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The Impact of IFRS in the Financial Information of the Portuguese Companies

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RESUMO/ABSTRACT

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With the purpose of increasing the efficiency of the European finance market, the European Union forced the classified companies in the share market to publish, from January 1st, 2005 onwards, their consolidated financial statements with the support of the International Financial Reporting Standards (IFRS), emanated of International Accounting Standards Board (IASB).
This study intends to measure the impact caused by IFRS application in the financial information of the Portuguese business companies, belonging to the Eurolist by Euronext Lisbon. The results demonstrated that the structure of the consolidated balance sheet and income statement suffered a relevant accounting conversion, conditioning the measure made to the performance and the financial position of the business companies. However, one verified that the accounting variations occurred didn't reveal a pattern, being excessively inconstant.
The existence of dependent relationships was verified among the relative percentage verified in some accounting items and the business dimension of the companies. The larger the dimension of the studied companies the bigger the impact of the IFRS application.

Key Words: Accounting harmonization; International Financial Reporting Standards (IFRS); and impact in the financial information.

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THE IMPACT OF IFRS IN THE FINANCIAL INFORMATION OF THE PORTUGUESE COMPANIES

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THE IMPACT OF IFRS IN THE FINANCIAL INFORMATION OF THE PORTUGUESE COMPANIES

Abstract

With the purpose of increasing the efficiency of the European finance market, the European Union forced the classified companies in the share market to publish, from January 1st, 2005 onwards, their consolidated financial statements with the support of the International Financial Reporting Standards (IFRS), emanated of International Accounting Standards Board (IASB).

This study intends to measure the impact caused by IFRS application in the financial information of the Portuguese business companies, belonging to the Eurolist by Euronext Lisbon.

The results demonstrated that the structure of the consolidated balance sheet and income statement suffered a relevant accounting conversion, conditioning the measure made to the performance and the financial position of the business companies. However, one verified that the accounting variations occurred didn't reveal a pattern, being excessively inconstant.

The existence of dependent relationships was verified among the relative percentage verified in some accounting items and the business dimension of the companies. The larger the dimension of the studied companies the bigger the impact of the IFRS application.

Key Words: Accounting harmonization; International Financial Reporting Standards (IFRS); and impact in the financial information.

Introduction

During the last years, the accounting harmonization has been gaining importance, being fundamental for the satisfaction of the growing demand for essential financial information for the international businesses.

The accounting has stopped to fulfil the needs of the traditional economical agents, such as the fiscal authorities and the creditors, arising new types of people interested in the financial information. These last ones developed economical and social pressures to make the resources more efficient, also increasing the demand for international standards, capable of compensating this collective aim.

Despite of the continuous alterations in the Portuguese accounting standards, since the introduction of the first Official Chart of Accounts (POC) of 1977, the adhesion of Portugal to the European Union (EU) had intensified this process, through the implementation of Directives and EC Regulations. In the recent past, the application of the Regulation (EC) N.1606/2002 of July 19th, 2002 demanded all listed EU companies, from January 1^{st,} 2005 onwards, to present their consolidated financial statements, conformingly to the International Financial Reporting Standards (IFRS). It will probably be the largest revolution exercised in accounting standards and practices.

The main objective of this study consists in the evaluation of the impact of the IFRS adoption in the structure of the consolidated balance sheet and income statement of the Portuguese companies (excluding the financial, sports and foreigners enterprises) listed at the Euronext Lisbon official market. This way, it is feasible to corroborate, or not, with the hypothesis that significant adjustments were made after the application of the referred EC Regulation, independently of the inclusion of IFRS in the Portuguese accounting system, through the Portuguese accounting Directives (DC) of Portuguese Accounting Standards Board (CNC).

The study intends equally to demonstrate if exists causal relationships among the percentage variations verified in some accounting items of the consolidated balance sheet and income statement and another variables associated to the nature of the companies, namely, the dimension.

Constituting the ratios an instrument of evaluation of the acting and of the financial position of the societies, it is also intended to quantify the differences occurred, after the introduction of IFRS, in certain economical and financial indicators, namely: gearing, price earnings ratio (PER) and earnings per share (EPS).

This paper is organized as follows: the next chapter reviews the previous literature on the exposed theme; chapter III presents the methods and techniques used in the execution of the empiric tests; in chapter IV it is defined the data source, the universe of the study and the level of representativeness of the observed data; in chapter V one interprets the procedures and the achieved empiric results and in chapter VI conclusions are presented.

Literature Review

Since the ends of the 20th century, humanity attended to a growing change in several aspects concerning the human life, such as economical, political, social and cultural, mainly in result of the geographical expansion of the industries, internationalization of the finance markets, modernization of transports and telecommunications. Indeed, the number of countries involved in this process and dependent of the international businesses is growing, being required a larger preparation in the management areas. The accounting became more complex and sophisticated. In this new scenario, labeled as "the age of knowledge", the key word is "information, being possible to understand the importance that the accounting harmonization has in the exchange of information between stakeholders (Radebaugh and Gray, 1993; Choi *et al.*, 1999; Leuz and Verrecchia, 2001; Chinoy, 2002 and Alsalman, 2003).

The genesis of the accounting harmonization process in Europe is interconnected with EU's own history. One of their main objectives, after the treaty of Rome (1957), and European Economic Community (EEC), was the free circulation of people, goods, services and capitals among EU Member States. The development of the free circulation of capitals would be based on the creation of integrated financial services.

In a first phase, Fourth Council Directive 78/660/EEC of 25 July 1978[1] (Fourth Directive) and Seventh Council Directive 83/349/EEC of 13 June 1983[2] (Seventh Directive), constituted the main instruments of EU accounting harmonization, through the legislative process.

1 Published in JO L 222, de 14/08/1978.

2 Published in JO L 193, de 18/07/1983.

In spite of the expected importance of UE in the implementation of community Directives, several studies demonstrated that the effects caused by Directives were more formal than substantial. Van der Tas (1992), Emenyonu and Gray (1992), Joos and Lang (1994) and Archer *et al*. (1995) proved in their studies made in several European countries, relatively to certain accounting practices, that exist differences when the used treatments are compared, before and after the adoption of the Directives[3]. However, they didn't find any significant evidence that the accounting harmonization was caused only by their transposition. Although in this phase existed a decrease of this difference, this reduce can be only connected with the process of spontaneous harmonization. However, it can create pressure for the development of the formal harmonization[4] (Van der Tas, 1992 and Cañibano and Mora, 2000).

This way, one accepts the hypothesis that the community norms referred are too flexible to foment the increase of the comparability degree among financial disclosure (Cañibano and Mora, 2000).

In a second phase, as an historical reference, in November of 1995 and after the increase of the supremacy of the EU, the European Commission presented a document denominated "Accounting Harmonization: a new strategy vis-à-vis international harmonization" (Comissão Europeia, 1998).

This process was intensified in March of 2000 with the approval in the European Council of Lisbon, of the "Financial Services Action Plan". In the ECOFIN meeting of July 17th of the same year, it was approved by the Council the "EU Financial Reporting Strategy: the way forward". The commission, after that approval,

3 Joos e Lang (1994) e Archer et al. (1995) only studied the effect in the accounting harmonization relatively to the Fourth Directive. The universe of the observed elements and the accounting practices used were different in each study.

4 According to Van der Tas (1988) and Tay and Parker (1990) the harmonization becomes spontaneous when the accounting convergence is supported by accounting practices, instead of being caused by the accounting standards.

presented a proposal of Regulation to the European Parliament and to the Council with the purpose of binding to all publicly traded Community companies the obligation of preparing the consolidated financial statements at most in the beginning of 2005, in harmony with the IFRS. The proposal of the European Commission was approved by the Regulation (EC) N.1606/2002, of the European Parliament and of the Council, published on the 11th of September 2002.

The IFRS application, present in the referred regulation, had as main objective the accounting harmonization in EU enterprises in order to secure the investors protection; to maintain the confidence and to ease the negotiations in the community and international capital market and international; to surpass the conflicts between the national and international accounting norms; and to reduce the problematic of the double financial disclosure in home market, with the intent to secure an elevated degree of transparency and comparability of the consolidated financial statements (Comissão das Comunidades Europeias, 2003).

Subsequently to the mentioned standards, the EU has been effectuating several alterations, in the context of the EU Directives and Regulations. One must point out the Regulation (EC) N.1725/2003, the Directive 2003/51/CE, the Regulation (EC) N.707/2004, the Regulation (EC) N.2086/2004, the Regulation (EC) N.2236/2004, the Regulation (EC) N.2237/2004, the Regulation (EC) N.2238/2004 and the Regulation (EC) N.211/2005.

Relatively to the process of the Portuguese accounting harmonization we can analyze it in two stages: a first stage, between 1975 and 1986; and a second stage, from 1986 until nowadays (Rodrigues and Guerreiro, 2004).

The first stage was marked by the introduction of the first POC, approved by the Decree-Law N.47/77, February 27th of 1977, in result of the studies about accounting normalization carried out by a work group close to the Ministry of the Finances.

As a consequence of the Portugal adhesion to the EU (second stage), it was necessary to adapt the national accounting system to the demands imposed by the community, namely by Fourth and Seventh[5] Directive.

From 1991 on, with the support of the CNC and through the emission of DC[6], Portugal incorporated in the national legislation conceptions used in the international standards, including those of the International Accounting Standards Board (IASB). For Rodrigues and Pereira (2004), the accounting normalization process, through the emission of the DC, is considered relevant in the national context, since it accompanied the international accounting tendencies. The PriceWaterhouseCoopers (2004) refers that the last DC are very proximate of the IFRS.

However, the PriceWaterhouseCoopers (2004) considers that there are still many differences between the Portuguese standards (present in POC and in the DC) and IFRS. The differences go from the recognition of the resulting operations of the activity to the presentation of the financial disclosure. In parallel, Choi and Levich (1991), referred by Rodrigues and Guerreiro (2004), states that the international financial analysts, relatively to the foreign investments, put reserves concerning the use of the Portuguese generally accepted accounting principles (PCGA).

In 1995, after the European Commission having shown the intention of introducing the IFRS in the European accounting system, the CNC issued, in 1997, the DC nº18/97 – The general accepted accounting principles in force in Portugal

5 Approved by the Decree-Law 410/89, of November 21st and by the Decree-Law 238/91, of July 2nd, respectively.
6 Until March of 2004, the CNC presented 29 DC (Ferreira, et al., 2004).

(the DC n. º18 was revised recently, however, his application will not have practical effects in the results of this study). This way, the DC n. º18/97 contributed to reduce the distance between the IFRS and the Portuguese accounting principles. So, it was subordinated the use of the PCGA through the following: first, the ones present in POC; second, the ones present in the DC; and thirdly, the ones spread in the IFRS (Comissão Europeia, 1998).

Eventhough the IFRS are transposed for the Portuguese accounting system, in a subsidiary form, Ferreira *et al*. (2004) demonstrated, in an inquiry made to the non-financial publicly traded Portuguese companies (referent to 1999) and to the Official Auditors (ROC), relatively to the deferred tax (without accounting treatment in the POC and DC), that does not exist accomplishment in the IFRS application, caused by the lack of information and training. The study also revealed that some enterprises and Official Auditors do not use IFRS because they were waiting for the effective incorporation in the national legislation.

Relatively to the expectations on the IFRS impact in the financial information, the study of Guerreiro and Rodrigues (2004) demonstrated that the publicly traded Portuguese companies in the national capital market consider that there will exist a large impact in the values of the financial disclosure, justified by the near relation between the Portuguese accounting standards and the IFRS, through the incorporation of the IASB Conceptual Framework in the DC.

On the other hand, PriceWaterhouseCoopers (2002) mentions that in a short term the use of IFRS will minimize the expected positive effects, since that after the transition the financial comparative analysis will be supported in different accounting standards, which can allow this period to harm the credibility and the functioning of the capital markets.

Methodology

Due to the peculiarity of the current European accounting convergence, the analysis of the impact of the Regulation (EC) N.1606/2002 implementation represents a new alternative of the preceding studies. We intend to test the hypothesis shown in the study of Guerreiro and Rodrigues (2004) regarding the publicly traded Portuguese companies in the national capitals market, when they consider that there will not be a significant impact in the values of the financial disclosure.

For the accomplishment of this study it was used the Statiscal Program For Social Sciences (SPSS), for Windows, with the intention of analyzing statistically the obtained data. The statistical application included the descriptive statistic, the financial ratio analysis and the simple linear regression models.

In a first analysis, one elaborated the frequencies distribution of the data through the descriptive statistic. The study of the mean and std. deviation was based on the absolute and percentage variations of the values presented in some accounting items concerning the consolidated balance sheet and income statement, after the IFRS application.

Additionally, we analyze the absolute variations of the consolidated balance sheet and income statement items in function of the total assets, with the purpose of checking which accounting items have bigger influence on the alteration of the financial structure.

Relatively to the financial analysis, we used the financial ratio analysis, which consists in the relation between financial and economical items. The ratios are an instrument of support in the evaluation of the economical and financial performance across time, though quantified by financial aspects (Neves, 2000). This way, we intend to study the differences of some of these coefficients, being possible to measure the existence of benefit or harm attributed to the involved economical agents, since, independently of the global economical and financial conjuncture, the IFRS implementation conditioned the evaluation effectuated to the performance and to the financial position of the enterprises.

The preparation of the ratios depends on the analysis objective and data source. Despite existing several indicators, it was recognized in this study those of frequent use in the financial context and since its calculation was practicable, regarding the data limitations. So, one examined the following ratios: gearing, PER and the EPS, being calculated through the information contained in some consolidated balance sheet and income statement items, complemented by the value of the market capitalization and number of share in circulation at the date in which the accounting conversion was observed.

Finally, to test the hypothesis of existing positive or negative correlations among the percentage variations of the referred financial disclosure (dependent variables) and the business dimension (*BD*) of the enterprises, concerning the total assets, market capitalization, turnover and net profit (independent variables), it was used simple lineal regression models.

The use of independent variables was based on his adaptation to the studied subject, and also due to the data's availability.

If the existence of correlation is confirmed, we will conclude that the bigger the financial structures of the companies, the larger or minor will be the accounting adjustments between the values recognized by IFRS comparatively to the POC.

The exposed model represents forty eight simple lineal regressions regarding the combination of each accounting item observed with the independent variables.

$$\mathrm{V}n_i = \beta_0 + \beta_1\, BDt_i + \varepsilon_i \qquad (1)$$

n = 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12
t = 1, 2, 3, 4
i = 1,…,39

in which:
V - represents the accounting items
BD - represents the business dimension
n - designates the number of the accounting items
t - indicates the characteristics number associated to the business dimension
i - indicates the number of cases studied

For the accomplishment of the models, it was used as dependent variables the percentage variations occurred in 12 accounting items (V).

In a last analysis, to lessen the analysis difficulty caused by the inclusion of elements with a relatively superior business dimension, one excluded of the observation the enterprises EDP - *Energias de Portugal, SA* (EDP) and *Portugal Telecom, SGPS, SA* (PT). Considering the total of the market capitalization as a criterion of evaluation of the business dimension, one verifies that these societies represent nearly 48 % of the pre-outlined sample.

Data

In this chapter we have defined the data source, the study universe and the representativeness level of the sample.

The preference for the data source and sample elements was based on the set of methodological problems relevant for the elaboration of the investigation, defined in the studies of Tay and Parker (1990). These authors studied, amongst other subjects, the type of data source, with the purpose of supporting the subsequent studies, relative to the harmonization and accounting normalization.

This way, the obtained data collected in the financial disclosure, though slow and delicate, satisfied the necessities of the investigation, by the presence of several essential details to the study. On the other hand, several obstacles were found, mainly in the information access and in the examination of the technical terminology.

It is only possible to quantify the impact in the financial disclosure when the information produced in agreement with POC and with IFRS is comparable, in a certain moment. Van der Tas (1988) describes this type of comparable information of “multiple reporting”, when additionally it is presented financial data based on another accounting criterion. The author refers that the “multiple reporting” can be collected in three forms: the first, through two sets of reports, based on different accounting criteria; the second, through a single report that includes two different financial disclosures with different accounting standards; and the third, when an enterprise, in spite of presenting a single set of financial disclosures, supplies in attachment the necessary information to adjust the referred financial demonstrations based on a different accounting criterion.

For the accomplishment of the study it was used the first and the second forms of obtaining “multiple information” of Van der Tas (1988), in accordance with the possibility of confronting the financial data to the consolidated balance sheet and income statement prepared for a certain period, in accordance with POC and IFRS.

The date by which the accounting adjustments are observed between the enterprises is sometimes different, mainly in the balance sheet, in which IAS 34 is optional in the IASB Conceptual Framework to the “Interim Financial Reporting”, just demanding a comparison of the information with the homologous period, instead of the confrontation with the previous year. One understands that the degree of the occurred variations is unchangeable and independent of the date of the observed transition.

The present study is restricted to all publicly traded Portuguese enterprises that prepare their consolidated financial statements in the official market lists of Euronext Lisbon, which had to adjust the values measured by POC to IFRS, including in 31/03/2005[7] 39 enterprises, considering the exclusion of the financial enterprises (7 cases), sports enterprises (2 cases) and foreigners enterprises (2 cases)[8], considering that they contain certain peculiarities that would make the comparison maladjusted among the remaining ones.

The following Table [Insert Table 1] presents for all of the studied companies the date by which one observed the comparability of the values recognized by the two standards ("transition") and the respective financial disclosure necessary for getting the data (“Source Data”).

7 Reference date for observation of the elements to use in this study.

8 “Banco Santander Central Hispano, SA” is excluded of analysis because of being a financial and foreign enterprise.

Concerning the level of representativeness of the data, it is verified that the form that several companies presented the balance sheet didn't comply with a common typology. This way, it was prepared for the descriptive analysis the accounting items with major expressiveness. The accounting items with less number of observations were collected in: "other assets items", “other equity capital items” and “other liabilities items”, according to the framing in the structure of the balance sheet.

However, the observation’s frequency of the mentioned items varied. The level of representativeness of the accounting items for the sample of 39 enterprises will be demonstrated in the results presentation.

Comparatively to the accounting items of the income statement, 37 enterprises were studied, so that the date of the observed transition was the same, since the comparison of the activity performance between enterprises must always be regarding to the same period.

For the accomplishment of the simple linear regression models, due to the frequencies level verified in some accounting items of the balance sheet, one decided to group more items, comparatively to the descriptive analysis. On the other hand, to enable the analysis to a sample of 39 elements, one substituted the "Missing Values" by the mean of the accounting variations checked in each item. However, this difficulty could be corrected by the elimination of the cases (enterprises) that didn't present the totality of the data. We don’t think it is the best option, since the statistical analysis was centered in a more reduced and indefinite sample.

Empirical Results

After accomplishing the treatment of the data, we proceeded to the application of the techniques and statistical analyses, interpretation of procedures and results of the study, concerning the descriptive analysis, financial ratio analysis and simple lineal regression models.

For the descriptive analysis, we used the absolute and percentage variations occurred in the financial disclosure and it was obtained the mean and the Std. deviation of the items of the balance sheet and income statement, paying attention to the sample representativeness, as a result of the Tables 2 and 3 [Insert Table 2 and 3], accordingly.

Although is impracticable to compare the significance level of the variations of the values recognized by IFRS relatively to another historical event, once inexistent, the alteration of the structure of the financial disclosure is evident and plausible. Nevertheless, such an incident is considerably expressive, concerning to the mean and std. deviation.

However, one verifies the inexistence of a standard relatively to the variations (absolute and percentage) verified in the consolidated balance sheet and income statement. This way, the analysis made shows that it is not acceptable to consider for a moderate significance level that the studied accounting items vary in the constant form (positive or negative), since the Std. deviation present excessively superior values comparatively to the mean.

To analyze the accounting adjustments occurred in each item, regarding its structure in the balance sheet, we used the absolute variations of the consolidated balance and income statement according to the total of net assets, such as presented in the Tables 4 and 5 [Insert Table 4 and 5], accordingly.

The results reveal that the items: tangible assets; loans; and operating expenses (relatively to 36, 24 and 37 observations, accordingly) present the largest mean relative variation, that means that the recognition of these, through the IFRS, produces a high effect in the financial disclosure structure.

The implementation of IFRS, besides creating obstacles to the financial analysis through the loss of comparable data, conditioned the evaluation made by their users. According to the results obtained in Table 6 [Insert Table 6] one verified that the alteration of the ratios, for mere accounting adjustment, distorted the measure of the financial position and performance of the enterprises.

The gearing ratio (included in the class of the financing coefficients) presented, on average, an unfavorable conversion, which means that from the point of view of the financial analysis, the capacity of the enterprises (for the total of the sample) for solving the commitments of medium and long term lessened, increasing this way the degree of risk for the non-accomplishment of the debt service.

Relatively to the coefficients based on the market, comparative to the results of the 1st Quarter of 2004, for 37 enterprises observed, one verified for the PER and EPS, a financial damage for the capital holders, though this harm is obviously subjective, since the financial performance of the enterprises was not altered for mere accounting conversion. On the other hand, it is necessary to think that the IFRS implementation has improved the evaluation of the enterprises, based in a more consistent criterion.

Considering the simple linear regression models previously described, one verified if the obtained results confirm the formulated hypotheses.

In a first analysis, one checked, for a 5% significance level, a statistical expressive relation between the accounting adjustments in certain items (dependent variables: intangible assets; investments; and financial profit) and the independent variables: turnover. On the other hand, relatively to the linearity of these relations, measured by the coefficient R^2, was not registered any relevance.

As explained in chapter 3, the models were elaborated in a simple form, with a sample of 37 elements, being suppressed EDP and PT.

Tables 7 and 8 [Insert Table 7 and 8] present a synthesis of the results of the simple linear regression models, relatively to the consolidated balance sheet and income statement, except EDP and PT.

It was verified, for a 5% significance level, that the bigger the enterprises' dimension (appraised by the total assets, turnover, net profit and market capitalization), the bigger it will be the accounting conversion in percentage terms caused by the IFRS adoption in the items of intangible assets, investments and financial profit. One also verifies expressive statistical relations, for a 5% significance level, between the independent variable net profit and the dependent variables, operating income and minority interests. Nevertheless, the coefficient of determination R^2 did not register considerable values in the statistical relations previously exposed.

The following Table [Insert Table 9] presents the existent type of correlation between the dependent and independent variables associated to the business dimension, when there is a statistical expressive relation, for a 5% significance level, considering the sample constituted by 36 elements, as appropriate and balanced.

On the other hand, one analyze the dependence relations between the percentage variations of the accounting items described previously and the enterprises activity, concerning the technological and Internet sector, industrial sector and other services rendered to the enterprises, through multiple linear regression models. The results did not show any significant statistical relation.

Conclusions

The accounting convergence process in Portugal was altered with the adhesion to the EU, through the application of communitarian standards, chiefly, the EU Directives and Regulations. It was expected that the transposition of the Community Directives, mainly on the Fourth and Seventh Directives, promoted the largest conformity in the accounting treatments between EU Members States. However, this process became more formal than material.

Nevertheless, the effective harmonization of the practices and accountings standards appeared with the IFRS application, in such a way that it caused in a short term an imbalance in the financial information, distorting the accounting values recognized by the national standards, instead of the European accounting harmonization.

The study results demonstrated that the structure of the consolidated financial disclosure (balance sheet and income statement) of the publicly traded Portuguese companies in the official market lists suffered an expressive impact with the IFRS application, although the IASB Conceptual Framework has been used through DC. So, the CNC objective to minimize the expressive accounting correction, after the conversion date, didn't produce the expected result.

On the other hand, the results revealed that the variations were more intense in the following accounting items: fixed tangible assets; loans; and operational costs, concerning the structure of the total assets, total liabilities and net profit, accordingly.

However, one verifies the inexistence of a pattern, either in the balance sheet or in the income statement, relatively to the occurred variations. We conclude that is not acceptable to consider that the alterations of the values of the accounting items vary in a constant way.

The IFRS implementation conditioned the analysis effectuated to the performance and to the financial position of the enterprises by stakeholders. It was demonstrated that there was a financial damage for the capital holders, though this harm is obviously subjective, since the economical situation of the enterprises did not become altered for jewfish accounting changes. On the other hand, it is necessary to think that the IFRS implementation has improved the evaluation made to the enterprises, based on fairer values.

Besides the distortion to the measure of the performance and the financial position of the enterprises, the users of the information were deprived of comparing correctly the financial data of the preceding years to the date of IFRS introduction, except through a conversion of the values recognized by POC and DC, which would be a delicate task.

On the other hand, considering the business dimension of EDP and PT as excessive, while excluding them of the analysis, we conclude that the bigger is the dimension of the companies (quantified by the total assets, turnover, net profit and market capitalization) the bigger are the percentage variations occurred in accounting items intangible assets, investments and financial profit. This relation was registered also between the net profit and the percentage variations checked in the operating income and minority interests. However, the significant relations presented are obviously not linear.

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Table 1 – Source Data

N.º	Analyzed Companies	Balance Sheet		Income Statement	
		Transition	Source Data	Transition	Source Data
1	Brisa - Auto Estradas de Portugal, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
2	Cimpor - Cimentos de Portugal, SGPS, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
3	CIN - Corp. Industrial do Norte, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
4	Cires - Comp. Ind. Resinas Sintéticas, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
5	Cofina, SGPS, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
6	Compta - Equip. Serv. Informática, SA	31-03-2004	1ºQ_05 / 1ºQ_04	31-03-2004	1ºQ_05 / 1ºQ_04
7	Cortiçeira Amorim, SGPS, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
8	EDP - Energias de Portugal, SA	31-03-2004	1ºQ_05 / 1ºQ_04	31-03-2004	1ºQ_05 / 1ºQ_04
9	Efacec Capital, SGPS, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
10	Estoril Sol, SGPS, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
11	Fisipe - Fibras Sintéticas de Portugal, SA	01-01-2004	1ºQ_05	31-03-2004	1ºQ_05
12	Gescartão, SGPS, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
13	Grupo Media Capital, SGPS, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
14	Grupo Soares da Costa, SGPS, SA	31-03-2004	1ºQ_05	31-03-2004	1ºQ_05
15	Ibersol, SGPS, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
16	Imobiliária Construtora Grão-Pará, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
17	Impresa, SGPS, SA	31-12-2004	1ºH_05	31-03-2004	1ºQ_05
18	Inapa - Invest., Part. de Gestão, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
19	Jerónimo Martins, SGPS, SA	31-12-2003	2004 / 2003	31-03-2004	1ºQ_05
20	Modelo Continente, SGPS, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
21	Mota-Engil, SGPS, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
22	Novabase, SGPS, SA	31-03-2004	1ºQ_05 / 1ºQ_04	31-03-2004	1ºQ_05 / 1ºQ_04
23	Papelaria Fernandes - Indust. e Com., SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
24	Pararede, SGPS, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
25	Portucel - Emp. Prod. Pasta de Papel, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
26	Portugal Telecom, SGPS, SA	31-12-2004	1ºQ_05 / 2004	31-03-2004	1ºQ_05
27	PT - MultiMean - Serv. Tel. Mult., SGPS, SA	31-12-2004	1ºQ_05 / 2004	31-03-2004	1ºQ_05
28	Reditus, SGPS, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
29	Sag Gest, SGPS, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
30	Salvador Caetano - Ind. Metal. V. Tran., SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
31	Semapa - Soc. de Inv. Gestão, SGPS, SA	31-12-2004	1ºH_05		
32	Sociedade Comercial Orey Antunes, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
33	Sonae Indústria, SGPS, SA	31-03-2004	1ºQ_05	31-03-2004	1ºQ_05
34	Sonae, SGPS, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
35	Sonae.Com - SGPS, SA	31-12-2002	2003 / 2002		
36	Sumolis - Comp. Ind. Frutas e Bebidas, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
37	Teixeira Duarte - Eng. Construção, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
38	Tertir - Terminais de Portugal, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05
39	VAA - Vista Alegre Atlantis, SGPS, SA	31-12-2004	1ºQ_05	31-03-2004	1ºQ_05

Table 2 – Balance sheet variations

Balance Sheet Items	Absolute variations *		Percentage variations		Frequency
	Mean	Std. Deviation	Mean	Std. Deviation	
Intangible assets	8.819	99.893	-10,78	58,83	37
Tangible assets	-61.338	317.173	6,79	22,83	36
Investments	62.739	323.461	22,70	125,15	37
Deferred tax assets	14.520	52.302	15,89	57,30	21
Inventory	13.940	61.966	12,01	49,55	24
Cash and cash equivalents	2.876	10.624	3,84	12,39	25
Others assets items	-22.325	129.813	-3,60	18,64	39
Total assets	**7.185**	**298.433**	**1,50**	**15,01**	**39**
Consolidated net profit	2.110	8.860	-12,74	89,15	14
Minority interests	4.445	48.422	-13,50	32,06	37
Others equity items	-33.868	369.097	1,59	64,91	39
Total equity	**-28.893**	**366.558**	**3,19**	**58,60**	**39**
Loans	31.544	109.046	8,37	26,79	24
Deferred tax liabilities	29.049	87.436	183,96	429,86	21
Provisions	17.416	169.483	48,31	332,50	38
Others liabilities items	-15.944	153.055	-0,88	16,72	39
Total Liabilities	**36.079**	**218.908**	**3,42**	**13,32**	**39**
Total equity and Liabilities	**7.185**	**298.433**	**1,50**	**15,01**	**39**

* Amounts expressed in thousands of euros

Table 3 – Income statement variations

Income Statement Items	Absolute variations *		Percentage variations		Frequency
	Mean	Std. Deviation	Mean	Std. Deviation	
Operating income	-849	11.534	-1,18	10,23	37
Operating expenses	3.906	11.330	2,18	10,93	37
Operating profit	**3.607**	**8.216**	**123,23**	**605,09**	**37**
Financial profit	-374	7.249	-29,57	193,49	37
Current results	**3.234**	**6.921**	**31,52**	**94,65**	**37**
Extraordinary profit	-1.066	4.761	-11,89	148,36	37
Profit before income tax	**2.168**	**7.608**	**11,89**	**68,90**	**37**
Income tax	-1.035	4.195	4,43	80,15	37
Minority interests	110	795	1,94	37,08	37
Consolidated net profit	**1.242**	**5.878**	**14,66**	**64,00**	**37**

* Amounts expressed in thousands of euros

Table 4 - Balance sheet relative variations

Balance Sheet Items	Percentage variations		Frequency
	Mean	**Std. Deviation**	
Intangible assets	-0,95	14,25	37
Tangible assets	2,19	10,39	36
Investments	0,61	4,80	37
Deferred tax assets	0,76	2,70	21
Inventory	0,63	3,47	24
Cash and cash equivalents	0,24	0,68	25
Others assets items	-1,15	5,06	39
Total assets	**1,50**	**15,01**	**39**
Consolidated net profit	0,67	1,49	14
Minority interests	-0,52	1,76	37
Others equity items	-0,62	10,94	39
Total equity	**-0,87**	**11,27**	**39**
Loans	3,29	10,07	24
Deferred tax liabilities	1,00	1,77	21
Provisions	-0,40	2,89	38
Others liabilities items	0,20	5,84	39
Total Liabilities	**2,37**	**8,42**	**39**
Total equity and Liabilities	**1,50**	**15,01**	**39**

Table 5 - Income statement relative variations

Income Statement Items	Percentage variations		Frequency
	Mean	**Std. Deviation**	
Operating income	-0,02	0,25	37
Operating expenses	0,08	0,24	37
Operating profit	**0,08**	**0,18**	**37**
Financial profit	-0,01	0,16	37
Current results	**0,07**	**0,15**	**37**
Extraordinary profit	-0,02	0,10	37
Profit before income tax	**0,05**	**0,16**	**37**
Income tax	-0,02	0,09	37
Minority interests	0,00	0,02	37
Consolidated net profit	**0,03**	**0,13**	**37**

Table 6 – Ratios Variations

Ratios	Absolute variations		Percentage variations		Frequency
	Mean	Std. Deviation	Mean	Std. Deviation	
Gearing	-1,555	9,147	-1,79	50,00	39
Price Earning Ratio (PER)	50,633	331,088	107,55	620,28	37
Earnings Per Share (EPS) *	-0,002	0,047	-4,23	65,57	37

* Amounts expressed in euros

Table 7 – Results Synthesis with the simple linear regression without the EDP and PT (balance sheet)

Dependent variables	Independent variables			
	Total assets	**Turnover**	**Net profit**	**Market capitalization**
Intangible assets				
R^2	0,229	0,223	0,116	0,105
b	1,784E-05	2,127E-05	3,222E-04	2,156E-05
Sig. t / F	0,003	0,003	0,039	0,050
C	-29,844	-27,261	-21,885	-22,946
Sig. C	0,006	0,010	0,043	0,042
Tangible assets				
R^2	0,071	0,078	0,050	0,100
b	-3,810E-06	-4,830E-06	-8,100E-05	-8,090E-06
Sig. t / F	0,112	0,095	0,185	0,056
C	11,468	11,134	10,180	11,926
Sig. C	0,012	0,011	0,019	0,007
Investments				
R^2	0,298	0,454	0,158	0,118
b	4,383E-05	6,545E-05	8,112E-04	4,920E-05
Sig. t / F	0,000	0,000	0,015	0,037
C	-23,293	-27,031	-4,402	-4,263
Sig. C	0,280	0,142	0,842	0,856
Others assets items				
R^2	0,008	0,001	0,001	0,015
b	-1,060E-06	-5,050E-07	-7,530E-06	-2,650E-06
Sig. t / F	0,609	0,841	0,887	0,473
C	1,627	0,892	0,761	1,975
Sig. C	0,674	0,811	0,835	0,601
Total equity				
R^2	0,021	0,024	0,006	0,027
b	5,615E-06	7,206E-06	7,760E-05	1,122E-05
Sig. t / F	0,388	0,359	0,639	0,333
C	-1,474	-1,052	1,835	-1,760
Sig. C	0,903	0,928	0,873	0,881
Total Liabilities				
R^2	0,010	0,000	0,007	0,041
b	-8,720E-07	-2,680E-08	-1,920E-05	-3,170E-06
Sig. t / F	0,558	0,988	0,611	0,229
C	4,346	3,445	4,074	5,181
Sig. C	0,123	0,204	0,126	0,059

Table 8 – Results Synthesis with the simple linear regression without the EDP and PT (Income Statement)

Dependent variables	Independent variables			
	Total assets	**Turnover**	**Net profit**	**Market capitalization**
Operating income				
R^2	0,030	0,000	0,110	0,000
b	1,948E-06	-2,130E-07	9,564E-05	-3,320E-07
Sig. t / F	0,309	0,927	0,045	0,923
C	-1,026	1,195	-2,200	1,216
Sig. C	0,772	0,730	0,494	0,730
Operating expenses				
R^2	0,016	0,002	0,004	0,033
b	9,117E-07	3,981E-07	1,106E-05	2,306E-06
Sig. t / F	0,450	0,786	0,719	0,282
C	1,151	1,809	1,740	0,836
Sig. C	0,608	0,407	0,416	0,702
Financial profit				
R^2	0,283	0,611	0,210	0,131
b	-6,610E-05	-1,170E-04	-1,001E+00	-8,020E-05
Sig. t / F	0,001	0,000	0,004	0,028
C	39,964	59,942	18,984	14,621
Sig. C	0,236	0,015	0,567	0,685
Extraordinary profit				
R^2	0,000	0,000	0,001	0,000
b	-1,150E-06	-6,610E-07	-1,440E-03	3,650E-06
Sig. t / F	0,943	0,973	0,873	0,900
C	-18,782	-20,505	-17,778	-22,023
Sig. C	0,536	0,482	0,534	0,459
Income tax				
R^2	0,068	0,043	0,027	0,025
b	-1,410E-05	-1,360E-05	-2,260E-04	-1,540E-05
Sig. t / F	0,120	0,217	0,331	0,345
C	15,620	11,149	8,374	9,287
Sig. C	0,351	0,493	0,602	0,578
Minority interests				
R^2	0,051	0,000	0,184	0,002
b	1,078E-05	-9,590E-07	5,179E-04	3,616E-06
Sig. t / F	1,177	0,922	0,008	0,802
C	-1,107	11,013	-7,220	8,275
Sig. C	0,940	0,450	0,576	0,576

Table 9 – Correlation type between the variables

Dependent variables	Independent variables			
	Total assets	**Turnover**	**Net profit**	**Market capitalization**
Intangible assets	Positive	Positive	Positive	Positive
Tangible assets				
Investments	Positive	Positive	Positive	Positive
Others assets items				
Total equity				
Total Liabilities				
Operating income			Positive	
Operating expenses				
Financial profit	Negative	Negative	Negative	Negative
Extraordinary profit				
Income tax				
Minority interests			Positive	