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Projection of a Company's Activity Based on its Financial Reports

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Abstract

The present article is debating the projections of a company's activity based on its financial reports known to date. Connections with definitions and occurrence and dissemination sources of the financial reporting concepts are largely debated in the literature, as well as their usefulness and their positioning throughout the accounting history. All observations and additions brought by FASB are largely presented and debated. The article ends by the authors' conclusions on the projection of a company's activity based on its financial reports and on their unitary object: providing a basis for the organizational decision-making and helping the activity of the economic agent progress.

Key-words: Accounting Doctrine, Postulate, Accounting Principles, Financial Reporting, Accounting Synthesis Documents

1. Introduction

The evolution of accounting, and particularly of financial accounting to date, is closely connected to the method of collection, recording and reporting of the accounting information serving different goals. Since the appearance of the first financial reporting forms, at the beginning of the 1800s, up to the present detailed forms, consistent evolutions have been recorded regarding the profit reporting mode, the treasury statements, but the most important is that of the accounting balance. In other words, the set of accounting synthesis documents is the one that gives the true picture of a company, thus helping one to make one's own picture regarding a company's health and weaknesses, as well as on the way one must act in order to be able to get a strong position on the market.

2. Literature review

The accounting reports represent the first written records that may still be met at present, as well. The oldest examples (found in Luca Paciolo's treaty[1]) are the "lists of properties" known as assets. Reports regarding assets reflect the wealth of the owner, represented by a person who, depending on the historical moment, was called Pharaoh, king or landlord.

Starting with the mid-19th century and with the Industrial Revolution, the nature of a business property has changed. Activities have developed more and more and have attracted financial resources from foreign sources. Financiers have been concerned about the debtors' capacity of reimbursing their loans and investors (joint owners) aimed to provide an increase of the company's value. In this case, we may speak about two groups of economic-financial information users. Both user groups needed reporting on business profitability. A first institutionalization of such reporting is the 16th Amendment[2] to the Constitution of the United States of America. By this Amendment, the Congress is authorized to establish taxes on profit, which creates the need of a reporting, namely a *Profit Statement.*

In the 1920s, in the USA, the climax of investments was recorded. People got credits in order to invest in shares, whose prices were continuously increasing. Since experience of some professionals was missing, investments got to depend on the "taxi drivers' tips", since huge investments were made in companies that did not have a real profit. All that merry-go-round of investments generated the Great Depression of 1929, followed by a severe worldwide recession. The USA Congress reacted by a legislation meant to prevent such disasters in the future. To that effect, *The Securities Act* (a law on the securities) of 1933 demanded that investors should be provided with financial information on the public offer securities. Another law published in 1934, *The Securities Exchange Act* (a law on the securities transactions) established rules regarding the participation on security markets and the operation of the brokerage companies, purchase of securities using credited funds as well as access to the current financial information. The two laws are the basis of the modern financial reporting, containing the model and components of financial statements as well as specific requirements for the presentation and the observance of the conformity with the SEC norms[3].

2.1. Financial statement definitions

Financial statements represent the final product of the accounting activity. They represent the classification and integration of an accumulation of financial transactions, of which some are extremely complex. According to the American normalization organism (FASB, 1978), financial statements represent the key element of the financial reporting, the main aim of the accounting information communication to the ones outside the company.

In the French literature, financial statements – met as *synthesis accounting documents* - are defined[4] as periodical statements where the situation and the results of the company are presented.

International Accounting Standards Board (IASB) - by IAS 1 - *Financial statement presentation* - defines financial statements as a structured representation of a company's financial position and of the transactions carried out by it, aiming to provide information on

[1] Paciolo L. *Tratat de contabilitate în partidă dublă* (Double Entry Accounting Treaty), translation in Romanian, Ed. Junimea, Iaşi, 1981

[2] From the USA Constitution. It was passed by the Congress on July 2, 1909 and ratified on February 3, 1913

[3] The Securities and Exchange Commission, an organism established as a result of the events described within the present paragraph

[4] Guide du responsable comptable et financier, Edition Lamy, 1999

the financial position, performance and financial position modifications of a company to a diverse range of users. *The general framework for the elaboration and presentation of the financial statements* mentions that financial statements represent a part of the financial reporting process and contain: the Balance, the Profit and Loss Account, the Statement on the Own Capital Modifications, the Statement of the Treasury Flows, the Accounting Policies and Explanatory Notes.

2.2. Types of financial reporting

The General financial statements are meant to satisfy the needs of the users who are not in a position to require reports adapted to their specific information needs.

The Interim financial report is a financial report containing a set of complex or compressed financial statements, elaborated on a shorter period of time than the complete financial year of a company. It must be an update of the last complete set of annual financial statements.

Financial statements, re-processed to take into account the inflation represent that set of financial statements based either on the historic, or on the current cost, but expressed in relation to the current measurement unit of the balance date.

Sector informing reports represent detailed additional reports of the financial statements regarding different types of products and services that a company produces and different geographic zones where it runs its activity.

Consolidated financial statements are the financial statements of a group (a parent-company and all the companies controlled by it) presented as those of a unique company, without considering the legal limits of the distinct juridical persons.

Combined financial statements represent those statements of a set of companies that are not related through participation of capital but among which there is a cohesion relation determining the existence of the set. Such a relation may be materialized in the following:

- Companies led by people who share common interests or having a common management;
- Companies having a common structure or contractual relations that should explain the behavior of integrated companies;
- Companies related through partition agreements regarding the result, which are enough constraining and exhaustive so that a combined presentation of the information should be more useful than an individual presentation.

2.3. Usefulness of financial statements

At present, companies are elaborating and presenting financial statements that should illustrate the activity carried out and the situation at a certain moment for different - both internal and external users. Internal users are those who manage and control the company's activity and who decide on its evolution. External users are those who finance the company's activity.

Most of the existent activities are guided by means of organizations, represented by groups of people who work together to accomplish one or more objectives. To answer its objectives, an organization needs resources, which, in turn, need financing or paying for. In order to be efficient, the people of such organizations need information on the resource size, on their financing methods and the results obtained from such information. The people outside of the organization also need similar information in order to have an idea about the organizations' activity. We may classify the information provided by accounting into three types:

- information on exploitation, necessary to manage an organization;
- financial information, necessary both to managers and to third parties (investors, banks and creditors, governmental agencies, public etc.);
- Managerial information, necessary to accomplish three organizational functions: planning, implementation and control.

The companies' managers are interested, first of all, in the information contained in the activity internal reports, and in the information contained in the financial statements, as well, even if they have access to additional financial and cost information, which helps them achieve their planning, decision-making and control process. External reports containing common information destined to all users must be elaborated and presented according to certain general considerations, the form and content of the internal reports may be determined by the management so that it should satisfy its own needs.

General financial statements answer, beside the managers' requirements, the requirements of those users who are not in position to require specific reports. They are meant to provide common information for all the user groups, and so they must be elaborated and presented by taking their needs into consideration.

IAS 1 - Standard Financial statement presentation triggers the existence of the two general types of financial reports but, at the same time, stipulates that its requirements only apply to that external reporting elaborated and presented according to the international financial reporting standards. In the international standards such a reporting is named *financial statement*. The information necessary both to managers and to third parties may be made available by means of the accounting process (Matulich and Heitger, 1985), which identifies, measures and communicates economic information so as to allow users to make decisions and make correct judgments.

The final product of this process is materialized in a set of reports named financial statements, synthesis documents or annual accounts, which are differentiated according to the space they normalize, but which essentially refer to the same issues.

Irrespective of the nature of the activity field, most reports are classified in two groups: state or stock reports and flow reports.

Statements regarding state are elaborated at a certain moment and those regarding flow cover a certain time period. Out of the financial statements elaborated by a company, the balance is a state statement. It provides information related to a company's resources at a specific moment. Statements like Profit and Loss Account or Treasury Flows characterize the flow reports. They report activities of the companies that have been carried out throughout a time period (one semester, one year).

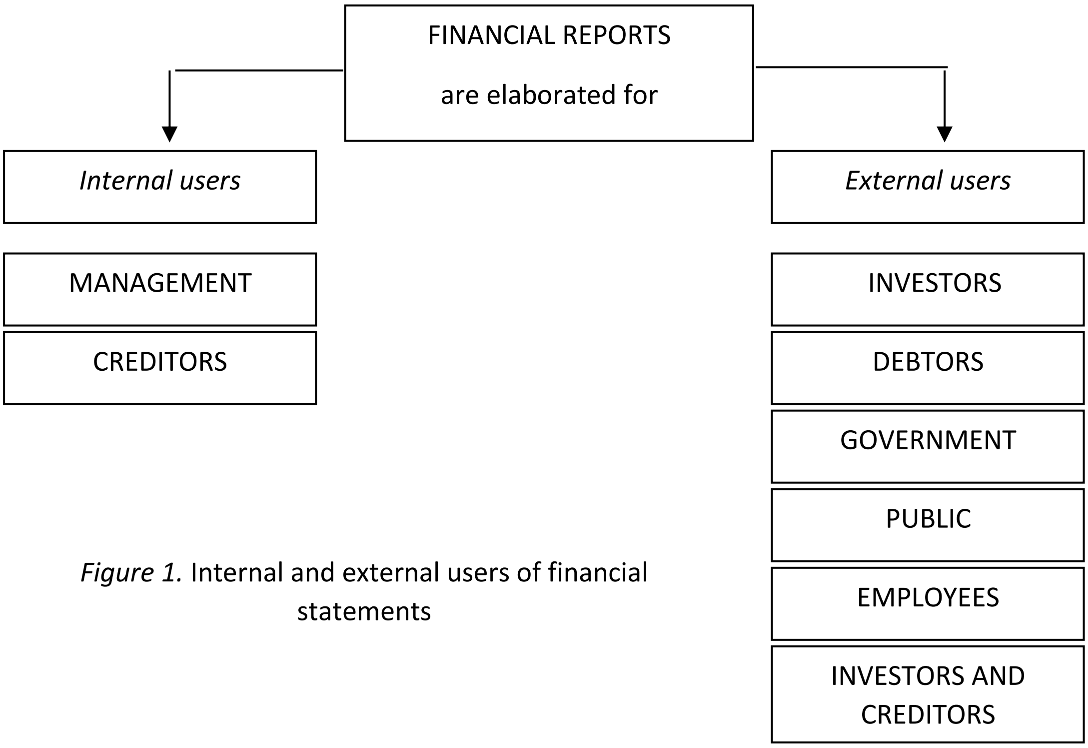

Figure 1. Internal and external users of financial statements

***2.4.* Positioning of the financial statements**

Although financial statements may look similar in different countries, there are differentiations generated by the diversity of the legal, economic and social environment, as well as by the different needs of the users, determined by the specific of the national requirements. The set of statements regarding financial reporting was first officially required in the United States. At present, the American accounting normalization organism requires the elaboration and presentation of the following statements (FASB, 1978): balance or declaration of financial position; statement of results or incomes[5]; statement of net (non-distributed) incomes; statement of other modifications in the own capital and statement regarding changes in financial position, named statement of sources and of use of funds. The set of financial statements also includes and a summary of the accounting practices of the company and other additional notes. In this respect, a *Declaration regarding the financial reporting objective* is issued as well, by which financial statements must provide information that should be as follows (FASB, 1978):

1. useful to investors and to present and future creditors for making rational decisions;
2. intelligible to those users whose economic knowledge is minimal;
3. illustrate the company's economic resources, financing sources, as well as effects of transactions and events determining modifications in the company's resources or in financing sources;
4. look at the financial performance throughout a period and help users to assess money amounts, periods and incertitude related to the investors' future cash flows.

The annual report that a company must prepare and publish for the use of different users must contain financial statements, as well as other financial or non-financial information, including an Auditor Report, analyses and discussions of management

[5] Frequently met as the Situation of exploitation and of the global result – Statement of Operations and Comprehensive Income/Loss

(identifications and narrative explanations of the coded financial values), information regarding the activity segments, information regarding different re-processing carried out, as well as comparative data for the previous years. Press releases, management forecasts or other descriptions of plans or expectations of the management or of the social or environmental impact of the company's activity are examples of financial reports, other than financial statements.

At the same time, Rule 14 a-3 of the Securities Exchange Act forces the companies to supply the following information in the Annual Report framework: certain quarterly financial information; disagreements between management and accounting regarding accounting and financial information; financial information throughout 5 years; description of the company's activity; presentation of the company's management; trend of shares for each quarter of the presented financial exercises; management comments on the financial statements and on the company's results.

Financial reporting in Europe is undergoing a process originally named harmonization process, at the same time with the appearance of the European Union's legislative and economic framework. Thus, in 1978 *Directive 78/660/EEC* of the European Union Council (the *4th Directive*) was published, which had as objective the coordination of the provisions regarding the presentation and content of the annual account[6] and of the annual reports of the Member States' companies with the assessment methods used for the elaboration of annual accounts and for their publication for the trade companies.

According to Article 2 of the *4th Directive*, annual accounts must contain:

- Balance;
- Profit and Loss Account;
- Notes on Annual Accounts.

All these three statements must represent a whole. The modification brought by Directive 2003/51/EC in June, 2003 adds the possibility for the Member States to allow or require the inclusion in the annual accounts of declarations, other than the three mandatory statements, according to the previous requirement[7], so that companies should be able to elaborate financial statements comparable with the financial statements elaborated according to the international norms.

The need to implement the international financial reporting standards in the European Union has led to the occurrence of Regulation no. 1606/2002, elaborated by the European Parliament and the European Union Council, regarding the application of international standards to private trade companies that exceed a certain size[8]. For the elimination of discrepancies between the provisions of the European directives and those of the international standards, the *4th Directive* has undergone, in time, a number of modifications meant to allow comparability for the companies that report according to IFRS but have directives as basic legislation. Although strict in the imposing of the requirements of all member states, very many times, the European directives give the possibility to adapt requirements to the national specific. For this reason, the financial statements of companies from different countries show particular features. Therefore, financial reporting in Great Britain is settled by the Companies Act (trade company law), a law drafted in 1844 and notably

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[6] Annual accounts or accounting synthesis documents is the name used in the continental European countries for financial statements

[7] We consider that it was a first step of the process of convergence with the international standards

[8] The size limits foreseen in the 4th Directive are as follows: a total balance of EUR 3,650,000, a turnover of EUR 7,000,000, an average number of employees of 50

amended in 1947-1948, when the new elements introduced were the indispensability of reporting for groups, the distinction between reserves and provisions (hindering the creation of hidden reserves), as well as a number of requirements for the presentation of the financial statement, including the presentation of some statements that should offer a "true picture". In time, modifications have been introduced, namely: indispensability of the detailed reporting on the income, the strengthening of the legal requirements regarding the information elaboration and presentation and the audit of the financial statements or the implementation of the European directives.

The basic requirements for all companies are given by the presentation of a Balance and of an Account of results, accompanied by the details necessary to the presentation of a true image. The formats for the financial statements for the British companies derive out of the *4th E.U. Directive*, but the British government, unlike the other E.U. countries, has let the financial statement formats as flexible as possible. Thus, companies may choose between the two Balance formats and the four formats of account of results and may present (as detailed as possible) financial information notes, rather observing content than form.

Financial reporting normalization was actually accomplished by the *Trade Company Law, published* in 1989, by which the British accounting standards[9] became mandatory. The annual reports of the companies quoted for the stock exchange have been more and more detailed through the years, until now:

- a chairman declaration;
- a financial and operational report;
- a manager report;
- a trade union report;
- a declaration regarding the group situation;
- financial statements (including Notes);
- auditor report, preceded by a declaration on the manager's responsibility;
- information on shareholders.

For the companies to be audited, the financial statements shall also contain a Cash Flow Statement (required by the Financial Reporting Standards - FRS 3) as well, a Statement of all admitted incomes and losses, a Reconciliation of movements that have occurred in the investors' funds and a Note on the historic cost regarding the profit and loss. The purpose of the Statement of all admitted incomes and losses is to reveal those incomes or losses admitted (incomes which have not been achieved out of the re-assessment of corporal immobilization) in the Profit and loss account along that period. The note regarding the result historical cost provides information on the values that the resulted element would have had under the conditions of a stable historical cost.

In Germany, though accounting has been a very developed technique since the 17th century, official requirements regarding reporting could be found for the first time in the Commercial Code of 1861, of French inspiration (the Trade Ordinance since 1673, on which the French Commercial Code since 1807 was based). Up to 1920, financial reporting had been controlled by jurists, so that financial statements (known as annual accounts) had the purpose to provide a financial statement meant to allow creditors to assess the risks related to the credits granted to the company. Thus, the Balance was the main component of the financial statement by which assets were highlighted and which had as a major role the protection of the creditor's interest. But there were also requirements regarding the presentation of the

[9] They are named Financial Reporting Standards (FRS) and are elaborated by the Accounting Standards Board (the British accounting normalization body)

result, considered a by-product of the assets assessment, determined, first of all, as a difference between the net assets of two consecutive periods and less as a difference between incomes and expenses[10].

At present, all companies are forced to show a set of financial statements, whose components differ according to the company's size. Thus, the companies for people (which are not public interest companies and whose capital is made up of shares) must provide a Balance and a Profit and Loss Account. For the capital companies, the additional presentation of an Annex and of the management report is mandatory, as they are defined in the *4th Directive*. It foresees (Raffournier *et al.,* 1997) that the management report should provide all the information needed to the presentation of a true picture of the company's situation although it is not a part of the financial statement.

The elaboration of a Financing table (as an expression of the treasury variation) is not mandatory, unlike in other European countries but, in this respect, most quoted companies elaborate the Cash flow statement. The statement of the own capital modifications is not used by the German companies, but the capital companies must provide - according to the *Company Law (Aktiengesetz–AktG)* - a Statement on the result distribution. The Balance and Profit and Loss Account must be elaborated observing the instructions of the *4th Directive* and using the Annex content, companies must highlight the following:

- general information on the annual accounts;
- accounting and assessment methods;
- complementary information regarding the Balance and Profit and Loss Account;
- other information like: number of employees, total remuneration of the managers and of the Board of Committee members etc.

The financial reporting for the French companies is achieved by means of the financial statements named synthesis documents or annual accounts, largely influenced by the provisions of the fourth and seventh Directives. They contain the Balance, Profit and loss account and Annex, at least, but they may be completed by a Financing Table[11] of the exercise. The content of the synthesis document is established according to the General Accounting Plan dispositions and must offer, in all aspects, a true picture of the patrimony, of the financial statement and of the results, even if it requires deviations from rules or additional presentations of information. The specific of the French financial reporting is the fact that synthesis documents may be presented in one of the following three systems:

- *basic system*, which includes the minimal accounting dispositions for the middle and large companies;
- *simplified system*, destined to the companies whose size does not justify the use of the basic system requirements;
- *developed system*, which proposes documents to facilitate information analysis in order to be useful in management. The documents proposed by means of the developed system, others than those of the basic system are highlighted only as recommendation.

The International Accounting Standards Board (IASB) and the American and European normalization organisms militate in favor of diminishing the differences in the financial statement presentation, trying to harmonize the accounting regulations, standards and procedures regarding the financial statement elaboration and presentation. IASB considers

[10] Hence the Duble calculation principle of result

[11] Defined in the French literature (Guide du responsable comptable et financier, Lamy, 1988) as a Table of uses and resources, which explains the variations of the company's assets throughout the reference period

that this harmonization may be achieved if for the elaboration of the financial statements is highlighted the provision of information based on which economic decisions are made.

The objective [12] formulated by IASB is the provision of a basis for the general presentation of the financial statement so that their comparability might be provided:

- both in time – with financial statements of the company for the previous periods;
- and in space – with financial statements of other companies.

Companies have the obligation to elaborate financial statements so that they should correctly present the situation and their financial achievements, as well as the cash flows, as an expression of the modifications in the activity statement. A correct reporting means conformity with the standards, namely observance of all the provisions contained in the international accounting standards and in the financial reporting. We have to mention that a correct reporting may involve the presentation of some information going beyond the framework of that required expressly by standards or even deviating from them. For such cases, although professional reasoning is invoked, standards bring clear stipulations that must be observed by those who elaborate and present financial statements.

Stipulations concerning the presentation of information on the activity of a company regard the *general financial statements* of the (trade or industrial, private or public) companies, namely both the individual and the consolidated statements. In this respect, financial statements are elaborated and presented annually, at least, welcoming the common needs of information of a large array of users. The *General IASB framework* establishes as users of the financial statement as follows: present and potential investors, employees, creditors, suppliers and other commercial creditors, clients, Government and its institutions, as well as the public. A part of these users may request, and have the capacity to obtain extra information beside that contained in the general financial statements. Yet, many users must rely on the financial statements as their main information source and, for this reason; these financial statements must be elaborated and presented considering their needs.

Financial reports having a special goal, for instance: Declarations and other statements elaborated for fiscal purposes are outside the G*eneral Framework*. Nevertheless, *the General Framework IASB* may be applied for the elaboration of reports with a special goal, where possible.

Financial statements are a part of the financial reporting process. The conceptual framework establishes obligatorily the components of the complete set of financial statements, in order to answer the objective of insurance of the comparability of different companies' activities. It includes: a Balance, a Profit and Loss Account, a Statement of the Financial Position Modifications (which may be presented in different ways, for instance as a cash flow statement or of fund flow statement) and Explanatory Notes, as well as other explanatory statements and documents that are part of the financial statements.

Beside the basic set that must make up the financial statements, in the IASB vision, there may be included other additional documents and information, as well, which should complete it, for example regarding the industrial and geographic fields or the presentation of the effects of the price variation. We have to mention that financial statements do not include the managers' reports, the chairman's declarations, the managers' discussions and analyses and similar elements. They come to complete the reporting framework, being considered completions to the financial statements. Thus, financial statements represent only a part of the whole, only a section of the financial report that describes the company's activity, named

[12] This objective may be found in the General framework of elaboration and presentation of the financial statements, elaborated by IASB

in the international standards as Annual report. Accounting norms do not approach the information presented outside the financial statements. Still, we consider that where financial information is presented outside the financial statements - as it is in an *Annual report* or in statements presented for the entry within the framework of different Authorities - the respective information must be presented so that it should be in accordance with that included in financial statements.

IAS 1 - Financial statement presentation establishes the general requirements regarding the financial statement form and content, but allows the possible influence of the legal frameworks where the company carries out its activity. According to the international requirements, each financial statement set shall contain the following information: reporting company's name; reporting unit and currency; balance date; reporting period and any exchange of such information throughout the period.

Financial statements are useful if timely. On the level of the international normalization, it is considered that a company must be able to issue financial statements within six months from the balance date to answer the information usefulness feature.

Exception from the presentation requirements included in *IAS 1 - Financial statement presentation* are the *interim compressed financial statements,* whose presentation is regulated by a special standard - namely *IAS 34 - Interim financial reporting* – the interim financial report is defined as a financial report that either contains a set of financial statements, as they are presented in *IAS 1 - Financial statement presentation*, or a set of compressed financial statements for an interim period. The interim period is a shorter reporting period than a financial exercise. IASB encourages the publicly transacted companies to submit interim financial reports at the end of the first semester of their financial exercise, at least, and make available their interim financial reports no later than 60 days from the end of the interim period.

Should a company publish a set of complete financial statements in its interim financial report, the form and content of such statements must comply with the regulations of IAS 1 - Financial statement presentation. Should a company publish a set compressed financial statements in its interim financial report, such statements are to include at least all securities and sub-securities that have been included in the most recent annual financial statement, as well as the Explanatory notes, selected according to requirements of *IAS 34 - Interim financial reporting*. There are included additional elements or additional notes if their omission would determine the interim financial statements to lead to wrong conclusions.

As for the consolidated financial statements, although they are defined separately from the financial statements, their elaboration and presentation principles must be the same as for the individual financial statements. This requirement must be considered both in correlation with the requirements specific to the standards dealing with the consolidation operations and with the national requirements, but only in case the basis for elaboration of the financial statements is presented in the Explanatory notes.

Banks also represent an important and powerful field of business worldwide. Physical and juridical persons appeal to banks as depositaries or creditors. Banks play a key role in maintaining confidence in the monetary system by means of a close relation with the regulation and governmental organisms. Therefore, a considerable and widespread interest is shown regarding the good operation of banks and particularly, regarding their solvability and liquidity in relation to the risk degree specific to different aspects of their activity. The operations of the banks and of the insurance companies are different from those of the manufacture or trade companies and, consequently, involve specific requirements on reporting. They may be found in IAS 30 - Information presented in financial statements of banks and similar financial institutions, applicable until IFRS 7 - Financial instruments came into force: presentation (January 2007). These norms do not deal with issues regarding the recognition and assessment of the financial element; the presentation requirements of IAS 30 and IFRS 7 must be consistent with requirements of IAS 1 - Financial statement presentation. Thus, for allowing users to understand the basis for the elaboration of the financial statements *of the banks,* the accounting policies regarding the following elements must be presented:

- main income types;
- value of investments and securities;
- distinction between the events generating assets and debts in Balance, respectively those generating contingent assets and debts;
- basis to determine losses within credits and advance payments, as well as basis regarding the non-recognition of non-recoverable credits and advance payments;
- basis to determine expenses relevant to the general banking risks and mode of treatment in financial statements.

IAS 30 - Information presented in financial statements of banks and similar financial institutions is in accordance with IAS 1 - Financial statement presentation regarding the suggestion that financial statements should be accompanied by the managers' comment, which should detail and explain the information presented in the financial statements. The manager's comment offers the bank the possibility of explaining the way he manages and uses the derived financial instruments for maintaining or improving its financial position. For completing such requirements, by the new norm, IFRS 7, the requirement of detailed information regarding the management of the reporting company capital is asserted.

Taking into consideration the quick modifications in the economic environment where most companies run their activities, sufficient information on risks and incertitude must be supplied. Thus, there is an encouragement to present additional information beside the company's financial statements, such as reports on environmental protection, statements providing additional information or additional financial statements reflecting inflation effects, to the extent to which the management consider that such information is useful and comes to support the economic decisions.

To the minimum set of mandatory components for the presentation of statements on the company's activity there may be attached a financial analysis elaborated by management, on the financial performance and financial position of the company and on the major risks and incertitude. Such a report, presented by the management represents an opportunity of explaining the current financial statement of the company and of making forecasts regarding its activity. This report must offer investors – in an ideal situation – the possibility to assess the company from the managers' perspective, providing information both on the historical and current situation, and on its perspectives. Thus, the management has the possibility to expose business dynamics and to analyze financial statements. This information – to be read and analyzed in parallel with the general financial statements – enables the investors to assess the company's performance and perspectives.

Such a report may include an analysis:

- of the main factors and influences that have affected the company's performance, including modifications occurred within the operational environment and the company's reactions to them;

Example[13]

The dual impact of the sudden increase of the raw materials prices, as well as the major decrease of the demand regarding the segment of tools have led to the diminishing of the turnover and profits on the second half of the year. Pressures that influenced performance on the second half of 1999 continued this year. Still, we are very satisfied with the two new strategic evolutions which, according to the Committee Board, are to significantly increase the medium and long term development perspectives of Zotefoam. We consider that the year 2000 is going to be a transition year, which Zotefoam is going to cross as a well-balanced company, recording an increasing profit, which will provide it with an international potential.

▪ Of the company financing sources and of the policy regarding the indebtedness and the risk control policies;

Example

Financial manager report

Financing sources

Victrex Company has refinanced the available banking facilities in order to have enough financial resources to make the payments for the purchase of the assets intended according to the investment program and for covering the additional requirements regarding the work capital. After the transaction, indebtedness is expected to increase significantly. It is probable that the interest coverage ration - which represents a financial index that is more relevant for a company and which increased 30 times the last year - would decrease, but it should remain at a satisfactory level.

Control on the exchange rate exposure

The Group records an exposure regarding transactions in foreign currency as a result of the fact that 97% of its sales go to export. The Group policy is to protect profits against the non-favorable foreign currency trends, providing a minimum of 90% of the exposures of the scheduled transactions on the following six months.

▪ Of the company's potential and resources, whose values are not recorded on Balance

Example

In this difficult environment, we keep on relying on hard work, creativity and dedication of our employees and I am taking this opportunity to thank them for their efforts and faithfulness.

3. Conclusions

As a conclusion, any published report must present and analyze information regarding the significant tendencies known by management, commitments, events or uncertainty that may be estimated in a credible way and that could significantly influence the company business evolution, the financial condition or the activity results. Mainly, the report must contain information regarding the financial condition and the company's activity particularly stressing its liquidity and financing resources.

[13] The examples are taken from the documents made up by Price Waterhouse Coopers on the Accounting International Standards

Thus, although they have had different names and contents in time, but particularly in the world, financial statements are globally considered as a projection of the companies' activities. The necessity to elaborate such statements has been triggered by the economic development and the objective is a unitary one: provision of a basis for making decisions involved by the organization and development of the economic agents' activities.

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