

2006-12-11

PRESS RELEASE

Trend in the financial structure and results of firms in 2005

(Article published in the Economic Review, 4th quarter 2006)

The economic context in 2005 was less favourable than in 2004, owing to the weakening of both foreign and domestic demand. Under these circumstances, the growth of total value added generated by non-financial corporations slackened pace, dropping from 6.6 p.c. in 2004 to 4 p.c. in 2005. At the same time, operating expenses rose more slowly than value added for the third consecutive year. That situation produced a further significant increase in the net operating result (+8.4 p.c.), which had already shown an exceptional rise in 2003 and 2004. In the space of three years, the operating result gained around 12 billion euro, a rise of almost 70 p.c., attributable essentially to the control of operating expenses in a generally favourable economic climate.

As regards the financial and exceptional results, a very large net profit was recorded in 2005. Once all the profit and loss account items had been aggregated, non-financial corporations made a record net profit of almost 41 billion euro, more than 50 p.c. higher than in 2004. Excluding the exceptional result, the profits came to almost 30 billion euro. For the record, the net profit excluding the exceptional result has doubled since 2002.

Strongly influenced by fluctuations in the exceptional result, the return on equity after tax increased significantly in the leading firms in 2005. With a slight decline in leverage in large firms, financial debt levels were down and financial independence remained strong. Average interest charges continued to fall, thanks to persistently low interest rates. The net working capital of large firms and SMEs showed a good increase. Analysis of the net cash flow over the period 1996 - 2005 also reveals that large firms' working capital needs tend to exceed their net working capital. The year 2005 saw the leading companies – mainly large firms in the non-manufacturing sector – catching up on their investment. The amounts invested in research and development increased once again, but concerned a smaller number of firms. Finally, following a marked decline in preceding years, the financial risks appeared to remain steady in 2005. The vulnerability of large firms actually increased slightly in 2005.