

# Financial Reporting according to the IASC Framework

PURPOSE, USERS AND CHARACTERISTICS

TRIESTE 7 May 2018  
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# WHOM WOULD YOU LEND YOUR MONEY?



Mister A,  
owner of  
A Corporation



Mister B,  
owner of  
B Corporation

# CONTENT

- (1) Users of Financial Statements and their Information Needs
- (2) Purpose of IASC Framework
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# (1) USERS OF FINANCIAL STATEMENTS



Employees

General  
Public



Investors,  
Share-  
holders



Suppliers

Financial  
Statements



Customers

Creditors



Authorities

# (1) INFORMATION NEEDS OF THE USERS

- to assess future job prospects
- Potential growth of wages/salaries
- Will the company pay my deliveries?
- business prospects?
- to assess the ability of the company to pay interests and the principal
- to monitor and assess management
- to select investment or merger candidates
- to assess the potential for dividends
- to decide whether to hold, buy or sell a share
- to decide whether to continue a cooperation or to stop it
- Is the company paying its taxes correctly?
- Assess whether tax policies and other regulations are suitable

**Information needs**

## (2) PURPOSE OF IASC FRAMEWORK

IASC → International Accounting Standards Committee

- Due to many national differences – the purpose is to set out the concepts that underlie the preparation and presentation of financial statements
- To provide a basis for harmonisation of accounting standards and development of future standards
- To assist preparers of financial statements and the auditors
- To assist users in interpreting the information contained in financial statements
- To assist national standard-setting bodies in developing national standards

# (3) OBJECTIVES OF FINANCIAL STATEMENTS

Users want to assess the **ability** of an enterprise to generate **cash** as well as timing and certainty of cash flows



Financial statements have to provide information about ...

## **financial position**

- ➔ liquidity
- ➔ solvency
- ➔ resources

## **Performance**

- ➔ profitability
- ➔ variability

**Changes** in the financial position and performance

# (3) FINANCIAL STATEMENTS CONSIST OF:

Assets	2017-03-31	2016-03-31	Equity and liabilities	2017-03-31	2016-03-31
	In Mio. EUR	In Mio. EUR		In Mio. EUR	In Mio. EUR
<b>A. Non-current assets</b>			<b>A. Equity</b>		
Property, plant and equipment	6 374,9	6 006,5	Share Capital	320,3	317,8
Goodwill	1 549,5	1 544,4	Capital reserves	607,1	553,7
Other intangible assets	439,4	434,3	Hybrid capital	497,9	497,9
Investments in associates	113,0	112,4	Reserve for own shares	-4,5	-1,5
Other financial assets	66,1	69,8	Other reserves	21,7	-46,7
Deferred tax assets	213,7	242,4	Retained earnings	4 446,6	4 359,2
	8 735,6	8 389,6	Equity attributable to equity holders of the parent	5 894,1	5 471,4
<b>B. Current Assets</b>			Non-current liabilities		
Inventories	1 714,1	1 513,3	Pension and other employee obligations	1 226,4	1 229,1
Trade and other receivables	348,3	355,8	Provisions	79,4	71,6
Other financial assets	593,3	774,8	Deferred tax liabilities	119,4	112,0
Cash and cash equivalents	5 973,9	5 617,0	Financial liabilities	2 764,7	3 342,8
				4 189,9	4 765,3
			<b>C. Current liabilities</b>		
			Provisions	585,0	57,2
			Tax liabilities	77,1	98,3
			Financial liabilities	1 332,9	89,8
			Trade and other payables	2 462,2	2 025,8
				4 457,3	3 589,5
<b>Total assets</b>	<b>14 707,5</b>	<b>14 006,6</b>	<b>Total equity and liabilities</b>	<b>14 707,5</b>	<b>14 006,6</b>

Balance Sheet

Consolidated Income Statement	2017-03-31	2016-03-31
	In Mio. EUR	In Mio. EUR
Revenue	11 294,5	11 068,7
Costs of sales	-8 777,1	-8 631,7
<b>Gross profit</b>	<b>2 517,4</b>	<b>2 437,0</b>
Other operating income	348,8	362,8
Distribution costs	-1 079,2	-1 028,1
Administrative expenses	-410,6	-410,6
Other operating expenses	-356,0	-424,5
Share from associates	14,6	15,8
<b>Profit before tax (EBT)</b>	<b>699,9</b>	<b>754,3</b>
Finance income	1,9	12,1
Finance costs	-1,9	-1,6
<b>Profit before tax (EBT)</b>	<b>699,9</b>	<b>754,3</b>
Tax expense	-173,2	-149,3
<b>Profit for the period</b>	<b>527,0</b>	<b>602,1</b>
Thereof attributable to:		
Equity holders of the parent	496,8	585,3
Non-controlling interests	7,7	-5,7
Share planned for hybrid-capital owners	22,5	22,5

Income Statement

Consolidated Statement of Cash Flows	2017-03-31	2016-03-31
	In Mio. EUR	In Mio. EUR
Profit after tax	527,0	602,1
Non-cash expenses and income	122,0	566,2
Changes in working capital	38,6	113,9
<b>Cash flows from operating activities</b>	<b>1 087,6</b>	<b>1 282,2</b>
Additions of other intangible assets (IPE)	-1 068,1	-1 284,3
Income from disposal of non-current assets	15,5	17,1
Cash flows from the acquisition of control of subsidiaries	-27,9	-13,1
Cash flows from the loss of control of subsidiaries	2,0	0,1
Acquisitions of financial assets	-10,7	50,2
<b>Cash flows from investing activities</b>	<b>-1 049,8</b>	<b>-1 230,0</b>
Dividends paid	-213,7	-204,8
Dividends paid/capital increase non-controlling interests	-15,8	-46,3
Acquisitions of non-controlling interests	-3,8	-2,4
Capital increase	55,9	85,6
Increase in non-current financial liabilities	71,4	642,9
Repayment of non-current financial and lease liabilities	-160,8	-189,4
Change in current financial liabilities	0,1	-24,5
<b>Cash flows from financing activities</b>	<b>-366,7</b>	<b>261,1</b>
<b>Net decrease/increase in cash and cash equivalents</b>	<b>-266,1</b>	<b>313,3</b>

Cash Flow Statement

2017 in Mio. EUR	Steel	High Performance Metal	Metal Engineering	Metal Forming	Other	"consolidation difference"	Total
Revenue of Segments	3 224,4	2 697,9	2 584,5	2 431,1	1 305,0	-1 823,5	11 294,5
Revenue of other segments						0,0	11 294,5
Revenue of other segments (IPE)	312,0	55,1	30,8	38,7	1 319,5	-1 823,5	0,0
Proportion of revenues with third parties	100,0%	100,0%	100,0%	100,0%	100,0%	0,2%	100,0%
Operating Profit "EBIT" (acc. to VÖEST-ALPINE)	177,9%	177,9%	177,9%	177,9%	177,9%	177,9%	823,3
"EBIT"-Margin	5,5%	6,7%	6,9%	7,7%	13,3%	-2,6%	7,3%
Proportion of "EBIT"	32,0%	30,7%	24,4%	25,6%	-11,8%	-0,8%	100,0%

Information about industrial and geographical segments

voestalpine AG NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016/17
<b>A. GENERAL INFORMATION AND CORPORATE PURPOSE</b>
The consolidated financial statements of voestalpine AG and its subsidiaries (the Group) are based on the consolidated financial statements of the Group for the reporting period from January 1, 2016 to March 31, 2017. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the European Union.
The consolidated financial statements are presented in millions of euros in functional currency of the parent company.
The consolidated income statement has been prepared using the cost-of-sales method.
The use of automated calculation systems may result in rounding differences.
The Management Board of voestalpine AG approved the consolidated financial statements and authorized the consolidated financial statements for submission to the Supervisory Board on May 24, 2017.

Explanatory Notes



# (3) WHOM WOULD YOU LEND YOUR MONEY?

## A Corporation

Balance Sheet in Million €

PPE	50 000	Equity	5 000
Inventory	25 000	Bank Loan	60 000
Receivables	20 000	Trade Payables	20 000
Cash	5 000	Other Liabilities	15 000
Total	100 000	Total	100 000

## B Corporation

Balance Sheet in Million €

PPE	50 000	Equity	90 000
Inventory	15 000	Bank Loan	6 000
Receivables	10 000	Trade Payables	3 000
Cash	25 000	Other Liabilities	1 000
Total	100 000	Total	100 000

What about  
future profits?

What about  
future cash  
flows?

# (4) QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS

When is information useful?

when it provides a **true and fair view** of the financial position

## (4) INFORMATION SHOULD BE ...

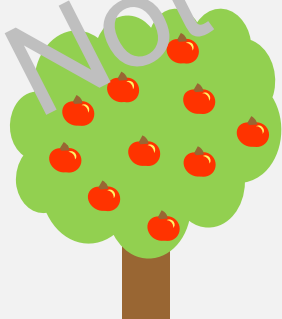
- ◆ **understandable** ➔ for users with business and accounting knowledge
- ◆ **relevant** ➔ does information influence economic decisions? Is it material?
- ◆ **reliable** ➔ is information free from material errors? Is it faithful, neutral, complete? Are estimations done prudently? (Economic) substance over (legal) form.
- ◆ **comparable** ➔ measurement and disclosure of events must be carried out consistently; (changes of) accounting policies have to be explained; are IAS applied correctly?

# (5) ELEMENTS OF FINANCIAL STATEMENTS

## Elements of Balance Sheet (➔ paragraph 49)

### Asset

➔ is a resource controlled by the enterprise as a result of past events and from which **future economic benefits** are expected to **flow to the enterprise**



### Equity

➔ Is the residual interest in the assets of the enterprise after deducting all its liabilities.

### Liability

➔ is a present **obligation** of the enterprise arising from past events, the settlement of which is expected to result in an **outflow from the enterprise** of resources embodying economic benefits.

# BALANCE SHEET VOESTALPINE

Assets	2017-03-31	2016-03-31	Equity and liabilities	2017-03-31	2016-03-31
	in Mio. EUR	in Mio. EUR		in Mio. EUR	in Mio. EUR
<b>A. Non-current assets</b>			<b>A. Equity</b>		
Property, plant and equipment	6 371,9	6 006,5	Share Capital	320,3	317,8
Goodwill	1 549,5	1 544,4	Capital reserves	607,1	553,7
Other intangible assets	419,4	414,1	Hybrid capital	497,9	497,9
Investments in associates	113,0	112,4	Reserve for own shares	-1,5	-1,5
Other financial assets	66,1	69,8	Other reserves	21,7	-46,7
Deferred tax assets	213,7	242,4	Retained earnings	4 446,6	4 150,2
	<b>8 733,6</b>	<b>8 389,6</b>	Equity attributable to equity holders of the parent	5 892,1	5 471,4
<b>B. Current Assets</b>			Non-controlling interests	168,2	180,2
Inventories	3 408,2	2 973,1		<b>6 060,3</b>	<b>5 651,6</b>
Trade and other receivables	1 714,1	1 513,3	<b>B. Non-current liabilities</b>		
Other financial assets	348,3	355,8	Pension and other employee obligations	1 226,4	1 229,1
Cash and cash equivalents	503,3	774,8	Provisions	79,4	71,6
	<b>5 973,9</b>	<b>5 617,0</b>	Deferred tax liabilities	119,4	122,0
			Financial liabilities	2 764,7	3 342,8
				<b>4 189,9</b>	<b>4 765,5</b>
			<b>C. Current liabilities</b>		
			Provisions	585,0	567,2
			Tax liabilities	77,2	98,3
			Financial liabilities	1 332,9	898,2
			Trade and other payables	2 462,2	2 025,8
				<b>4 457,3</b>	<b>3 589,5</b>
<b>Total assets</b>	<b>14 707,5</b>	<b>14 006,6</b>	<b>Total equity and liabilities</b>	<b>14 707,5</b>	<b>14 006,6</b>

**ASSETS** **14.707**  
 - non-current liabilities **-4.190**  
 - current liabilities **-4.457**  
**Equity** **6.060**

May 2018

## (5) WHAT IS AN ASSET?

i.e. the potential **to contribute to the flow of cash** to the enterprise – directly or indirectly:

- ◆ As part of the operating activities: machines, equipment, trucks, cars, buildings for production, shops, furniture ...
- ◆ Or it is convertible into cash: receivables, investments held for sale, inventory stock (customers will pay for it) ...
- ◆ Or in form of a right: copyrights, patents, licences but also shares of other enterprises, bonds ...
- ◆ or a finance lease – although the enterprise is not the legal owner, it controls the benefits of the leasing contract

# ASSETS VOESTALPINE

## ASSETS

	Notes	03/31/2016	03/31/2017
<b>A. Non-current assets</b>			
Property, plant and equipment	9	6,006.5	6,371.7
Goodwill	10	1,544.4	1,549.5
Other intangible assets	11	414.1	419.4
Investments in entities consolidated according to the equity method	12	112.4	113.0
Other financial assets	13	69.8	66.1
Deferred tax assets	15	242.4	213.7
		<b>8,389.6</b>	<b>8,733.6</b>
<b>B. Current assets</b>			
Inventories	14	2,973.1	3,408.2
Trade and other receivables	15	1,513.3	1,714.1
Other financial assets	12	355.8	348.3
Cash and cash equivalents	16	774.8	503.3
		<b>5,617.0</b>	<b>5,973.9</b>
<b>Total assets</b>		<b>14,006.6</b>	<b>14,707.5</b>

In millions of euros

## (5) LIABILITIES

- ◆ Liabilities are present obligations that resulted from past events
- ◆ Future commitments are not disclosed as a liability
- ◆ Liabilities as meant by paragraph 49 also include provisions (➡ which can only be measured by estimation)
- ◆ Liabilities have to be settled, which may occur in a number of ways:
  - ▶ by payment of cash, transfer of other assets, provision of services, to replace it with another obligation, conversion to equity



# LIABILITIES VOESTALPINE



<b>B. Non-current liabilities</b>			
Pensions and other employee obligations	18	1,229.1	1,226.4
Provisions	19	71.6	79.4
Deferred tax liabilities	17	122.0	119.4
Financial liabilities	20	3,342.8	2,764.7
		<b>4,765.5</b>	<b>4,189.9</b>
<b>C. Current liabilities</b>			
Provisions	19	567.2	585.0
Tax liabilities		98.3	77.2
Financial liabilities	20	898.2	1,332.9
Trade and other payables	21	2,025.8	2,462.2
		<b>3,589.5</b>	<b>4,457.3</b>
<b>Total equity and liabilities</b>		<b>14,006.6</b>	<b>14,707.5</b>

In millions of euros

# TRADE AND OTHER PAYABLES VOEST - NOTES

## 21. TRADE AND OTHER PAYABLES

	03/31/2016	03/31/2017
Prepayments received on orders	102.3	100.5
Trade payables	1,101.2	1,294.2
Trade payables with reverse factoring agreements	37.3	9.5
Liabilities from bills of exchange accepted and drawn	299.4	561.0
Other liabilities from taxes	88.8	109.5
Other liabilities related to social security	47.8	48.0
Other payables and liabilities	349.0	339.5
	<b>2,025.8</b>	<b>2,462.2</b>

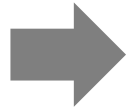
In millions of euros

## (5) EQUITY

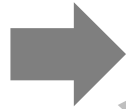
Is the residual difference between assets and liabilities.

Possible sub-classifications show origins of its parts:

◆ Statutory capital



◆ Capital reserves



◆ Retained earnings



◆ Other Reserves




Paid in by owners of enterprise  
(e.g. shareholders)

Reserves created by enterprise  
itself (➡ out of profits)

# (5) EXAMPLE: ORIGINS OF EQUITY

## Balance Sheet

 <p>Equipment 10.000</p>	<p>Statutory Capital 100.000</p>
<p>If enterprise works profitable this will result in ...</p>	
<p>more cash 60.000</p>	<p>Profits 60.000</p>



# EQUITY VOESTALPINE

## A. Equity

Share capital	317.8	320.3
Capital reserves	553.7	607.1
Hybrid capital	97.9	497.9
Reserve for own shares	-1.5	-1.5
Other reserves	-46.7	21.7
Retained earnings	4,150.2	4,446.6
<b>Equity attributable to equity holders of the parent</b>	<b>5,471.4</b>	<b>5,892.1</b>



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# (5) ELEMENTS TO MEASURE PERFORMANCE

How can we measure performance?

Return on investment

$$= \frac{\text{EBIT}}{\text{Ø total of assets}}$$

Earnings per share

$$= \frac{\text{profit after taxes}}{\text{number of shares}}$$

Return on equity

$$= \frac{\text{profit after taxes}}{\text{Ø equity}}$$

Return on sales

$$= \frac{\text{EBIT}}{\text{Sales}}$$

# (5) ELEMENTS OF THE INCOME STATEMENT

## Income Statement (➔ paragraph 70)

### Expenses

- ➔ Are decreases in economic benefits during the accounting period that result in decreases in equity
- ➔ the decreases in benefits are due to actions of the company
- ➔ The decreases in benefits are not relating to contributions to equity participants

### Income

- ➔ is the increase in economic benefits during the accounting period that result in an increase in equity
- ➔ the benefits are due to actions of the company
- ➔ The benefits are not relating to contributions from equity participants

### Profit

- ➔ Is the difference between income and expenses; a profit increases equity

## (5) INCOME

- ◆ **Revenues** arise in the ordinary activities of an enterprise:  
e.g. sales, fees, interest, dividends, royalties, rent
- ◆ **Gains** are other items that meet the definition of income:  
e.g. gains from disposal of assets, revaluation of marketable securities, releasing of provisions, other ...

Income is directly linked to the receiving of assets like receivables, (seldom) goods and of course cash



## (5) EXPENSES

- ◆ **Expenses** in the ordinary activities of an enterprise:  
e.g. costs of sales, wages, depreciation, marketing, energy, rent, interests ...
- ◆ **Losses** are other items that meet the definition of expenses:  
e.g. losses from disposal of assets, impairment of assets, foreign currency losses, other ...

Expenses are linked to liabilities or outflows of cash or take the form of a depletion of assets

# INCOME STATEMENT VOESTALPINE

Consolidated Income Statement	2017-03-31	2016-03-31
	in Mio. EUR	in Mio. EUR
Revenue	11 294,5	11 068,7
Costs of sales	-8 777,1	-8 631,7
<b>Gross profit</b>	<b>2 517,4</b>	<b>2 437,0</b>
Other operating income	348,8	362,0
Distribution costs	-1 079,2	-1 028,1
Administrative expenses	-622,3	-610,6
Other operating expenses	-356,0	-424,5
Share from associates	14,6	153,0
<b>Profit from operations</b>	<b>823,3</b>	<b>888,8</b>
Finance income	51,5	32,1
Finance costs	-174,9	-169,6
<b>Profit before tax (EBT)</b>	<b>699,9</b>	<b>751,3</b>
Tax expense	-172,9	-149,2
<b>Profit for the period</b>	<b>527,0</b>	<b>602,1</b>

# (5) WHEN ARE ELEMENTS RECOGNISED?

Recognition (➡ paragraph 83): An item that meets the definition of an element should be recognised if ...

... It is **probable** that any future economic benefit associated with the item will flow to or from the enterprise and

after our delivery, the customer is obligated to pay the price for the goods/ services we delivered

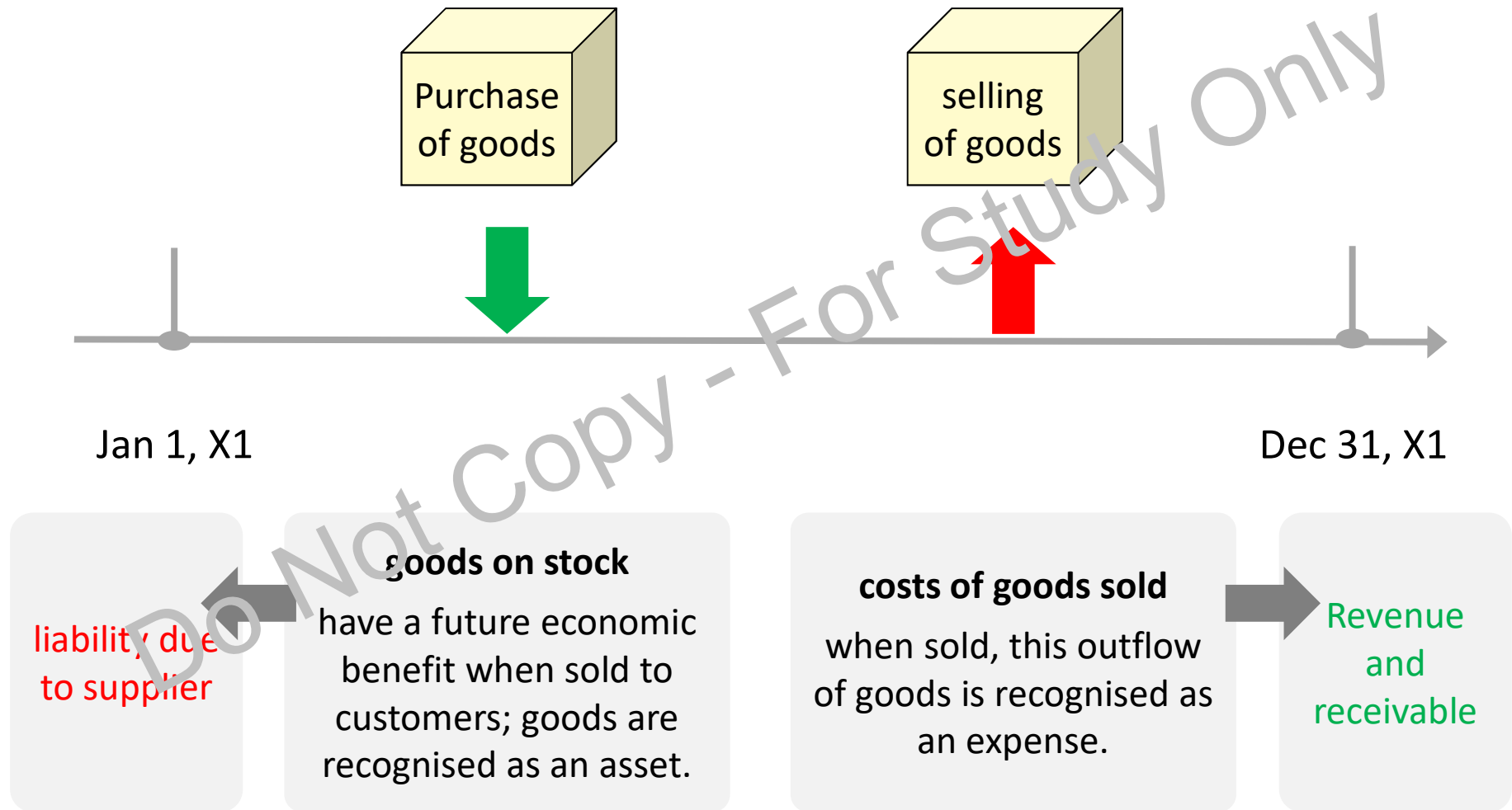
➡ recognition of receivable / revenue

If it is more likely than not, that the customer is unable to pay: ➡ reduction of receivable by recognising an expense

... the item has a cost or value that **can be measured** with reliability

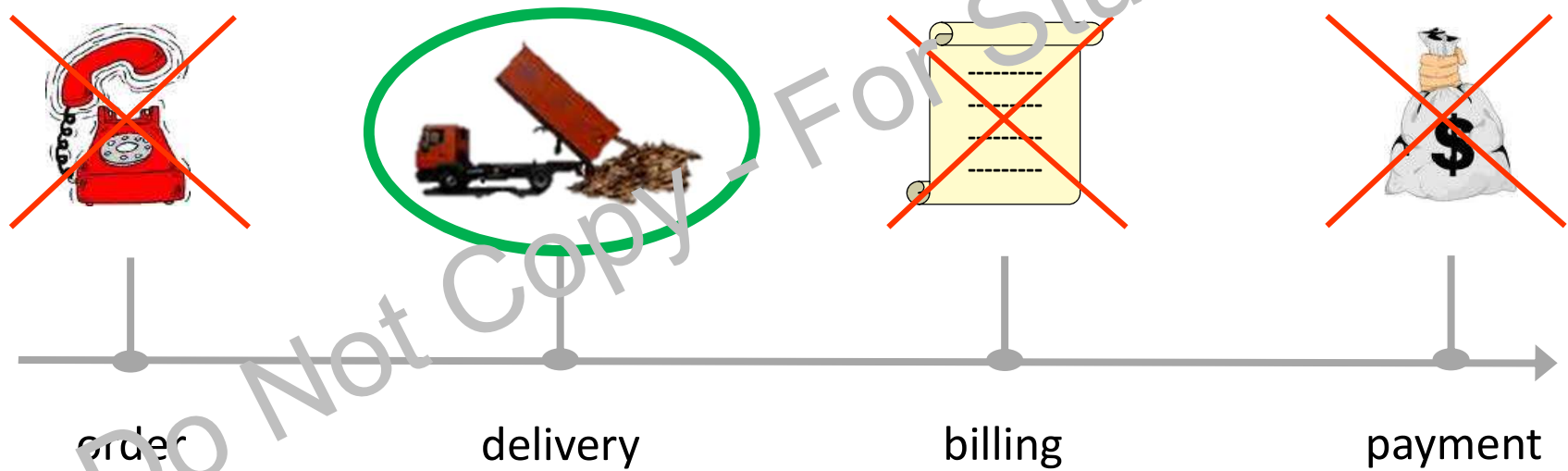
Measurement often depends on future events ➡ estimations have to be reasonable.

# (5) RECOGNITION OF ASSETS VS. EXPENSES



# (5) ACCRUAL BASIS OF ACCOUNTING

The effects of transactions and other events are recognised when they occur (→ paragraph 22)



With the delivery of goods/services the enterprise recognises revenue and receivable

# Which financial statements would you rely on?



„I stick to the rules of IASB Framework“

A, of A Corporation



„I don't care about rules“

M of B Corporation

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**Thank you!**