their consolidated financial statements since 2005 onwards, as established by the EC Regulation No. 1606/2002⁵.

Regarding accounting regulation about provisions, the transition from the old Portuguese accounting system “POC” to “SNC” goes in the direction of what is established by IAS / IFRS, the accounting standards issued by the International Accounting Standard Boards (IASB), since the frame of thinking has been changed, resulting in a better harmonization of financial reports. Being a domestic adaptation of IAS / IFRS some differences exist between these two sets of accounting standards. For instance, while international regulation from IASB does not provide a typology for provisions, SNC adds a classification of provisions where the various categories are based on the most common provisions, namely for Tax risks; Guarantees; Legal (litigation) risks; Employee benefits and others personnel provisions; Environmental risks; Onerous contracts; Restructuration and Others.

IAS 37 was first issued in August 1997 and its last revision was on June 20th, 2005⁶. It is the main international accounting regulation about provisions currently in force and its use is extended to contingent liabilities and contingent assets. The concepts of provision, contingent

⁵ Provisions are also regulated by tax regulation. In Portugal, the Corporate Income Tax Code (*Código do Imposto sobre o Rendimento das Pessoas Colectivas*, CIRC) states that companies could deduct some types of provisions for tax purposes, namely the following provision types: obligations derived from litigation process, guarantees to customers, technical provisions according to the standards of the National Insurance Institute (*Instituto de Seguros de Portugal*, ISP) and those provided from residual and extracted natural resources and restructuring environmental damages (CIRC, articles 39th and 40th, 2010).

⁶ IAS 37 was approved by IASC in July 1998, and replaced parts of IAS 10

liabilities and contingent assets were defined in section 2 this section focus in the criteria for recognition **(a)**, presentation **(b)**, measurement **(c)** and disclosure **(d)** of provisions

a) Provisions are recognized when legal or constructive obligations result from past events, generating a probable outflow and also presenting a reliable estimate [IAS 37.14]. Regarding contingent liabilities [IAS 37.86], they should not be recognized but disclosed unless the likelihood of their payment is remote while a contingent asset should be disclosed if it is probably an inflow of economic benefits [IAS 37.31-35].

b) All the obligations have to be reviewed at each reporting date and adjusted to reflect the best estimate although not all must be presented in the face of Balance Sheet (accumulated provisions)⁷, in Profit and Losses Statements⁸ (annual expense reported as an operational cost) and the Notes. As provisions are estimates and not a payment nor a receipt, they are not presented in the statement of cash flows as this table only shows receipts and payments.

c) Provisions should be measured at the best estimate demanded to settle the present obligation which is in most cases the expected value of the obligation [IAS 37.36]. This is the true value paid to settle the obligation at the balance sheet or to transfer it to a third party which depends on provisions type, by other words, if it is a single-off event or a large population of events. They can be measure at the present value or discounted when the amount is material, being the discount rate used consistent with cash-flow estimation, if the amount to be paid reflects the inflation on the period, a nominal discount rate must be applied otherwise, if cash-

⁷ Indeed, the model for the balance sheet in SNC considers only the item provisions under the non-current liabilities caption. This being an indication that those expected to be settled out the normal operating cycle or due outside 12 months after the reporting period.

⁸ Profit and Losses Statement (P&L Statement)

flow is estimated on a real basis we should apply real discount rate. However when measuring it, risk and uncertainties have to be taken into account but those cannot be used to justify the estimation.

In the presence of a single obligation such as a restructuring or lawsuit, the estimate reflects the most likely individual outcome, may be the best estimate of the amount required to settle the obligation. But entities may consider a higher or lower amounts when other possible outcomes are either much higher or much lower than most. Large population of events like warranties and customer refunds are measured by weighing all possible outcomes by their associated probabilities which will influence the value of the provision, for instance, if the probability of a loss of a given amount can be 60 or 90 per cent. A provision of a large population could also reflect the mid-point of the range when there is a continuous range of outcomes and each point is as likely as any other. [IAS 37.39-40]

d) IAS 37 requires companies to disclose various narrative and quantitative information [IAS 37.84]. The requirements of quantitative or numerical disclosure include the announcement of the opening carrying amount, additions including increases of existing provisions, amounts charged against provisions, unused amounts reversed, unwinding of the discount and the closing carrying amount, comparative information not being required during the period. In rare cases it can be expected to seriously harm the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. As for qualitative disclosure [IAS 37.85], entities should disclose the general nature of the obligation and the

expected value of the outflows, together with uncertainties regarding the amount and the time that may arise and also the amount of any reimbursement⁹.

4. Literature Review

This section is two-fold: it reviews both normative and empirical studies related to provision, some of them analyzing Portuguese companies. There are quite few empirical studies about financial reporting of provisions by Portuguese companies. Oliveira (2007) analyzed provisions, contingent assets and contingent liabilities of the largest 500 Portuguese companies in 2000, and compares the Official Accounting Plan (POC) with IAS 37, whilst more recently Fonseca (2008) contributes with an analysis of provisions in 2007.

Early research by Cravo (1993) defines different levels of occurrence. This author considers an event is somewhat true if probability lies between 95% and 100%, if that probability is between 50% and 95% the event is now likely, the same could be considered possible if it is 5% and 50% and remote when less than 5%. He not only concludes that previous Portuguese accounting system is unclear but also that 60% of the companies reported provisions in their financial reports, being litigation, taxation and guarantees the main reasons to estimate and disclose information about them.¹⁰

Later, Oliveira (2007) authored the first serious empirical study about provisions in the Portuguese financial reports, under IAS 37 and the Portuguese Accounting Standards, highlights

⁹ As for contingent liabilities if the possibility is not remote, an entity shall disclosure for each class of contingent liability at the reporting date a brief description of its nature and when practicable an estimate of its financial effect, an indication of the uncertainties relating to the amount or timing and the possibility of any reimbursed. While for contingent assets, an entity shall also disclosure the nature of the contingency and when practicable without undue cost or effort an estimate of their financial effect although when it is impracticable this fact shall be stated.

¹⁰ Cravo (1993) concluded that 29% of the companies disclosed information about contingent liabilities and only 6% referred to contingent assets.

the importance of analyzing and evaluating the different type of obligations: provisions, contingent liabilities and contingent assets instead of just verifying their existence. Based on prior papers by Chesley and Wier (1985) and Castrillo Lara (1992), Oliveira (2007) links this type of uncertain obligations with the probability of occurrence, having extracted a sample of 500 firms and conducted several statistical tests such as the Chi-Square to analyze the risk of such occurrences. Oliveira limits his research to Portugal and recommends further studies to extend to other countries.

In spite of Oliveira`s recommendations, Fonseca (2008) adds to the literature the analysis of the disclosures under a new regulatory framework: the IAS 37. Based in the notes to the 2007 consolidated reports of the Portuguese non financial listed companies, she aimed at understanding how these companies present, recognize, measure and disclose information about provisions. Fonseca`s results contribute with some useful recommendation to preparers of financial statements as it is focused on disclosure and she concludes that reports are consistent with the regulation in several topics¹¹. For example, she identifies companies where the notes disclosures are not in accordance with the balance sheet. To those issues she recommends to preparers a bigger effort to assure IAS 37 requirements and to maximize the information provided.

Another study by Segura (2010) focuses on measurement issues as it analyzes how companies recognize loss contingencies and judicial provisions and discusses the factors used to estimate the amounts being recognized. According to him three major players decide or influence the

¹¹ Fonseca`s research (2008) observes that all the companies in the sample distinguish between current and non-current liabilities in the balance sheet or even the correct unit currency which she concludes is not the same in all the companies, and that there is not material information omitted about it.

estimation of the amounts, namely the chief financial officers, the auditors and lawyers, while in certain cases the judges' action plays an important role. Additionally, the study also concludes that these players' power bears a different weight in decisions and in spite of their roles, CFO's hold the major power to decide important facts.

To the best of our knowledge, nobody before had analyzed if companies have improved the issues found by Fonseca in terms of presentation, recognition, measurement and disclosure, so this research contributes to complementing the existing literature. The research also establishes a connection between the industry and the type of provisions but emphasizes all the main issues that users can find when analyzing provisions.

4. Methodology and Data

This research aims at knowing what and how Portuguese listed companies report about provisions, in the financial reports concerning recognition, measurement, presentation and disclosure with the objective of complying with the requirements of IAS 37. The methodology for this work project includes the research questions developed to analyze the variables, criteria for selecting the final sample, and the description of the data collected.

Data about provisions for analysis was downloaded from two sources: the companies' websites and the website of the Stock Market Authority¹². Collecting data from these alternative sources was done for validity purposes, and allowed to check the data. Data refers to the consolidated 2010 and 2009 values presented on 2010 annual reports. The initial sample includes all the 53 companies listed in the Lisbon Euronext on February 3, 2012 and the choice of the period of

¹² *Comissão do Mercado de Valores Mobiliários* or CMVM.

analysis - years 2010 and 2009 - is due to the fact that this is some of the most recently published information to answer to the questions proposed.

From the initial sample of 53 companies, financial institutions were excluded (seven companies) because they have additional disclosures requirements about provisions which are specific for the industry and out of the scope of this work project. The other three companies were excluded because its financial report is not available (VAA Fusion¹³), one is on insolvency (Inapa Voto) and another was does not issued shares (Estoril Sol N). Thus, the final sample includes 43 companies spread for nine sectors of operations¹⁴ and where the utilities sector has the highest provisions value although having only three categories of provisions. Additionally, Consumer-non cyclical and Industrial sectors have the next higher valuable provisions amount in spite of presenting different patterns, the former has 84 % of its amount categorized as Restructuring and Others while the latter has amounts classified in all categories apart from Environmental risks and Onerous contracts.

The data is presented in financial statements such as balance sheet, P&L statement, notes to the financial statements and on the statutory audit report, statement of changes in equity and on management reports although those presented on the first two have not been analyzed. According to the main objective referred, the following six research questions (RQ) were established:

RQ1: Do companies present provisions in their annual report?

RQ2: How do companies recognize provisions?

¹³ VAA Fusion = Vista Alegre Atlantis Fusion

¹⁴ Basic materials, Communications, Consumer-cyclical, Consumer-non cyclical, Diversified, Energy, Industrial, Technology and Utilities

RQ3: *What criteria do companies adopt to measure provisions?*

RQ4: *Do companies comply with the IAS 37 requirements in what concerns disclosure of provisions?*

RQ5: *What are the reasons for companies do not comply with the IAS 37 requirements?*

RQ6: *Do statutory audit reports issued by external auditors include qualification about provisions?*

Throughout the answers to the six research questions above univariate and bivariate analysis are conducted¹⁵. After getting feeling of the data, the research proceeds with the answers to the research questions. For the first research question, we used descriptive statistics (univariate analysis) to see the non-current, current and total average amounts of provisions in 2010 and 2009 and to establish a comparison with previous review namely Fonseca's (2008) results and observe the variations and changes between the periods. As for the other research question, the results were collected from the notes of financial reports and converted to business research technique¹⁶ according to Sekaran (2000).

The sample includes 43 companies, belonging to 21 industries and to nine sectors and all of them present provisions in 2010 where the minimum value presented by *Lisgráfica* and highest by *EDP* with 23 and 431,194 thousands of Euros respectively. The sample average was 39,980 thousands of Euros and it has a standard deviation of 85,958 thousands of Euros which emphasizes a large divergence among the companies.

From the amounts reported on the balance sheets at the end of 2010, 40 companies (92%) estimate non-current provisions while 11 (8%) estimate current provisions and eight estimate both concluding that most of the risks are expected to mature in no less than 12 months or within

¹⁵ Univariate analysis include the calculation and analysis of the maximum, minimum, the mean, the standard deviation

¹⁶ Coding attributes 1 if the sentence/characteristic is verified and 0 if not in order to achieve the results

the company's normal operating cycle¹⁷. For instance, provisions in Impresa SGPS amount to 11% of the total liabilities and 3% of total assets while in Brisa provisions are 8% of total liabilities and 5% of total assets.

Comparing the amounts of provisions reported as liabilities in years 2009 and 2010, there is an increase in provisions amount of 18% as a whole and where 29 (67%) have increased provisions amount¹⁸. Thus, from these preliminary results, it is concluded that provisions are a relevant and material item in the financial reports, and this is a reason to proceed with this research and answer to the next research questions.

5. Results

This section presents the answers to the research questions announced in section 4 as well as recommendations to users and preparers of financial reports which could be used in further researches. The results extend the evidence on financial reporting of provisions by Fonseca's (2008) research, by adding two periods to them. The discussion of the results is supported by the accounting regulation and compared to previous empirical literature reviewed under section 3.

The results achieved on the analysis are based on SNC classification. Besides its eight categories¹⁹, it was created a class named "Unspecified" not only because IAS 37 do not specify any provisions' classification, it only indicates how companies have to measure some type of provisions but due to the results achieved. Thus "Unspecified" was created when: (a) a provision

¹⁷ Current liabilities are obligations that are due within the company's normal operating cycle or within 12 months, or those held for trading, or those for which the entity does not have an unconditional right to defer payment beyond 12 months. Other liabilities are noncurrent (IAS 1.60).

¹⁸ The highest increase in the amount of provisions is reported by Sporting SAD with a variation of 828% and had a negative net income of 29,646 thousands of Euros

¹⁹ See section 2

does not have its class defined by SNC- Brisa has a provision for “Investment in Associates”- or in other cases for “Investments valued using the equity method”; (b) companies do not split the total amount of provisions by classes²⁰ neither the changes year after year which creates divergences between description and table values (Sonae SGPS); (c) provisions are registered but the notes do not describe them.

5.1: Presentation of provisions (Research Question 1)

IAS37 demands the division between current and non-current liabilities in company’s financial reports. Due to this requirement, users get information about maturity of the obligations and can understand how long the obligations will take be accomplished, if one or more years. This allows us to establish comparisons between the reports analyzed.

Regarding presentation of provisions on the face of the balance sheet by Portuguese non financial listed companies, eleven companies (22%) present only current provisions and 40 companies (78%) show only non-current items, while eight have both types of provisions (see Appendix 4). These results are in line with Fonseca (2008), who concluded that most of the Euronext listed companies present for the year 2007 more non-current provisions than current ones. Only one company does not specify if the caption is current or non-current liability²¹.

On the other hand, IAS [37.48] refers to the level of precision, stating that the financial statements are clearer in establishing comparisons when presenting the currency information in thousands or millions of units, having an acceptable level of rounding and no information

²⁰ Presenting them as “Provisions” or “Provisions for other risks”

²¹ However the total of non-current plus current provisions is not equal to the total amount of provisions because there is a lack of information in Teixeira Duarte financial report although it discloses the quantitative changes of its provisions, Teixeira Duarte does not break the type of provisions in non-current and current

omitted. The results observed in the Portuguese non financial listed companies point out some discrepancy as there is one third of the sample, 14 companies, presenting their results in Euros while the remaining 34 companies (67%) in thousands of Euros. In fact, there was an improvement when comparing with Fonseca's results, where 72% present their results in Euros mainly because companies have increased the level of precision as the results presented were positive apart from *Compta*, *Lisgráfica* and *Sporting*. This discrepancy indicates that companies still have to improve the presentation; they need to be more expressive because it creates misunderstandings to users as it happens when they do not describe the class of provisions on notes and only call them "provisions" and "provisions for risk and charges" so the standard needs to define exactly the names that companies must adopt to be easier to establish comparisons.

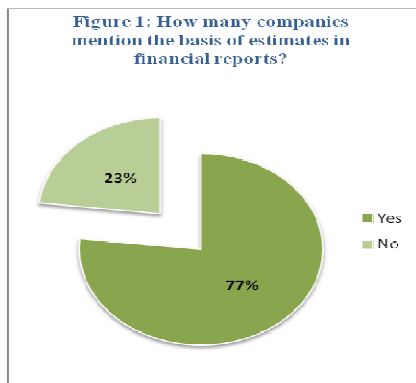
5.2 Recognition of provisions (Research Question 2)

As mentioned in section 2, recognition of provisions in the balance sheet and P&L statements have to follow some requirements, as the notes which disclose the information that permits to check if Portuguese companies recognize provisions according to IAS 37.

All the 43 companies in the sample fulfill the requirements about recognition stated by IAS 37. This result highlights the improvement made by the accountants. It is worth noticing that apart from COMPTA all the other companies copied *ipsis verbis* the wording about recognition used in the standard [IAS 37.14], that is "*Provisions are recorded when, and only when, the Group has a present obligation (legal or constructive) resulting from a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a*

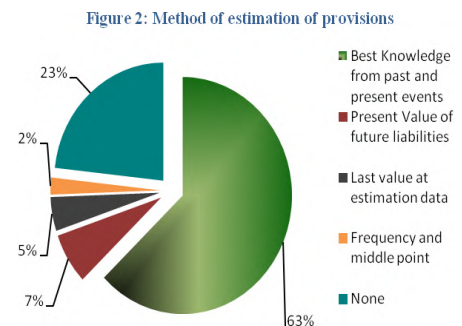
reliable estimate can be made of the amount of the obligation”^{22 23}. Comparability of this information is present, but no specific disclosures are added either per industry, auditor or even company. From the analysis to this research question, financial reports are recognizing provisions well so there are no issues to address about their recognition.

5.3: Measurement of provisions (Research Question 3)



According to IAS 37, measuring provisions consists of applying the best method of estimation for each type, review and adjust it to each balance sheet data. The results of this research show that the majority of companies in the sample 33 (77%) describe the basis used to estimate provisions, and 10 companies (23%) do not disclose or refer the method of

measuring. From the former group of 33 companies, 27 of them (82%) estimate the amount based on the best knowledge and their results show that these companies copied under the notes to the financial statements the following text: “*These estimations were based on the best available information at the date (...) based on the knowledge and experience of present and past events*” which is in theory complying with the standard [IAS 37.36] as stated in section 3.1 point c. Although the 27 companies stated that the amount is based on lawyers and board of director’s best knowledge, none disclose the assumptions

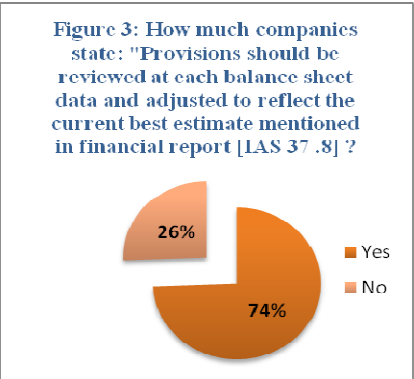


²² <http://www.galpennergia.com/EN/Investidor/Relatorios-e-resultados/relatorios-anuais/Documents/Relatoriocontas2010ENG.pdf>

²³ Comparing to Fonseca’s results (2009), two issues should be emphasized: first COMPTA in 2007 was not part of the sample and secondly, contrary to 2007 Futebol Clube do Porto, SAD now states recognition requirements.

used and so it is an issue for users as its regulation may be interpreted in different ways. The remaining six companies measure the provisions according to other bases, namely the present value of future responsibilities (EDP Renewable, EDP; Ren), the most recent information available (Estoril Sol and Impresa SGPS), and most frequent and middle costs (Novabase SGPS). Figure 2 shows the basis of measurement for provisions in the sample.

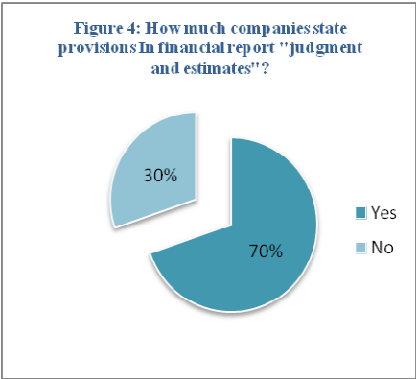
Regarding the provisions review required by the accounting regulation, 32 companies affirm under the notes that they do revision at each balance sheet data, again transcribing the wording



used in IAS 37, as follows: *"Provisions should be reviewed at each balance sheet data and adjusted to reflect the current best estimate mentioned in financial report"* [IAS 37.8] (Figure 3). Companies are required to include a section called "critical judgments/estimates in applying the accounting standards" in their financial reports because it mentions the

impact in total assets, liabilities, equity, costs and income.

They also state on that, the measurement method applied as well as refer the most significant estimates that affect the financial statements. Thirty companies (70%) express the importance of estimating provisions, but there is a rare case (Galp Energia) that states the importance of estimate it but



after all does not describe the method. Besides, there are four companies that state the method of estimate even though they do not refer the importance of estimating it, while 38 out of 43 companies in the sample state both.(Figure 4)

Concerning measurement details, EDP Renewable financial report is the most complete one because it describes what the others do not, the assumptions used in the estimation, what allows users to understand the risk involving the provisions. EDP Renewable for estimation besides the 20 years of capitalization rate also refers to the inflation and discount rates (stated at 2% and 6.07%, respectively).

Comparing with Fonseca's results, it is concluded that increased the quantity of (items) disclosures describing in their financial reports more about measurement of provisions than they used to do because as an uncertain concept, it is important that companies provide information about the method of risky concept since it has a significant impact on the net income. In percentage terms, more 3% of the companies have been referring their method, while 30 (more 19% than observed by Fonseca (2008) in 2007 have been stating on the section judgments and estimates the importance of describing the basis of estimating while more 12% than in 2007 write in their report that they review the estimates of provisions at balance sheet date.

In general, most of the non financial Portuguese listed companies comply with measuring requirements as more than 70% of them inform about the method of estimation. Although the information is always important for users, it is not useful enough to know that they copy the IAS and it would be better to add information to help users to understand the particular assumptions used to estimate the provisions. It is recommendable that accountants' disclose more detailed information, as EDP Renewable does.

5.4: Disclosures about Provisions (Research Question 4)

Companies disclose information about provisions under the notes, either quantitative or qualitative as described in section 3.1. Before that, the answer to this research question will start with the analysis of types of provisions.

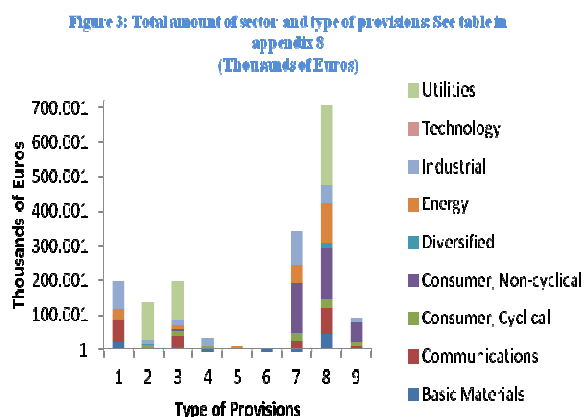
Table 2 summarizes the types of provisions observed in the sample and shows that eight different types of provisions are found when excluded the class added “unspecified”, being six of them regulated under IAS 37. “Other provisions” and “Provisions for judicial processes” are the two types of provisions reported by a larger number of companies, with 28 and 27 occurrences respectively. A remarkable result is the total amount of “other” provisions which should include a small value because the class should be used in residual cases. The lack of regulation about typology of provisions allows freedom to preparers and consequently, different grouping is presented by companies which affect comparability.

The results show for instance that sports companies such as SL Benfica SAD and Sporting SAD classify judicial processes in “other” while EDP records dismantling of property and equipment there. The examples highlight the issues and difficulties of keeping consistency among the reports with IAS 37 and so, results are staged because provisions for judicial processes should be the one with more occurrences but considering no changes we can summarize the type of provision by the amount as following:

Table 2: Types of provisions in the sample and respective amounts (In thousands Euros)

	Type of provision	(10 ³ Euros)	%	Nr of Companies	
		2010		2010	2009
Under IAS 37	Others	704,870	41	28	28
	Restructuration	342,501	20	12	11
	Tax risks	197,097	11	10	9
	Legal risks	196,787	11	27	27
	Guarantees	136,325	8	10	6
	Environmental	7,444	0	2	2
Not under IAS 37	Unspecified	93,540	5	11	11
	Employee benefits and other personnel provisions	35,246	2	7	7
	Onerous contracts	1,393	0	1	0
Totals		1,715,213	100		

Besides table 2, results are also presented graphically (figure 3)²⁴, both types emphasize that companies had problems when classifying estimated provisions because “others” has a significant amount estimated. The graph also illustrates that the second most valuable category is the restructuring thanks to the companies operating on the following sectors: energy, industrial and consumer non-cyclical. This was verified in appendices 7 and 11 through the marginal frequencies which is bivariate statistic method.



All the companies involving construction besides presenting restructuring provisions also estimated provisions to client guarantees as their operations required a huge rotation of employees as it occurs in Brisa where the investments are totally focused on motorway rebuilding and their personnel do not belong to its staff. From the 43 companies, it is found that unspecified provisions are estimated by 11 companies as those are not in accordance with SNC

²⁴ Type of provisions: 1-Tax risk; 2-Guarantees; 3-Legal risk; 4-Employee benefits and other personnel provisions; 5-Environmental risk; 6-Onerous contracts; 7-Restructuration; 8-Others and 9-Unspecified

classification, corresponding approximately to 5% of the total amount of provisions. The unspecified provisions estimated found were 93% of unspecified total amount namely investment in associates provisions and provisions arising from the use of the equity method. The most surprising fact is the three companies²⁵ which do not say or clarify anything about the type of the provision estimated neither do they disclose anything under the notes about it.

Concerning quantitative disclosure requirements [IAS 37.84], some companies do not comply with all the requirements: firstly when they do not indicate the amount of provisions neither at the beginning nor at the end of the period (v.g. Compta and Corticeira Amorim) and do not display the increases, reductions and other changes. On other hand, there is a company which describes the beginning and ending amounts by class but does not refer to the changes (Ibersol SGPS), thirdly companies who indicate the beginning and ending amounts and only display the variations by the total provisions amount (Toyota, Cofina, Sumol, Sonaecom and Orey) and finally companies who do not clarify to what the variations correspond (Vista Alegre).

Regarding qualitative provisions, IAS does not make so clear what companies should mention about nature, timing, uncertainties, assumptions and reimbursements so it makes harder for any user to analyze this task. Our analysis also points out this topic as uncomfortable to companies as only half of them disclose the nature of estimated provisions; seven mentions the timing of those and only two refer uncertainty when estimated.

Concluding about disclosure of provisions, qualitative and quantitative, not all the companies provide the required information about provisions, in fact, they prefer to disclose as little as

²⁵ The three companies are Compta, Orey and Altri.

possible which does not help the users. As the standard does not mention a classification, companies do not feel obliged to disclose provisions, mention the regulation and so, not only has the type “other” a huge amount but companies also classify in “other” provisions that must have their own class. This creates incoherence when comparing data from financial reports so it is recommended that accountants make a bigger effort to clarify the information about disclosure.

5.5: Compliance in Reporting Provisions (Research Question 5)

As concluded above, when answering Research Question 4, companies are facing problems when classifying provisions and to describe all the information required by IAS. This creates problems to users when comparing company’s reports especially in the same industry as occurs with Teixeira Duarte and Soares da Costa which belong to the same sector and industry (Industrial and Engineering & Construction). Teixeira Duarte does not provide or describe their types of provisions in non-current and current so it affects the comparison. Another fact verified is that the amounts of provisions used are not divided from released in five companies, four of them do not refer the amounts released, three of them do not divide decrease of transfers, transfers from perimeter variation, other and exchange differences and exchange rate and transfers (see appendix 8). Additionally, evidence was not found of additional disclosures and no other information besides that previously defined and required by IAS is provided in the notes meaning that companies do not disclose extra information in voluntary basis.

5.6 Qualifications by Statutory Audit Report by external auditor (Research Question 6)

From the analysis of statutory audit reports about companies' financial statements, we observe that the major audit services are rendered by the "Big Four"²⁶ with 29 of 43 companies (67%) while in 2007 according to Fonseca (2008), the "Big Four" detain 78% of the sample²⁷. Throughout the statutory audit report issued by external auditors after reviewing financial statements none of them highlight a misestimating. Thus, we can conclude that all companies in the sample estimated provisions correctly. Although Estoril Sol and Inapa stress in the notes about uncertain liabilities, the former refers that provisions are exactly estimated accordingly to the responsibilities while the latter recognizes a contingent liability (See Appendix 6).

If considering the five largest audit firms on assets amounts and the five type of measurement referred it previously, it is possible to verify a correlation between both where companies audited by Deloitte are often describing as measurement method, the best knowledge from past and present events, achieving a percentage of 37%. The results²⁸ are summarized on appendix 10.

6. Conclusions

The purpose of this work project was to verify if non financial Portuguese listed companies are complying with IAS 37 as it is a risky obligation and nowadays companies are facing liquidity and credit problems. This research adds to the existing literature some insight into financial reporting about provisions in comparison with previous reviews in order to verify the evolution

²⁶ Deloitte, KPMG, Pricewaterhousecoopers and Ernst & Young.

²⁷ Although in terms of asset value the percentage decreased to 55% because Galp and Portugal Telecom are not audited by those *Big Four*

²⁸ It was attributed a code to each type of provision and audit firm, counted the number of occurrences and check its percentage of the total

of practices of reporting by Portuguese non listed companies and if they have corrected the issues found in the 2007 reports by Fonseca (2008). The findings highlight an improvement by companies when presenting, recognizing, measuring and disclosing provisions which demonstrate that preparers, accountants and auditors are more concerned in follow IAS requirements. However, it highlights incoherence on presentation, on the words used and on the details provided in the financial reports which difficult the sector and industrial comparisons between companies, being also the lack of information a major concern because it does not allow us to make detailed analysis.

The findings allow us to make a three-fold recommendation: for regulators, in terms of standards a slight improvement of the weakest points, namely a strong clarification of what is defined as qualitative disclosure. Secondly, for preparers (company's managers and accountants), enforcement mechanisms should be established such as penalties for those who do not comply with the requirements about qualitative disclosures because as illustrated on results there is a large percentage, 20%, that still has to improve the disclosure of provisions. For users, be aware of non compliances that may arise when using financial reports not only regarding provision concepts but all the concepts regulated by IAS once listed companies as defined by law have to follow IAS requirements when preparing its consolidated results.

As for future research, we suggest three interesting ideas that can be developed, firstly the analysis of contingent liabilities and contingent assets, to national and international companies because they are more uncertain concepts than provisions and where companies often do not detail them. On the other hand a study for financial institutions in Portugal is also possible because those estimate provisions under IAS 37 as well as technical provisions under IAS 32 and

IAS 39. At least, we suggest the same research to other European indexes, for instance, to IBEX 35 or CAC 40.

This research contributes to enrich previous studies since it establishes a comparison with previous results namely Fonseca (2008), adds a more detailed knowledge on how companies have to present, recognize, measure and disclose provisions and highlights the main issues that could be found by users having been identified errors and lack of information. However, there are limitations with impact to our results. Lack of information does not allow us to establish more comparisons and find relations between sectors and type of provisions. Whereas IAS 37 unclarity to defining categories to provisions makes harder any detailed analysis because companies not always classify them likewise.

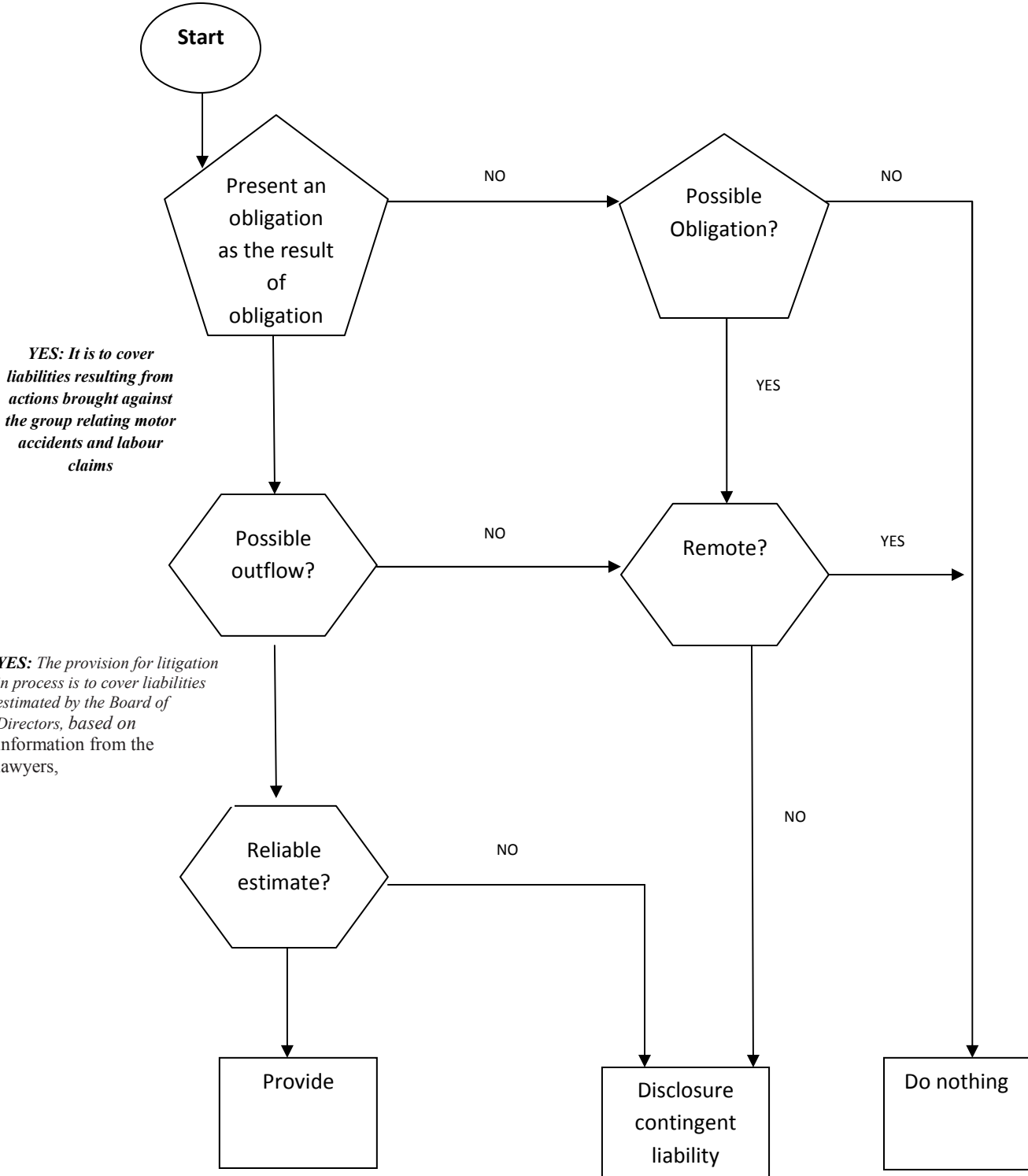
7. Bibliography

- Annual report. 2012. Galp. <http://www.galpenergia.com/EN/Investidor/Relatorios-e-resultados/relatorios-anuais/Documents/Relatoriocontas2010ENG.pdf>. (accessed March 14, 2012).
- Berk, Jonathan, and Peter DeMarzo, P. 2009. "Corporate Finance: The Core". International Edition. Pearson.
- Broad, Sarah. 2006. "IAS 37 Round-table discussions: background materials". IASB.
- Elliott, Barry, and Jamie Elliott. 2012. Chapter 11. "Accounting and Financial Reporting". 12th Edition. Pearson Education Limited.
- Fonseca, Rita. 2008. "Do Portuguese Non-Financial Listed Companies Comply With Provisions' Requirements?" Msc. Dissertation. Faculdade de Economia da Universidade Nova de Lisboa.
- Hopwood, Anthony and Michael Shields. 2007. "Handbook of Management Accounting Research: Volume 2". 1st Ed. Elsevier.
- IAS Plus. 2012. Deloitte. <http://www.iasplus.com/agenda/converge-ias37.htm> (accessed January 29, 2012).
- IAS Plus. 2012. Deloitte. <http://www.iasplus.com/en/standards/standard5> (accessed March 2, 2012).

- IFRS Foundation. 2009. “Module 21 – Provisions and Contingencies”.
http://www.iasb.org/NR/rdonlyres/5E5A5B95-239F-4F94-8416-155DB3E9F726/0/Module21_version2010_02.pdf. (accessed February 10, 2012)
- KPMG.2012.KPMG.http://www.kpmg.com/ZA/en/IssuesAndInsights/ArticlesPublications/grap-soaps/Documents/Grap%2019%20IAS%2037_Layout%201.pdf (accessed January 26, 2012).
- Lev, Baruch. 2003. “Corporate Earnings: Facts and Fiction”. Journal of Economics Perspectives. 17(2). 27-50.
- Matias, Maria. 2008. “Risk Disclosures: Evidence from Portuguese Annual Reports”. Msc. Dissertation. Faculdade de Economia da Universidade Nova de Lisboa.
- Mirza, Abba, and Graham Holt. 2010. “International Financial Reporting (IFRS) Workbook and Guide: Practical insights, Case studies, Multiple-choice questions, Illustrations”. John Wiley & Sons, Inc. New York.
- Oliveira, Jonas. 2007. “Relato financeiro sobre provisões, passivos contingentes e activos contingentes: o caso português”. Contabilidade e Gestão. 4: 19-68.
- Pontes, Sérgio. 2009. “SNC – Passivos Correntes e Não Correntes”. Curso Online. COTC.
- Roberts, Clare, and Paul Gordon. “International Financial Reporting: A comparative approach”. Third Edition. Prentice Hall.
- Segura, Nancy. 2010. “Contribution à la connaissance de la production de l’information financière: Le cas des provisions pour litiges”. Paper presented at maître de conférences of Université Montpellier I.
- Sekaran, Uma. 2000. “Research Methods for Business – A skill building approach”. 3rd Ed. Wiley & Sons, Inc.
- Stolowy, Hervé, and Michel Lebas. 2006. Chapter 12. “Financial accounting and reporting: a global perspective”. 2nd Ed. South-Western.
- Sutton, Tim. 2004. “Corporate Financial Accounting and Reporting”. 2nd Ed. Prentice Hall.
- The Institute of Chartered Accountants in England and Wales. 2012. <http://www.icaew.com/en>. (accessed March 12, 2012).
- Warren, Carl, and James Reeve. 2009. Chapter 11. “Accounting”. 24th Ed, South-Western.
- Rocha, Isabel, and Joaquim Rocha. 2010. “Código do IRC”. 2nd Ed. Porto Editora.

8. Appendix

Appendix 1: Decision Tree: BRISA (2010) Provisions - Litigation process



Appendix 2: Criteria of sample selection

	Companies listed in Euronext Lisbon	Reasons for exclusions	Belongs to the sample?
1	ALTRI SGPS	✓	Yes
2	B.COM.PORTUGUES	Financial Company	No
3	B.ESPIRITO SANTO	Financial Company	No
4	BANCO BPI	Financial Company	No
5	BANCO POP. ESPANHOL	Financial Company	No
6	BANCO SANTANDER	Financial Company	No
7	BANIF-SGPS	Financial Company	No
8	BENFICA	✓	Yes
9	BRISA	✓	Yes
10	CIMPOR,SGPS	✓	Yes
11	COFINA,SGPS	✓	Yes
12	COMPTA	✓	Yes
13	CORTICEIRA AMORIM	✓	Yes
14	ESPIRITO SANTO FINANCIAL GROUP	Financial Company	No
15	EDP	✓	Yes
16	EDPR	✓	Yes
17	ESTORIL SOL N	No shares issued	No
18	ESTORIL SOL P	✓	Yes
19	F.RAMA	✓	Yes
20	FISIPE	✓	Yes
21	FUT.CLUBE PORTO	✓	Yes
22	GALP ENERGIA	✓	Yes
23	GLINTT	✓	Yes
24	IBERSOL,SGPS	✓	Yes
25	IMOB.C GRAO PARA	✓	Yes
26	IMPRESA,SGPS	✓	Yes
27	INAPA-INV.P.GESTAO	✓	Yes
28	INAPA-PREF S/ VOTO	Insolvent company	No
29	J.MARTINS,SGPS	✓	Yes
30	LISGRAFICA	✓	Yes
31	MARTIFER	✓	Yes
32	MEDIA CAPITAL	✓	Yes
33	MOTA ENGIL	✓	Yes
34	NOVABASE,SGPS	✓	Yes
35	OREY ANTUNES ESC.	✓	Yes
36	P.TELECOM	✓	Yes
37	PORTUCEL	✓	Yes
38	REDITUS,SGPS	✓	Yes
39	REN	✓	Yes
40	S.COSTA	✓	Yes
41	SAG GEST	✓	Yes
42	SEMAPA	✓	Yes
43	SONAE	✓	Yes
44	SONAE CAPITAL	✓	Yes
45	SONAE IND.SGPS	✓	Yes
46	SONAECOM,SGPS	✓	Yes
47	SPORTING	✓	Yes
48	SUMOL+COMPAL	✓	Yes
49	TERIXEIRA DUARTE	✓	Yes
50	TOYOTA CAETANO	✓	Yes
51	VAA VISTA ALEGRE	✓	Yes
52	VAA-V.ALEGRE-FUSAO	No report in 2010	No
53	ZON MULTIMEDIA	✓	Yes

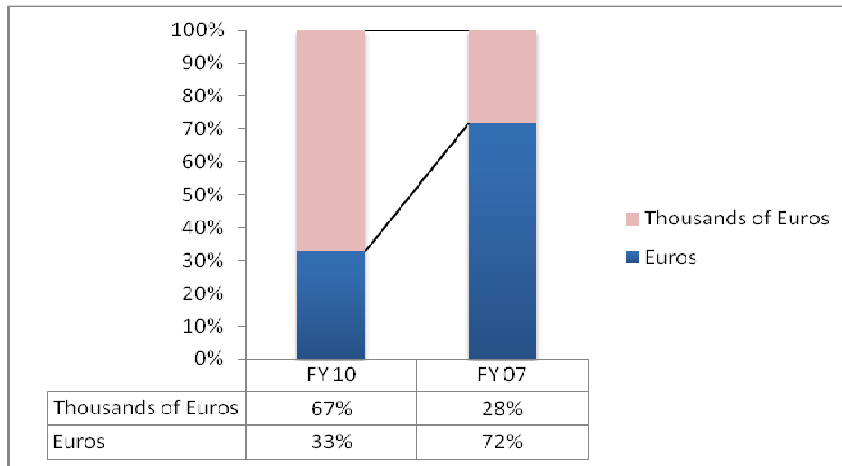
Appendix 3: Final Sample - (*): Companies with reports from 30/06/2010 until 30/06/2011)

	Company	Sector	Industry	External Auditor
1	ALTRI SGPS	Basic Mateirals	Forest Products&Paper	Deloitte & Associados, SROC, S.A
2	BENFICA (*)	Consumer, Cyclical	Entertainment	KPMG & Associados, SROC, S.A
3	BRISA	Consumer, Non-cyclical	Commercial Services	Alves da Cunha, A. Dias & Associados
4	CIMPOR,SGPS	Industrial	Building Materials	Deloitte & Associados, SROC, S.A
5	COFINA,SGPS	Communications	Media	Deloitte & Associados, SROC, S.A
6	COMPTA	Communications	Telecommunications	Patrício, Moreira, Valente & Associados, S.R.O.C.,
7	CORTICEIRA AMORIM	Basic Mateirals	Forest Products&Paper	PricewaterhouseCoopers & Associados, SROC, Lda
8	EDP	Utilities	Electric	KPMG & Associados, SROC, S.A
9	EDP RENOVAVEIS	Energy	Energy-Alternate Sources	KPMG & Associados, SROC, S.A
10	ESTORIL SOL P	Consumer, Cyclical	Lodging	Lampreia & Viçoso SROC
11	F.RAMA	Basic Mateirals	Iron/Steel	Deloitte & Associados, SROC, S.A
12	FISIPE	Basic Materials	Chemicals	Deloitte & Associados, SROC, S.A.
13	FUT.CLUBE PORTO (*)	Consumer, cyclical	Entertainment	Deloitte & Associados, SROC, S.A
14	GALP ENERGIA	Energy	Oil&Gas	P. Matos Silva, Garcia Jr., P. Caiado & Associados
15	GLINTT	Technology	Computers	BDO & Associados, SROC
16	IBERSOL,SGPS	Consumer, cyclical	Retail	PricewaterhouseCoopers & Associados, SROC, Lda
17	IMOB.C GRAO PARA	Industrial	Engineering&Construction	Auren Auditores & Associados, SROC, S.A.
18	IMPRESA,SGPS	Communications	Media	Deloitte & Associados, SROC, S.A
19	INAPA-INV.P.GESTAO	Basic Mateirals	Forest Products&Paper	PricewaterhouseCoopers & Associados, SROC, Lda
20	J.MARTINS,SGPS	Consumer, Non-cyclical	Food	PricewaterhouseCoopers & Associados, SROC, Lda
21	LISGRAFICA	Consumer, Non-cyclical	Commercial Services	Deloitte & Associados, SROC, S.A
22	MARTIFER	Diversified	Holding Companies-Divers	Américo A. Martins Pereira
23	MEDIA CAPITAL	Communications	Media	Deloitte & Associados, SROC, S.A
24	MOTA ENGIL	Industrial	Engineering&Construction	António Magalhães & Carlos Santos SROC
25	NOVABASE,SGPS	Technology	Computers	PricewaterhouseCoopers & Associados, SROC, Lda
26	OREY ANTUNES ESC.	Industrial	Transportation	Ernst & Young Audit & Associados SROC S.A.
27	P.TELECOM	Communications	Telecommunications	P. Matos Silva, Garcia Jr., P. Caiado & Associados
28	PORTUCEL	Basic Mateirals	Forest Products&Paper	PricewaterhouseCoopers & Associados, SROC, Lda
29	REDITUS,SGPS	Technology	Computers	BDO & Associados, SROC
30	REN	Utilities	Electric	Deloitte & Associados, SROC, S.A
31	S.COSTA	Industrial	Engineering&Construction	Patrício, Moreira, Valente & Associados, S.R.O.C.,
32	SAG GEST	Consumer, cyclical	Distribution/Wholesale	Ernst & Young Audit & Associados SROC S.A.
33	SEMAPA	Basic Mateirals	Forest Products&Paper	PricewaterhouseCoopers & Associados, SROC, Lda
34	SONAE	Consumer, cyclical	Retail	Deloitte & Associados, SROC, S.A
35	SONAE CAPITAL	Diversified	Holding Companies-Divers	Deloitte & Associados, SROC, S.A
36	SONAE IND.SGPS	Industrial	Building Materials	PricewaterhouseCoopers & Associados, SROC, Lda
37	SONAECOM,SGPS	Communications	Telecommunications	Deloitte & Associados, SROC, S.A
38	SPORTING (*)	Consumer, Cyclical	Entertainment	KPMG & Associados, SROC, S.A
39	SUMOL COMPAL	Consumer, Non-cyclical	Beverages	Oliveira, Rego & Associados, SROC
40	TEIXEIRA DUARTE	Industrial	Engineering&Construction	Mariquito, Correia & Associados, SROC
41	TOYOTA CAETANO	Consumer, cyclical	Auto Manufacturers	PricewaterhouseCoopers & Associados, SROC, Lda
42	VAA VISTA ALEGRE	Industrial	Building Materials	Ernst & Young Audit & Associados SROC S.A.
43	ZON MULTIMEDIA	Communications	Media	Oliveira, Reis & Associados, SROC, Lda

Appendix 4: Descriptive Statistics of: Total of provisions, Non-current and Current – Fonseca’s Sample (2007) and 2009 and 2010 data of our sample (amounts in thousands of Euros)

	Fonseca’s Results			Financial Reports					
	NC 07	C 07	FY 07	NC 09	C 09	FY 09	NC 10	C 10	FY 10
Average				33.549	12.319	34.673	39.462	12.430	39.888
Standard Error				10.965	8.347	10.780	13.847	7.649	13.104
Median				5.073	2.147	5.846	6.436	2.738	5.891
Standard Deviation				68.475	28.916	69.865	87.579	25.369	85.925
Variance				4.688.768.322	836.110.565	4.881.075.947	7.670.047.966	643.605.291	7.383.181.149
Kurtosis				11	11	9	12	10	12
Asimetry				3	3	3	3	3	3
Interval				344.350	102.486	344.350	431.171	87.539	431.171
Minimum				33	144	33	23	144	23
Maximum				344.383	102.630	344.383	431.194	87.683	431.194
Total	164.118	2.975.926	3.140.044	1.308.415	147.831	1.456.246	1.578.476	136.727	1.715.203
% of the Amount	5%	95%	100%	90%	10%	100%	92%	8%	100%
Count	12	34	46	39	12	51	40	11	51
% of the Count	26%	74%	100%	76%	24%	100%	78%	22%	100%
Both Type of Provisions	46 - 39 = 7			51 - 42 = 9			51 - 43 = 8		

Appendix 5: Level of precision (Thousands of Euros and Euros)



Appendix 6: Sample details by audit companies

Audit Company	Nº	%	Total Assets by Audit Company (Amounts in Thousands of Euros)	%	Statutory Audit Report Opinion (Yes / No)	Statement
Deloitte & Associados, SROC, S.A	13	30%	26.412.920	15%		
KPMG & Associados, SROC, S.A	4	9%	53.875.979	31%		
Alves da Cunha, A. Dias & Associados	1	2%	6.085.591	4%		
Patrício, Moreira, Valente & Associados, S.R.O.C.,	1	2%	33.474.873	20%		
PricewaterhouseCoopers & Associados, SROC, Lda	9	21%	13.903.222	8%	Yes	State that the pension to provisions are well estimated
Lampreia & Viçoso SROC	1	2%	278.402	0%	Yes	State the existence of a contingent liability
P. Matos Silva, Garcia Jr., P. Caiado & Associados	2	5%	24.332.060	14%		
BDO & Associados, SROC	3	7%	2.080.381	1%		
Auren Auditores & Associados, SROC, S.A.	1	2%	89.036	0%		
Américo A. Martins Pereira	1	2%	1.126.051	1%		
Ernst & Young Audit & Associados – SROC,S.A.	3	7%	1.208.268	1%		
Oliveira, Reis & Associados, SROC, Lda	2	5%	2.252.282	1%		
Mariquito, Correia & Associados, SROC	1	2%	2.721.252	2%		
António Magalhães & Carlos Santos - SROC	1	2%	3.456.166	2%		
	43	100%	171.296.484	100%		

Appendix 7: Total values of provisions by sector and by type of provisions in thousands of Euros

Sector / Type (Thousands of Euros)	1	2	3	4	5	6	7	8	9	
Basic Materials	23.010	1.323	4.398	0	3.013	0	0	45.991	1.981	
Communications	59.269	0	36.347	1.946	0	0	26.573	72.829	6.737	
Consumer, Cyclical	8.126	7.961	12.784	4.555	0	0	22.729	24.926	14.566	
Consumer, Non-cyclical	0	0	3.443	23	0	0	140.499	148.909	53.294	
Diversified	0	5.390	323	0	0	1.393	0	14.868	505	
Energy	24.545	0	12.763	0	4.431	0	53.156	114.518	631	
Industrial	82.147	12.791	14.453	28.721	0	0	99.544	51.752	15.825	
Technology	0	380	2.790	0	0	0	0	769	0	
Utilities	0	108.480	109.487	0	0	0	0	230.308	0	
	197.097	136.325	196.787	35.246	7.444	1.393	342.501	704.870	93.540	1.715.203

Note about types of provisions: 1-Tax risks, 2-Guarantess, 3-Legal risks, 4-Employee benefits and other personnel benefits, 5-Enviromental risks, 6-Onerous contracts, 7-Restructuration, 8-Others and 9-Unspecified

Appendix 8: Reasons for unclear disclosures

	Reasons	Number of Companies	Companies
1	Do not used from released amount in the movements of the year	5	Toyota, Cofina, Sumol, Sonaecom e Orey
2	Do not make reference to the amount released	4	Compta, Corticeira Amorim, Ibersol, Vista Alegre
3	Do not divide decreases from transfers / transfers from perimeter variation / change of consolidation perimeter, exchange rate changes and transfers /other and exchange differences	3	Mota-Engil, Martifer, EDP
4	Use different terms in the movements of the year that are not required by IAS 37 and are not explained	1	Reditus

Appendix 9: Type of measurement of provisions versus audit firms (number of occurrences and percentage values)

Audit Firm	Measurement		Best Knowledge from past and present events		None		Present Value of future liabilities 3		Last value at estimation date		Frequency and middle-points	
Deloitte & Associados, SROC, S.A	10	37%	1	4%	1	4%	1	4%	1	4%	0	0%
PricewaterhouseCoopers & Associados SROC, Lda	6	22%	2	7%	0	0%	0	0%	0	0%	1	4%
KPMG & Associados, SROC, S.A	2	7%	0	0%	2	7%	0	0%	0	0%	0	0%
- Patrício, Moreira, Valente & Associados, SROC	1	4%	1	4%	0	0%	0	0%	0	0%	0	0%
P. Matos Silva, Garcia Jr., P. Caiado & Associados	1	4%	1	4%	0	0%	0	0%	0	0%	0	0%
Others	7	26%	5	50%	0	0%	1	50%	0	0%	0	0%

Appendix 10: Marginal frequencies between type of provisions and sector of operation

Type \ Sector	Basic Materials	Communications	Consumer, Cyclical	Consumer, Non-	Diversified	Energy	Industrial	Technology	Utilities	Thousands of Euros	%
Others	45.991	72.829	24.926	148.909	14.868	114.518	51.752	769	230.308	704.870	41%
Restructuration	-	26.573	22.729	140.499	-	53.156	99.544	-	-	342.501	20%
Tax risks	23.010	59.269	8.126	-	-	24.545	82.147	-	-	197.097	11%
Legal risks	4.398	36.347	12.784	3.443	323	12.763	14.453	2.790	109.487	196.787	11%
Guarantees	1.323	-	7.961	-	5.390	-	12.791	380	108.480	136.325	8%
Environmental risks	3.013	-	-	-	-	4.431	-	-	-	7.444	0%
Unspecified	1.981	6.737	14.566	53.294	505	631	15.825	-	-	93.540	5%
Employee benefits	-	1.946	4.555	23	-	-	28.721	-	-	35.246	2%
Onerous contracts	-	-	-	-	1.393	-	-	-	-	1.393	0%
Thousands of Euros	79.716	203.702	95.647	346.168	22.479	210.044	305.232	3.939	448.275	1.715.203	100%
%	5%	12%	6%	20%	1%	12%	18%	0%	26%	100%	