

Reading the company financial forms

Session 112

2nd part

Peter Skerlan / FREQUENTIS AG

Director Accounting, Controlling & Treasury

Session 112 2nd part

- **Reading the company financial forms and understanding the earnings report**
 - financial standards
 - traps and hints
 - professional analysis and rating
 - Bankers / rating agencies / Basel

- **Shall give you a feel for the basics**

Disclaimer

- The information is summarized for illustrative purposes only and is not a complete or exhaustive assessment of local rules and regulations. This information has been provided for general guidance, and does not constitute professional advice. You should not act upon the information contained in this material without obtaining specific professional advice.

Are you looking at the right financial statements?

- **Deutsche Telekom**

- 64 german & 174 int. companies
- 235 k employees, >30 bil. sales

- **What are you looking for?**




- single entity or group
(consolidated fin. statement)

- **So analyse the statement of the entity you deal with!!**

Id. Nr.	Name und Sitz der Gesellschaft	Jahr	Indizes %	Dienst %	Gesamt nominalwert	Währung	Eigenkapital	Jahresüberschuss/ Jahresfehlbetrag	Währung	Bemerkung
158.	SC Romtelecom S.A., Bukarest	1.136.	54,01		5 975 037 351	RON	-	-	-	
160.	SDOUT Business Services GmbH, München	1.156.	100,00		69 100	EUR	73 967	(1 818)	EUR	a)
161.	SCS Personalberatung GmbH, Düsseldorf			100,00	100 000	DEM	51 129	-	EUR	a)
162.	STRATO AG, Berlin	1.212.	100,00		6 033 345	EUR	9 716 045	-	EUR	a)
163.	Sulzer Telekommunikationsdienste GmbH, Bonn			100,00	25 000	EUR	27 000	-	EUR	a)
164.	Sullella and Marfimo Telecommunications S.A., Athen	1.101.	94,08		5 463 750	EUR	8 724 519	1 650 782	EUR	b)
165.	Scout24 AG, Biberach	1.141.	0,01		532 981	CHF	218 782 298	(1 815 427)	CHF	a)
166.	Scout24 Holding GmbH, München			100,00	1 000 000	EUR	24 456 120	-	EUR	a)
167.	Scout24 International Management AG, Biberach	1.166.	100,00		250 000	CHF	45 096 881	2 285 428	CHF	a)
168.	Scout24 Schweiz AG, Flumet	1.169.	85,04		224 600	CHF	17 239 684	13 246 911	CHF	a)
169.	Scout24 Schweiz AG, Flumet	1.167.	14,96		224 600	CHF	17 239 684	13 246 911	CHF	a)
169.	Scout24 Schweiz Holding AG, Wilmowal Flumet	1.167.	100,00		224 600	CHF	17 239 684	11 671 354	CHF	a)
170.	Scout24 Services GmbH, München			100,00	25 000	EUR	45 190	-	EUR	a)
171.	Sigma Telekommunikationsdienste GmbH, Bonn			100,00	25 000	EUR	26 546	-	EUR	a)
172.	Slovak Telekom, a.s., Bratislava	51,00			864 113 000	EUR	867 070 000	286 114 000	EUR	a)
173.	Software Daten Service Gesellschaft m.b.H., Wien	1.258.	100,00		290 691	EUR	562 000	418 000	EUR	a)
174.	Soluciones y Proyectos Consulting, S.L., Barcelona	1.254.	100,00		3 006	EUR	27 000	(1 000)	EUR	a)
175.	Stonebridge Communication A.D., L.L., Skopje	1.123.	100,00		21 194 506 100	MKD	27 980 440 000	3 774 776 000	MKD	b)
176.	SunCom Wireless Holdings Inc., Bellevue	1.225.	100,00		1	USD	1 936 440 755	47 315 410	USD	a)
177.	SunCom Wireless Investment Co., LLC, Bellevue	1.176.	100,00		1	USD	2 341 159 535	47 315 410	USD	a)
178.	SunCom Wireless License Co., LLC, Bellevue	1.306.	100,00		1	USD	536 392 306	-	USD	a)
178.	SunCom Wireless Management Co., Inc., Bellevue	1.182.	100,00		1	USD	(25 774 323)	(2 382 768)	USD	a)
180.	SunCom Wireless Operating Co., LLC, Bellevue	1.306.	100,00		1	USD	-	-	USD	a)
181.	SunCom Wireless Services Co., LLC, Bellevue	1.177.	100,00		1	USD	2 335 645 545	47 315 410	USD	a)
182.	TELEKOMKASOVN LIMITED SRO, Bratislava	1.94.	100,00		12 700 000	RON	6 104 311	(2 199 716)	RON	b)
184.	T SYSTEMS TELEKOMKASOVN LIMITED SRO, Bratislava	1.237.	0,00		385 600	TRY	1 100 000	420 000	EUR	a)
185.	T-Com Ventures Fund GmbH & Co. KG, Bonn	1.258.	99,40	99,02	385 600	TRY	1 976 000	420 000	EUR	a)
185.	T-Com Ventures Fund GmbH & Co. KG, Bonn				50 500	EUR	10 450 745	(1 916 963)	EUR	a)
185.	T-Com Ventures Fund GmbH & Co. KG, Bonn	1.289.	1,98		50 500	EUR	10 450 745	(1 916 963)	EUR	a)
186.	T-Corporate Ventures Fund GmbH & Co. KG, Bonn			99,00	100 000	EUR	9 023 015	(353 206)	EUR	a)
186.	T-Corporate Ventures Fund GmbH & Co. KG, Bonn	1.289.	100,00		100 000	EUR	9 023 015	(353 206)	EUR	a)
187.	T-Mobile (UK Properties), Inc., Danvers, CO	1.199.	100,00		1	USD	1	-	GBP	a)
188.	T-Mobile (UK) Ltd., Hatfield	1.199.	100,00		1	GBP	1	-	GBP	a)
189.	T-Mobile Austria GmbH, Wien	1.190.	100,00		60 000 000	EUR	453 046 781	84 453 432	EUR	a)
190.	T-Mobile Austria Holding GmbH, Wien	1.194.	100,00		15 000 000	EUR	1 549 885 105	127 425 793	EUR	a)
191.	T-Mobile Central LLC, Bellevue	1.225.	100,00		1	USD	6 849 040 646	1 059 321 841	USD	a)
192.	T-Mobile Czech Republic a.s., Prag	1.20.	60,77		5 200 000 000	CZK	753 473 051	189 791 729	EUR	b)
193.	T-Mobile Global Holding GmbH, Bonn	1.196.	100,00		50 000	EUR	17 701 393 430	-	EUR	a)
194.	T-Mobile Global Holding No. 2 GmbH, Bonn			100,00	25 000	EUR	2 742 147 975	-	EUR	a)
195.	T-Mobile Global Holding No. 3 GmbH, Bonn			100,00	25 000	EUR	22 934	(679)	EUR	a)
196.	T-Mobile Global Holding No. 4 GmbH, Bonn			100,00	25 000	EUR	22 338	(624)	EUR	a)
197.	T-Mobile Global Holding No. 5 GmbH, Bonn			100,00	25 000	EUR	21 738	(648)	EUR	a)
198.	T-Mobile Global Zwischensholding GmbH, Bonn			100,00	26 000	EUR	24 675 947 754	-	EUR	a)
199.	T-Mobile Holdings Limited, Hatfield	1.193.	100,00		706 540 268	GBP	4 903 281 780	322 963 543	GBP	a)
200.	T-Mobile Hungary GmbH, Bonn			100,00	25 000	EUR	8 042 326	614 265	EUR	a)

http://www.telekom.com/investor_relations/publikationen/8866

Which accounting standards?

- **Local GAAP**
(General Accepted Accounting Principles)  *local entities*
- **International Standards**
(International Financial Reporting Standards)
market capitalization EU listed companies: \$ 7,564 bill  *listed companies*
- **US GAAP**
market cap. US listed companies: \$ 15,640 bill  *USA*
- **Differences are substantial!**

<http://data.worldbank.org/indicator/CM.MKT.LCAP.CD/countries>

Example: Equity reconciliation from local GAAP to IFRS

Equity reconciliation from UGB to IFRS - 01.01.2006

	Standard	EUR '000
Total equity according to UGB as of 01.01.2006		982,546
Reclassification of hybrid capital to liabilities	IAS 32	-227,395
Reclassification funds for general banking risks	IAS 32	1,034
Adjustments for:		
Risk provisions on loans and advances	IAS 39	-52,870
Market values from standalone derivatives	IAS 39	-76,743
Fair value designated financial instruments	IAS 39	-18,426
Securities and issues: distribution of premiums/discounts according to effective interest method and other valuation measures	IAS 39	-10,883
Deferral of loan origination fee and deferred initial direct costs	IAS 17/18	-58,494
Deferred taxes	IAS 12	108,024
Long-term employee benefits	IAS 19	-2,659
Amortization of goodwill	IAS 36	0
Other adjustments	-	-38
		-112,089
Effects from consolidation:		
Enlarged scope of consolidation	IAS 27	-36,177
Foreign exchange differences	-	65
		-35,912
Total equity according to IFRS as of 01.01.2006		608,184

**-374 mio equity
(38 %)**

<http://www.hypo-alpe-adria-bank-annualreports.com/2007/page.1024.htm>

Equity reconciliation from German GAAP (=UGB) to IFRS

- **Analysis 2011 of German capital market oriented companies**

- shows differences due to principle of prudence (UGB) and earlier recognition of profit under IFRS

- **Big deltas to local GAAP possible**

Balance sheet position	Difference UGB to IAS/IFRS
Assets	+ 26 %
Intangible Assets	+37 %
Goodwill	+112%
Liabilities	+37%
Profit	+27%
Equity Ratio	+ 16 %

Source: Coenenberg et al. (2011); in: KoR, p.133ff

Second Example: Differences local GAAP - IFRS

- Austrian Railways – (approx € 3 Bill. Equity)
- 2006/2007 IFRS due to listed securities
 - Impairment of assets – € 840 Mio
 - Reduction of provisions +553 Mio
 - Valuation of financial instruments +110 Mio
 - Reevaluation of lease agreements -76 Mio
 - Other changes (Cross Border Leasing, Foreign Currencies, Depreciation, Hedging,...)

http://www.railcargo.at/de/Aktuelles/News/2008/Q3/Bilanz_2007_/Downloads/Handout_Bilanz_PK.pdf

What is IFRS?

- IFRS / IAS
 - 1973 IASC (International Accounting Standards Committee) was founded
 - 2000 European Union decided to work with IASC
 - 2001 IASC renamed to IASB (International Accounting Standards Board)
 - IAS (International Accounting Standards) are still valid but replaced by IFRS (International Financial Reporting Standards)
 - „To develop a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles“

IFRS adoption/conversion by country



Austria

Local stock exchange
Vienna Stock Exchange (Wiener Börse)

Rules for listed filings

IFRS required or permitted for listed companies?

Required for consolidated financial statements

Version of IFRS

IFRS as adopted by the EU

Are subsidiaries of foreign companies or foreign companies listed on local exchanges subject to different rules?

No

Rules for statutory filings

Is IFRS or IFRS for SMEs required, permitted or prohibited for statutory filings?

IFRS is permitted for consolidated financial statements only. It is not permitted for standalone/separate financial statements. IFRS for SMEs has not yet been adopted in the EU and is, accordingly, not yet applicable for Austria.

Version of IFRS

IFRS as adopted by the EU

use of, or conversion plans to, International Financial Reporting Standards by domestic listed and unlisted companies by country/territory

<http://www.pwc.com/us/en/issues/ifrs-reporting/country-adoption/index.jhtml>

US GAAP

- US government does not set accounting standards (private sector has better knowledge)
- Financial Accounting Standards Board (FASB) establishes principles
- Differs from IFRS (thousands of pages)
- SEC (US Securities and Exchange Commission) expressed aim to fully adopt IFRS in the US
- Doubts

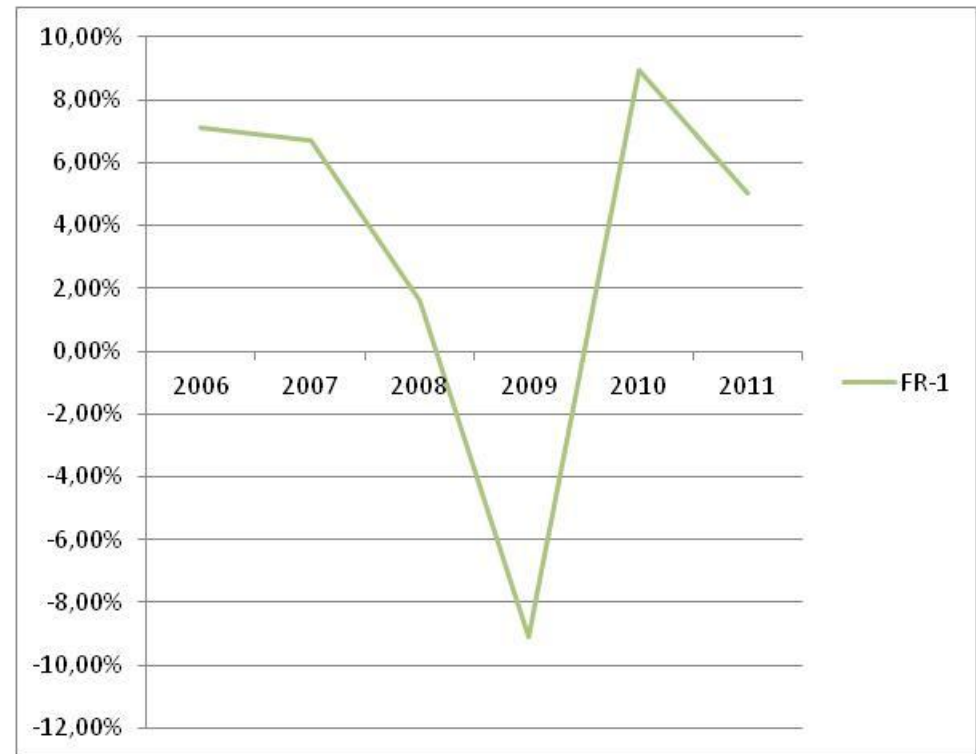
What to do with the ratios?

- You analyzed the financial statements and calculated ratios?
- You need methods to measure and evaluate...



No idea if the ratio is good?

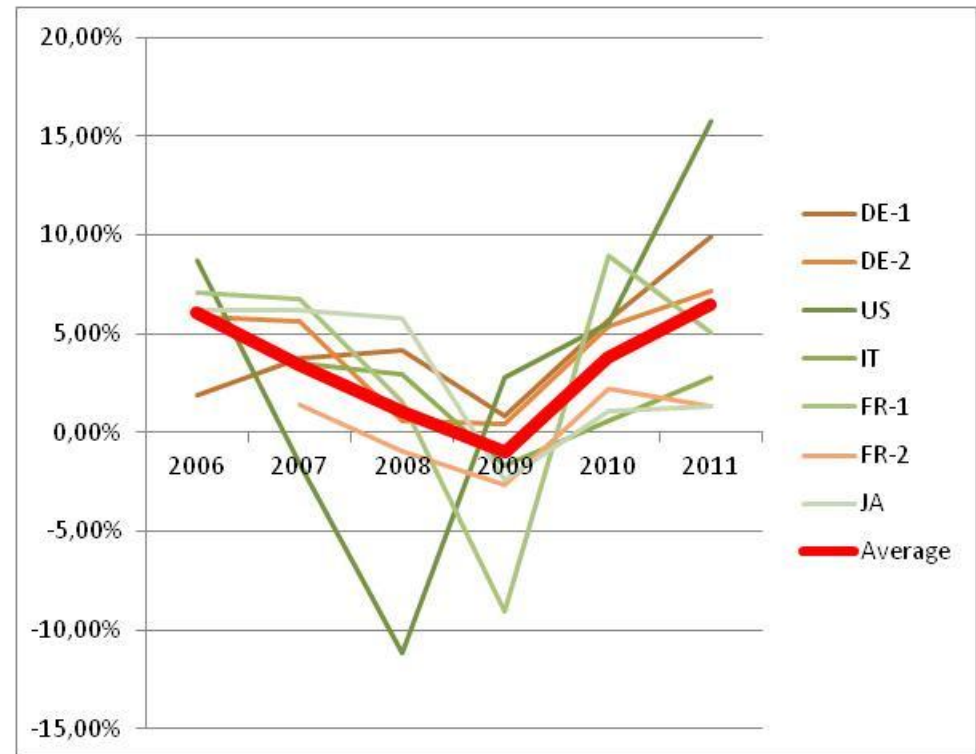
- Car manufacturer
- expectation 2012:
3 % return on sales
(=profit / sales)
- average: 3,38 %
- what happened
in 2009?



Look at one ratio across the years

Compare 2009 within one cluster

- All had trouble in 2009
- See if the 3 % are enough
- Check results within the peer group



- **Detect common trends, get an idea of acceptable ratios...**

You detect changes from one year to the next year?

- **Example: SW company with profit increase...**

	2010	2009
Turnover	28.290.148,48	23.708.750,89
Payroll	-18.099.079,02	-16.322.421,50
Depreciation and Amortisation	-1.309.053,88	-1.124.544,14
Other Expenses	-5.907.343,22	-5.621.942,61
Interest and similar income	14.613,15	20.885,80
Interest and similar expenses	-556.453,13	-342.119,18
Earnings before taxes	2.432.832,38	318.609,26

- Disclosure: ... evaluation method of work in progress was changed to completed contract method which lead to an increase of 3,9 Mio...

- **Look always for additional information in notes!**

Professional Analysts

- Credit rating agencies
 - largest: Dun & Bradstreet, Moody's, Standard & Poor's, Fitch Ratings
 - evaluate credit worthiness of debt issued by a company
 - bank needs: 4% equity for a loan to a company rated A
 - and 12 % equity for a loan to a company rated B-

Moody's		S&P		Fitch		
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime
Aa1		AA+		AA+		High grade
Aa2		AA		AA		
Aa3		AA-		AA-		
A1	P-2	A+	A-1	A+	F1	Upper medium grade
A2		A		A		
A3		A-		A-		
Baa1	P-3	BBB+	A-3	BBB+	F2	Lower medium grade
Baa2		BBB		BBB		
Baa3		BBB-		BBB-		
Ba1	Not prime	BB+	B	BB+	B	Non-investment grade speculative
Ba2		BB		BB		
Ba3		BB-		BB-		
B1		B+		B+		
B2	B	B	B	B	Highly speculative	
B3	B-	B-	B-	B-		
Caa1	Not prime	CCC+	C	CCC	C	Substantial risks
Caa2		CCC		CCC		Extremely speculative
Caa3		CCC-		CCC		CCC
Ca	Not prime	CC	C	CCC	C	In default with little prospect for recovery
C		C		CCC		
/	Not prime	D	/	DD	/	In default
/		D		DD		

<http://www.wikipedia.com>

http://www.oenb.at/de/finanzm_stab/basel_2/faqs/Unternehmenskredite/basel_ii_und_unternehmenskredite.jsp

Rating – through a bank

- **Hard facts**

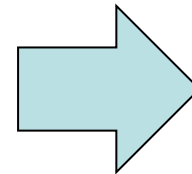
- equity ratio
- sales profitability (EBIT to sales)
- repayment of debts
- liquidity

- **Soft facts**

- market position, organisation, strategy
- management, accounting, finance

- **Business Field / Country**

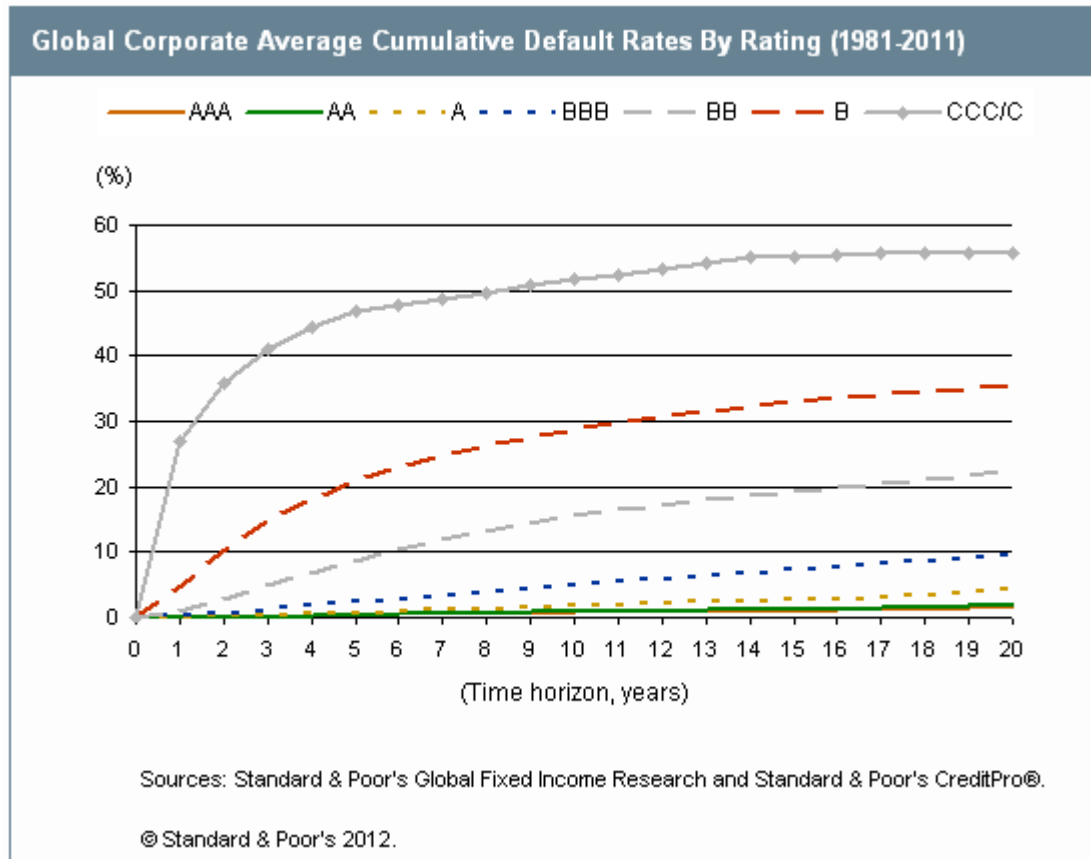
- competition, cluster, product



bad rating:

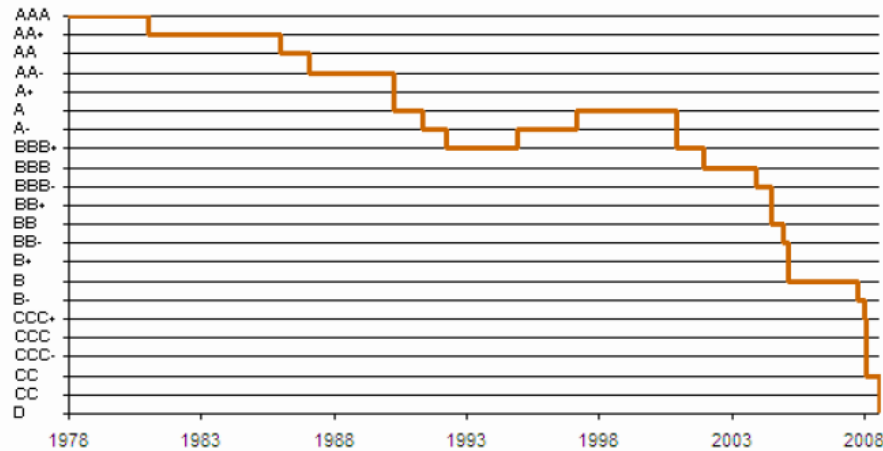
- *credit lines*
- + *interest rates*

Rating – expected default rate



<http://www.standardandpoors.com/ratings/articles/en/eu/?articleType=HTML&assetID=1245330814766>

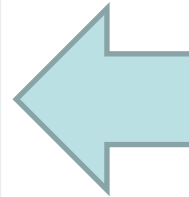
General Motors—Long-Term Rating



Source: Standard & Poor's.

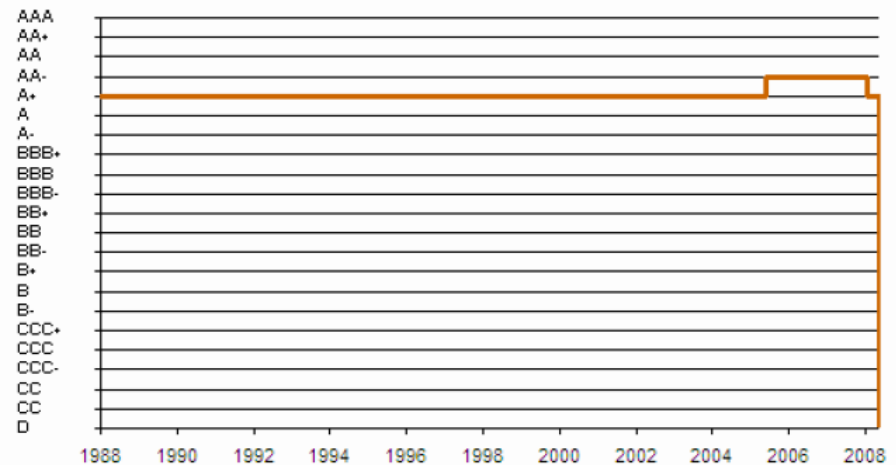
© Standard & Poor's 2010.

Rating – two examples



Death at a slow rate...

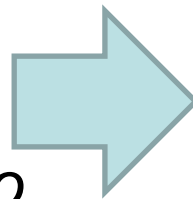
Lehman Brothers—Long-Term Rating



Source: Standard & Poor's.

© Standard & Poor's 2010.

*Sudden break down
Outstanding debt
amount: \$ 144,426 mio*



<http://img.en25.com/Web/StandardandPoors/TheTimeDimensionOfStandardPoorsCreditRatings.pdf>

Last hints

- **Liquidity: “Cash is king”**
Per G Gyllenhammer (Volvo) after the global stock market crash 1987
- **Profit**
actual profit & future profits
- **Equity**

http://en.wikipedia.org/wiki/Cash_is_king



Last slide

- **I hope I gave you a feel for the basics**
- **Enjoy our third part**

- **Peter Skerlan**