POLITECNICO
MILANO 1863

Accounting Finance & Control

How to read financial statements

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Financial Analysis

1. Sources selection and data “triangulation”
2. Segmental analysis
3. Common size analysis
4. **Reclassification and adjustments**
5. Benchmarking
6. Accounting based indicators (selection)
7. Interpretation

Financial statements

LVMH

MOËT HENNESSY • LOUIS VUITTON

TRANSLATION OF THE FRENCH

FINANCIAL DOCUMENTS

FISCAL YEAR ENDED DECEMBER 31, 2020

Financial statements

Financial statements

EBIT = Revenue - COGS - Operating Expenses
EBIT = Net Income + Interest + Taxes

CONSOLIDATED INCOME STATEMENT

(EUR millions, except for earnings per share)	Notes	2020	2019	2018 [a]
Revenue	24	**44,651**	**53,670**	**46,826**
Cost of sales		(15,871)	(18,123)	(15,625)
Gross margin		**28,780**	**35,547**	**31,201**
Marketing and selling expenses		(16,792)	(20,207)	(17,755)
General and administrative expenses		(3,641)	(3,864)	(3,466)
Income/(loss) from joint ventures and associates	8	(42)	28	23
Profit from recurring operations	24	**8,305**	**11,504**	**10,003**
Other operating income and expenses	26	(333)	(231)	(126)
Operating profit		**7,972**	**11,273**	**9,877**
Cost of net financial debt		(35)	(107)	(117)
Interest on lease liabilities		(281)	(290)	-
Other financial income and expenses		(292)	(162)	(271)
Net financial income/(expense)	27	**(608)**	**(559)**	**(388)**
Income taxes	28	(2,409)	(2,932)	(2,499)
Net profit before minority interests		**4,955**	**7,782**	**6,990**
Minority interests	18	(253)	(611)	(636)
Net profit, Group share		**4,702**	**7,171**	**6,354**
Basic Group share of net earnings per share *(EUR)*	29	**9.33**	**14.25**	**12.64**
Number of shares on which the calculation is based		503,679,272	503,218,851	502,825,461
Diluted Group share of net earnings per share *(EUR)*	29	**9.32**	**14.23**	**12.61**
Number of shares on which the calculation is based		504,210,133	503,839,542	503,918,140

(a) The financial statements as of December 31, 2018 have not been restated to reflect the application of IFRS 16 Leases. See Note 1.2 to the 2019 consolidated financial statements regarding the impact of the application of IFRS 16.

EBIT

EBITDA => factor of cash generation

Financial statements

CONSOLIDATED BALANCE SHEET

ASSETS	Notes	2020	2019	2018 [(a)]
(EUR millions)				
Brands and other intangible assets	3	17,012	17,212	17,254
Goodwill	4	16,042	16,034	13,727
Property, plant and equipment	6	18,224	18,533	15,112
Right-of-use assets	7	12,521	12,409	-
Investments in joint ventures and associates	8	990	1,074	638
Non-current available for sale financial assets	9	739	915	1,100
Other non-current assets	10	845	1,546	986
Deferred tax		2,325	2,274	1,932
Non-current assets		**68,698**	**69,997**	**50,749**
Inventories and work in progress	11	13,016	13,717	12,485
Trade accounts receivable	12	2,756	3,450	3,222
Income taxes		392	406	366
Other current assets	13	3,846	3,264	2,868
Cash and cash equivalents	15	19,963	5,673	4,610
Current assets		**39,973**	**26,510**	**23,551**
Total assets		**108,671**	**96,507**	**74,300**

LIABILITIES AND EQUITY	Notes	2020	2019	2018 [(a)]
(EUR millions)				
Equity, Group share	16.1	37,412	36,586	32,293
Minority interests	18	1,417	1,779	1,664
Equity		**38,829**	**38,365**	**33,957**
Long-term borrowings	19	14,065	5,101	6,005
Non-current lease liabilities	7	10,665	10,373	-
Non-current provisions and other liabilities	20	3,322	3,812	3,188
Deferred tax		5,481	5,498	5,036
Purchase commitments for minority interests' shares	21	10,991	10,735	9,281
Non-current liabilities		**44,524**	**35,519**	**23,510**
Short-term borrowings	19	10,638	7,610	5,027
Current lease liabilities	7	2,163	2,172	-
Trade accounts payable	22.1	5,098	5,814	5,314
Income taxes		721	722	538
Current provisions and other liabilities	22.2	6,698	6,305	5,954
Current liabilities		**25,318**	**22,623**	**16,833**
Total liabilities and equity		**108,671**	**96,507**	**74,300**

(a) The financial statements as of December 31, 2018 have not been restated to reflect the application of IFRS 16 Leases. See Note 1.2 to the 2019 consolidated financial statements regarding the impact of the application of IFRS 16.

Financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(EUR millions)	Number of shares	Share capital	Share premium account	Treasury shares	Cumulative translation adjustment	Revaluation reserves				Net profit and other reserves	Total equity		
						Available for sale financial assets	Hedges of future foreign currency cash flows and cost of hedging	Vineyard land	Employee benefit commit-ments		Group share	Minority interests	Total
Notes		**16.2**	**16.2**	**16.3**	**16.5**							**18**	
As of Dec. 31, 2017	**507,042,596**	**152**	**2,614**	**(530)**	**354**	**-**	**130**	**1,114**	**(133)**	**25,268**	**28,969**	**1,408**	**30,377**
Gains and losses recognized in equity					219	-	(259)	3	20	-	(17)	45	28
Net profit										6,354	6,354	636	6,990
Comprehensive income		**-**	**-**	**-**	**219**	**-**	**(259)**	**3**	**20**	**6,354**	**6,337**	**681**	**7,018**
Bonus share plan-related expenses										78	78	4	82
(Acquisition)/disposal of treasury shares				(256)						(26)	(282)	-	(282)
Exercise of LVMH share subscription options	762,851		49								49	-	49
Retirement of LVMH shares	(2,775,952)		(365)	365							-	-	-
Capital increase in subsidiaries											-	50	50
Interim and final dividends paid										(2,715)	(2,715)	(345)	(3,060)
Changes in control of consolidated entities										(9)	(9)	41	32
Acquisition and disposal of minority interests' shares										(22)	(22)	(19)	(41)
Purchase commitments for minority interests' shares										(112)	(112)	(156)	(268)

Financial statements

CONSOLIDATED CASH FLOW STATEMENT

(EUR millions)	Notes	2020	2019	2018 [a]
I. OPERATING ACTIVITIES				
Operating profit		7,972	11,273	9,877
(Income)/loss and dividends received from joint ventures and associates	8	64	(10)	5
Net increase in depreciation, amortization and provisions		3,478	2,700	2,302
Depreciation of right-of-use assets	7.1	2,572	2,408	-
Other adjustments and computed expenses		(89)	(266)	(219)
Cash from operations before changes in working capital		**13,997**	**16,105**	**11,965**
Cost of net financial debt: interest paid		(58)	(124)	(113)
Lease liabilities: interest paid		(290)	(239)	-
Tax paid		(2,385)	(2,940)	(2,275)
Change in working capital	15.2	(367)	(1,154)	(1,087)
Net cash from operating activities		**10,897**	**11,648**	**8,490**
II. INVESTING ACTIVITIES				
Operating investments	15.3	(2,478)	(3,294)	(3,038)
Purchase and proceeds from sale of consolidated investments		(536)	(2,478)	(17)
Dividends received		12	8	18
Tax paid related to non-current available for sale financial assets and consolidated investments		-	(1)	(2)
Purchase and proceeds from sale of non-current available for sale financial assets	9	63	(104)	(400)
Net cash from (used in) investing activities		**(2,939)**	**(5,869)**	**(3,439)**
III. FINANCING ACTIVITIES				
Interim and final dividends paid	15.4	(2,799)	(3,678)	(3,090)
Purchase and proceeds from sale of minority interests		(67)	(21)	(236)
Other equity-related transactions	15.4	27	54	(205)
Proceeds from borrowings	19	17,499	2,837	1,529
Repayment of borrowings	19	(5,024)	(1,810)	(2,174)
Repayment of lease liabilities	7.2	(2,302)	(2,187)	-
Purchase and proceeds from sale of current available for sale financial assets	14	69	71	(147)
Net cash from/(used in) financing activities		**7,403**	**(4,734)**	**(4,323)**
IV. EFFECT OF EXCHANGE RATE CHANGES		**(1,052)**	**39**	**67**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		**14,309**	**1,084**	**795**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	15.1	**5,497**	**4,413**	**3,618**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	15.1	**19,806**	**5,497**	**4,413**
TOTAL TAX PAID		**(2,501)**	**(3,070)**	**(2,314)**

(a) The financial statements as of December 31, 2018 have not been restated to reflect the application of IFRS 16 Leases. See Note 1.2 to the 2019 consolidated financial statements regarding the impact of the application of IFRS 16.

Financial statements

SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Reclassification and adjustments: why?

چون فاکتورهای مورد نظرمون نیست:

Accounting principles might differ between organizations.

Accounting choices can vary from one organizations to another
Reclassification and adjustments aim to reorganize financial statement in order to:

- Increase their readability
- Underline key financial results
- Improve the comparability between different enterprises

What is object of reclassification and adjustments?

- Balance Sheet
- Income statement

4. Balance Sheet reclassification: fixed capital

The purpose of the Balance Sheet reclassification is to highlight

- FC: Fixed Capital
- NWC: Net Working Capital
- NFD: Net Financial Debt

The main purpose of identifying fixed capital or fixed assets is to understand what we have for producing physical goods and/or services in the future. Therefore, as you can see from the above table, there is no difference between the types of assets but there may be difference in the numbers

Overall, reclassification provide information for our investors regarding real assets that we have and can be used in the future to realize products and/or services.

BALANCE SHEET (IAS/IFRS)	RECLASSIFIED BALANCE SHEET
1. NON-CURRENT ASSETS →	**1. FIXED CAPITAL** → **Capex**
1.1 Property, plant and equipment	1.1 Property, plant and equipment
1.2 Investment property	1.2 Investment property
1.3 Goodwil	1.3 Goodwil
1.4 Other intangible assets	1.4 Other intangible assets
1.5 Equity investment	1.5 Equity investment
1.6 Other non-current financial assets	1.6 Other non-current financial assets
1.7 Deferred tax	1.7 Deferred tax

discontinued operation رو هم بیرون میکشیم.
خوب نمیفهمم.
یه چیزی رو بیرون میکشیم. برای فروش نیست؟

4. Balance Sheet reclassification: net working capital

- The definition of Net Working Capital is linked to the notion of **working capital cycle**

- The **working capital cycle** is defined as the average time it takes to acquire materials, services and labour, manufacture the product, sell the product and collect the proceeds from customers

- Net Working Capital is a measure of the **operating liquidity** of a company and represents the amount of the liquidity necessary to run the business during the working capital cycle. Therefore, it takes into account:
  - Receivable
  - Payables
  - Inventories

4. Balance Sheet reclassification: net working capital

NWC underlines the ability of an organization in managing the operating cycle (receivable, payables, inventories)

NET WORKING CAPITAL
Trade and other receivables +
Inventories +
Ordered work in progress -
Provisions for liabilities and charges -
Deferred tax liabilities -
Trade and other payables -
Current tax liabilities -

Operational Cost yet!

NWC = Accounts Receivable + Inventory – Accounts Payable

4. Balance Sheet reclassification: net working capital

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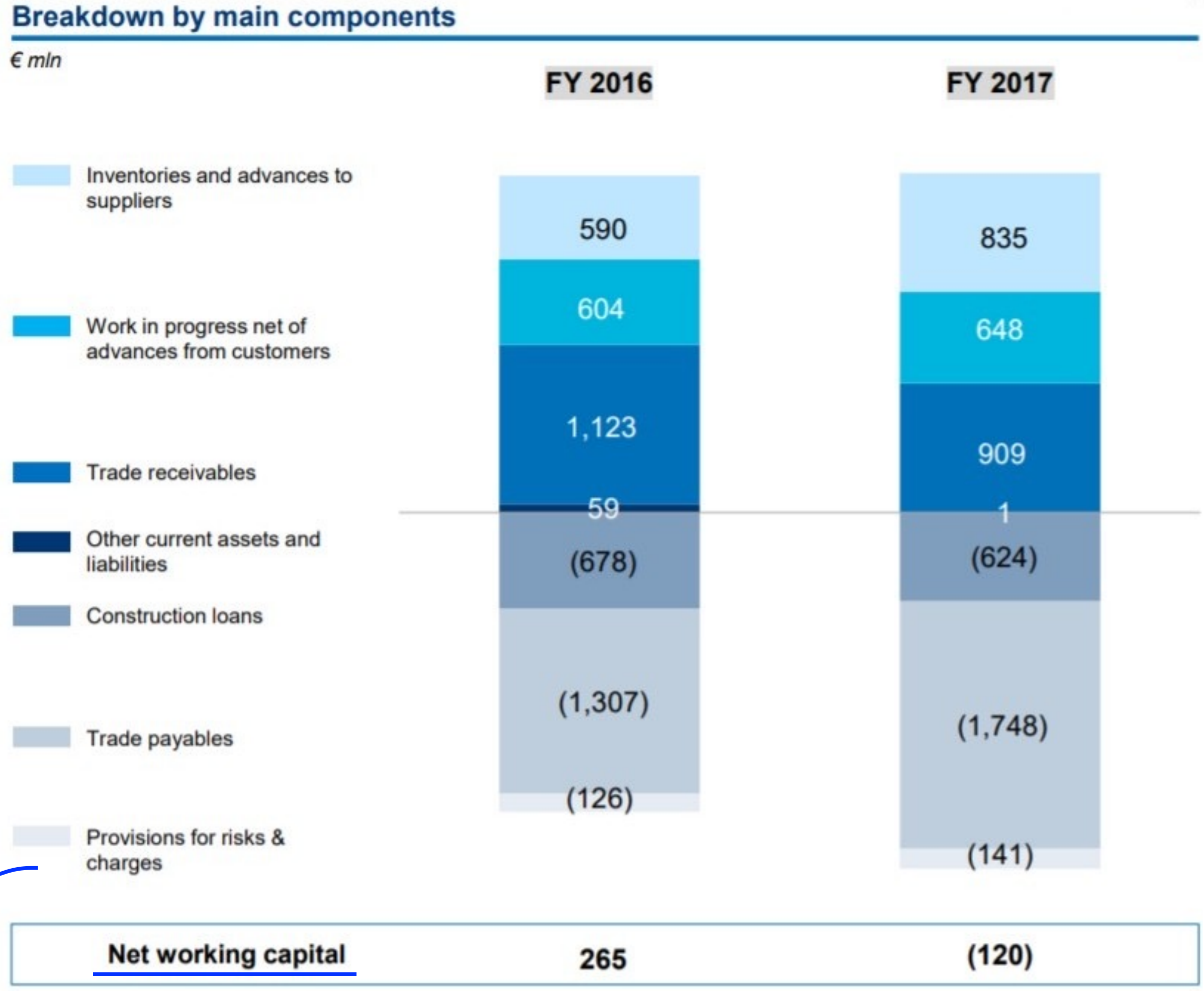


4. Balance Sheet reclassification: net working capital

dangerous

In practice there are different labels and formulas that are used with reference to Net Working Capital = *Current assets – Current liabilities* < 0

Barilla
The Italian Food Company. Since 1877.

Assets	Note	12/31/2018	12/31/2017
Current assets			
Cash and cash equivalents	6.1	295,982	246,893
Trade receivables	6.2	419,306	428,458
Tax credits	6.3	19,602	28,541
Other receivables due from parent company	6.4	2,646	16,662
Other assets	6.5	111,236	94,085
Inventories	6.6	302,742	282,717
Derivative financial instruments	6.20	9,624	13,057
Total current assets		**1,161,138**	**1,110,413**

Liabilities and equity	Note	12/31/2018	12/31/2017
Current liabilities			
Trade payables	6.13	744,314	752,189
Borrowings	6.14	26,073	84,954
Derivative financial instruments	6.20	188	6,011
Retirement benefit obligations	6.15	11,305	11,234
Current income tax liabilities	6.16	3,898	5,297
Other liabilities	6.17	177,732	170,694
Provisions for other liabilities and charges	6.18	57,723	58,689
Total current liabilities		**1,021,233**	**1,089,068**

بسته به نیاز انالیز میتونیم سطح های متفاوتی از دقت رو در نظر بگیریم.

4. Balance Sheet reclassification: net working capital

In practice there are different labels and formulas that are used with reference to Net Working Capital = *Current assets – Current liabilities*

Barilla
The Italian Food Company. Since 1877.

	2018	2017
Current assets	1,161,138	1,110,413
Current liabilities	1,021,233	1,089,068
NWC	139,905	21,345

Note: a positive net working capital implies that the company has enough liquidity to meet its short-term obligations.
Derivative is a contract that can be used for insuring against price movements of a product (hedging). Usually, in this contract the price and amount of the product is mentioned. Therefore, if the price goes up or down, it does not have any effect on our purchasing price of the product. Derivative is registered as an expense in financing activities of the cash flow statement.

4. Balance Sheet reclassification: net financial debts

Net Financial Position

NFD consist of the total debts of the company less available cash

It can be considered as a driver about the ability of the enterprise to reimburse its debts if they were all due today

$$NFD = financial\ liabilities - cash\ and\ cash\ equivalents$$

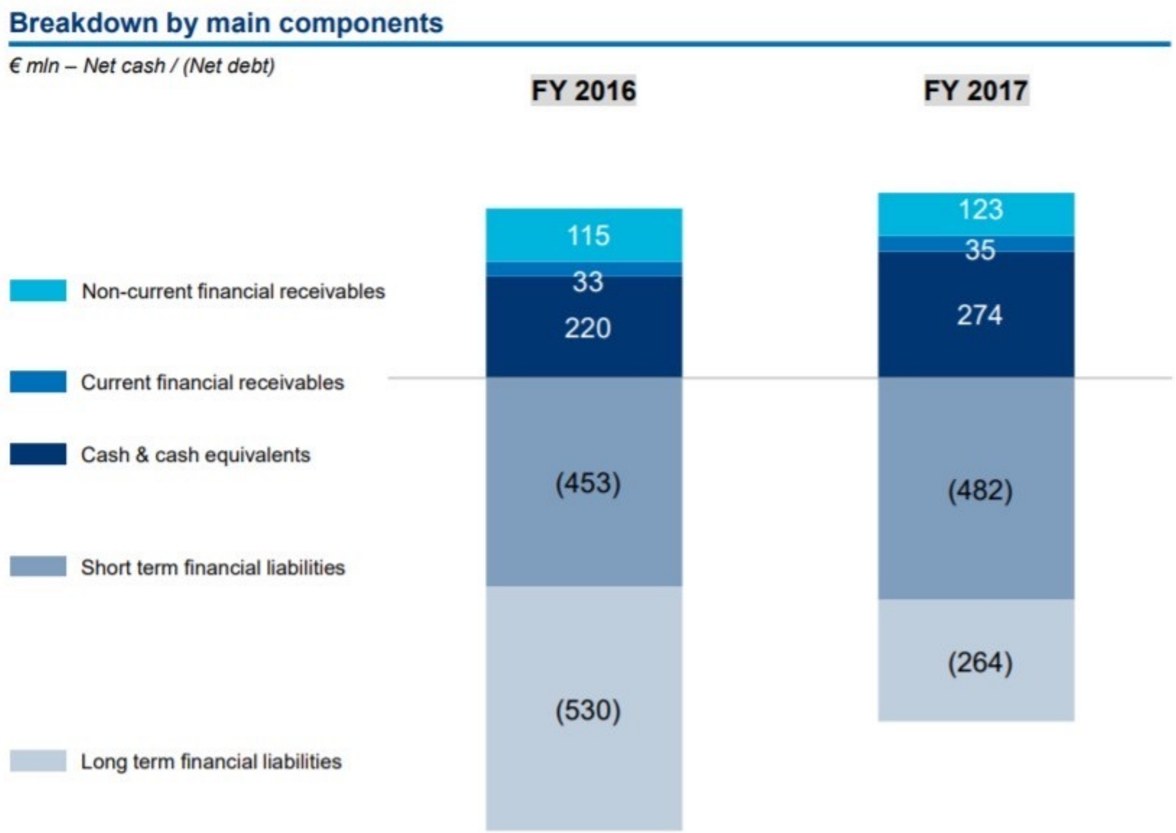
NET FINANCIAL DEBT
Bonds (non current + current) +
Bank debts (non-current + current) +
Other financial current and non-current liabilities -
Cash and cash equivalents

CashFlow / Current Asset

Note: In the re-payment to the borrowers, entity shall take into consideration the cash and equivalents, but also short-term and long-term financial receivables

It is calculated by adding short-term and long-term debt and subtracting all cash and cash equivalents.

4. Balance Sheet reclassification: net financial debts

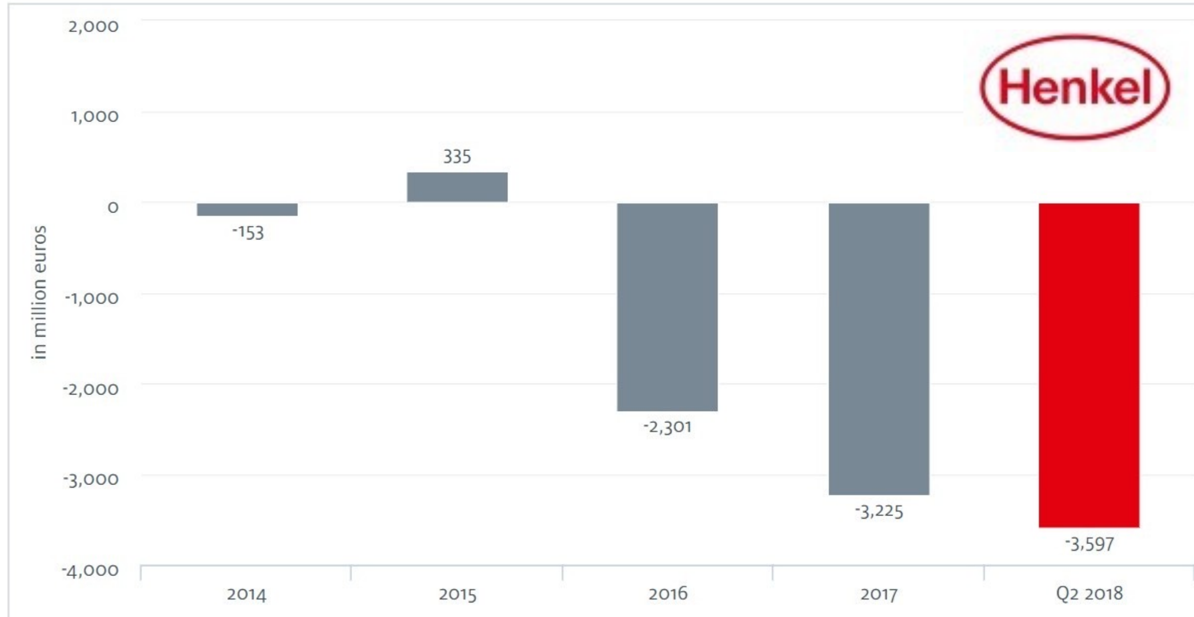


Net financial position	(615)	(314)

4. Balance Sheet reclassification: net financial debts

In practice there are different labels and formulas that are used with reference to Net financial debt, such as:

Net Financial Position: i.e. (cash minus debt)



in million euros	2014	2015	2016	2017	Q2 2018
Cash and cash equivalents securities and term deposits[1]	1,548	1,191	1,398	1,156	1,665
Financial debt[2]	-1,701	-856	-3,699	-4,381	-5,262
Net financial position[3]	-153	335	-2,301	-3,225	-3,597
Provisions for pensions and similar obligations	-1,262	-988	-1,007	-760	-746

http://www.henkel.com/investors-and-analysts/creditor-relations/development-of-net-financial-position

فالو اپ انالیز
شاید سرمایه گذاری کرده
یا ...

4. Balance Sheet reclassification

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Consolidated statement of financial position

(euro/thousands)

	Note	31.12.2020	of which related parties Note 33	31.12.2019	of which related parties Nota 33
ASSETS					
Non-current assets					
Intangible assets	6	629,043		654,495	
Rights of use	7	85,165		89,617	
Property, plant and equipment	8	1,301,024		1,225,030	
Investments accounted for using the equity method	9	78,590		55,772	
Other investments	9	26,179		19,594	
Financial assets	10	99,985	52,165	92,603	34,356
Other assets	11	26,941	628	17,523	
Deferred tax assets	12	77,963		99,021	
Total non-current assets		**2,324,890**		**2,253,655**	
Current assets					
Inventories and advances	13	881,499	216,215	827,946	186,484
Construction contracts - assets	14	3,124,554		2,697,714	
Trade receivables and other current assets	15	983,390	148,042	1,079,388	175,334
Income tax assets	16	11,901		8,621	
Financial assets	17	85,391	1,418	9,329	389
Cash and cash equivalents	18	1,274,642		381,790	
Total current assets		**6,361,377**		**5,004,788**	
Assets classified as held for sale and discontinued operations	36	**5,785**		**6,141**	
Total assets		**8,692,052**		**7,264,584**	

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4. Balance Sheet reclassification

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EQUITY AND LIABILITIES					
Equity					
Equity attributable to owners of the parent	19				
Share capital		862,981		862,981	
Reserves and retained earnings		(101,513)		155,517	
Total Equity attributable to owners of the		**761,468**		**1,018,498**	
Attributable to non-controlling interests		15,100		31,351	
Total Equity		**776,568**		**1,049,849**	
Non-current liabilities					
Provisions for risks and charges	20	58,288		70,882	
Employee benefits	21	59,675		60,044	
Financial liabilities	22	2,159,651	20,772	881,551	30,376
Other liabilities	23	30,251		28,576	
Deferred tax liabilities	10	50,527		54,349	
Total non-current liabilities		**2,358,392**		**1,095,402**	
Current liabilities					
Provisions for risks and charges	20	14,264		17,743	
Employee benefits	21	12		3	
Construction contracts - liabilities	24	1,161,160		1,282,713	
Trade payables and other current liabilities	25	2,628,981	309,956	2,553,701	117,812
Income tax liabilities	26	6,617		7,002	
Financial liabilities	27	1,746,058	111,339	1,258,171	11,695
Total current liabilities		**5,557,092**		**5,119,333**	
Liabilities directly associated with Assets classified as held for sale and discontinued operations	36	-		-	
Total equity and liabilities		**8,692,052**		**7,264,584**	

4. Balance Sheet reclassification

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Reclassified consolidated statement of financial position

non current asset

based on operation

(euro/million)	31.12.2020	31.12.2019
Intangible assets	629	654
Rights of use	85	90
Property, plant and equipment	1,301	1,225
Investments	105	75
Other non-current assets and liabilities	(25)	(79)
Employee benefits	(60)	(60)
Net fixed capital	**2,035**	**1,905**
Inventories and advances	881	828
Construction contracts and client advances	1,963	1,415
Construction loans	(1,325)	(811)
Trade receivables	602	677
Trade payables	(2,361)	(2,270)
Provisions for risks and charges	(73)	(89)
Other current assets and liabilities	111	125
Net working capital	**(202)**	**(125)**
Net assets (liabilities) held for sale and discontinued operations	**6**	**6**
Net invested capital NFC - NWC	**1,839**	**1,786**
Share capital	863	863
Reserves and retained earnings attributable to the Group	(101)	156
Non-controlling interests in equity	15	31
Equity	**777**	**1,050**
Net financial position [1]	**1,062**	**736**
Sources of funding	**1,839**	**1,786**

[1] This figure does not include construction loans but does include non-current financial receivables.

4. The role of balance sheet reclassification

The following table summarizes the Group's balance sheet and financial position at 31 December 2017:

	31.12.2017		31.12.2016		
in millions of euros	Amount	%	Amount	%	Change %
Trade receivables	325.23	73.8	308.91	83.4	5.3
Inventories	309.69	70.3	278.91	75.4	11.0
Trade payables	(502.61)	(114.1)	(476.82)	(128.8)	5.4
Other, net	(105.49)	(23.9)	(107.58)	(29.1)	(1.9)
Net working capital	**26.82**	**6.1**	**3.42**	**0.9**	**n.s.**
Property, plant and equipment	95.09	21.6	88.17	23.8	7.8
Intangible assets	362.16	82.2	332.77	89.9	8.8
Investments	44.03	10.0	26.02	7.1	69.2
Non-current assets	**501.28**	**113.8**	**446.96**	**120.8**	**12.2**
Provision for severance indemnities and other provisions	(87.52)	(19.9)	(80.26)	(21.7)	9.0
Net invested capital	**440.58**	**100.0**	**370.12**	**100.0**	**19.0**
FINANCED BY:					
Net debt	**50.05**	**11.4**	**99.94**	**27.0**	**(49.9)**
Non-controlling interests	21.31	4.8	14.64	4.0	45.6
Group equity attributable to equity holders of the parent	**369.22**	**83.8**	**255.54**	**69.0**	**44.5**
Total sources of financing	**440.58**	**100.0**	**370.12**	**100.0**	**19.0**

NWC

FC

NFD

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

4. Income statement reclassification

RECLASSIFIED INCOME STATEMENT
Total Revenues -
Raw Material -
General and administrative expenses =
VALUE ADDED
Personnel costs
EBITDA
Depreciation and Amortization
EBIT
Net financial Expenses (income)
Earnings before tax and extraordinary items
Extraordinary gain (losses)
Pretax Income
Tax
NET INCOME

Depreciation can be defined as the loss of value of a tangible or physical asset because of its usage overtime. The depreciation is based on the idea that the more a company use a certain asset, the lower the value of that asset is.
Amortization is an accounting technique used to periodically lower the book value of an intangible asset over a set period

Extraordinary gain (loss) line in the income statement refer to operations that happen just one year and it is not related to the core business of the company. For instance, selling a plant

EBITDA = Net Income + Taxes + Interest Expense + Depreciation & Amortization

EBITDA = Operating Income (EBIT) + Depreciation & Amortization

4. Income statement reclassification – IMA example

	2017		2016		
in millions of euros	Amount	%	Amount	%	Change %
Revenue	**620.08**		**591.72**		***4.8***
Cost of sales	(373.84)	*60.3*	(362.09)	*61.2*	
Industrial gross profit	**246.24**	***39.7***	**229.63**	***38.8***	***7.2***
R&D costs	(32.76)		(31.20)		
Commercial and sales costs	(67.77)		(63.71)		
General and administrative costs	(72.46)		(64.95)		
Operating profit before writedowns/impairment/ non-recurring items (EBITA)	**73.25**	***11.8***	**69.77**	***11.8***	***5.0***
Writedowns/impairment	(1.04)		–		
Non-recurring items	(1.16)		(1.06)		
Operating profit (EBIT)	**71.05**	***11.5***	**68.71**	***11.6***	***3.4***
Net financial income (expense)	138.29		25.53		
Profit before taxes	**209.34**	***33.8***	**94.24**	***15.9***	***122.1***
Taxes	(21.51)		(21.89)		
Profit for the year	**187.83**	***30.3***	**72.35**	***12.2***	***159.6***

4. Balance Sheet reclassification: income statement

Consolidated statement of comprehensive income

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The sea ahead

(euro/thousands)

	Note	2020	of which related parties Note 33	2019	of which related parties Note 33
Operating revenue	28	5,782,402	142,486	5,774,851	307,771
Other revenue and income	28	97,052	14,594	74,357	6,591
Materials, services and other costs	29	(4,727,896)	(897,378)	(4,520,109)	(211,702)
Personnel costs	30	(986,259)		(1,001,395)	
Depreciation, amortization and impairment	29	(186,988)		(167,509)	
Provisions	29	(80,076)		(74,536)	
Finance income	30	71,688	770	52,599	303
Finance costs	30	(211,888)	(2,495)	(187,050)	(3,086)
Income/(expense) from investments	31	129		3	
Share of profit/(loss) of investments accounted for using the equity method	31	(11,888)		(3,168)	
Profit/(loss) for the year before taxes		**(253,723)**		**(51,957)**	
Income taxes	32	9.203		(71,955)	
Net profit /(loss) from continuing operations		**(244,520)**		**(123,912)**	
Net profit/(loss) from discontinued operations	36			(24,329)	
Profit/(loss) for the year (A)		**(244,520)**		**(148,239)**	
attributable to owners of the parent from continuing operations		(240,057)		(117,346)	
attributable to owners of the parent from discontinued operations				(23,896)	
		(240,057)		(141,242)	
attributable to non-controlling interests from continuing operations		(4,463)		(6,564)	
attributable to non-controlling interests from discontinued operations				(433)	
		(4,463)		(6,997)	
Net basic earnings/(loss) per share (euro)	33	(0.14173)		(0.08360)	
Net diluted earnings/(loss) per share (euro)	33	(0.14055)		(0.08317)	
Net basic earnings/(loss) per share from continuing operations (euro)	33	(0.14173)		(0.06945)	
Net diluted earnings/(loss) per share from continuing operations (euro)	33	(0.14055)		(0.06910)	
Other comprehensive income/(losses), net of tax (OCI)					
Gains/(losses) from remeasurement of employee defined benefit plans	19-21	(464)		(2,053)	
Total gains/(losses) that will not be reclassified to profit or loss, net of tax	19	**(464)**		**(2,053)**	
- attributable to non-controlling interests		**(1)**		**(2)**	
Effective portion of gains/(losses) on cash flow hedging instruments	4-19	649		(25,615)	
Gains/(losses) arising from changes in OCI of investments accounted for using the equity method	9				

POLITE

4. Balance Sheet reclassification: income statement

Reclassified consolidated income statement

FINCANTIERI
The sea ahead

(euro/milioni)	31.12.2020 Excluding pass-through activities[1]	31.12.2020	31.12.2019
Revenue and income	**5,191**	**5,879**	**5,849**
Materials, services and other costs	(3,925)	(4,613)	(4,497)
Personnel costs	(917)	(917)	(996)
Provisions	(35)	(35)	(36)
EBITDA[2]	**314**	**314**	**320**
EBITDA margin	**6.1%**	**5.3%**	**5.5%**
Depreciation, amortization and impairment	(166)	(166)	(167)
EBIT	**148**	**148**	**153**
EBIT margin	**2.9%**	**2.5%**	**2.6%**
Finance income/(costs)		(131)	(134)
Income/(expense) from investments		(13)	(3)
Income taxes		(46)	(87)
Adjusted profit/(loss) for the year [1]		**(42)**	**(71)**
of which attributable to Group		(37)	(64)
Extraordinary and non-recurring income and expenses		(258)	(67)
- of which costs relating to the impacts deriving from the spread of COVID-19 [3]		(196)	-
- of which costs related to asbestos litigation		(52)	(40)
- of which costs relating to reorganization plans and non-recurring other personnel costs		-	(9)
- of which other costs linked to non-recurring activities		(10)	(18)
Tax effect of extraordinary and non-recurring income and expenses		55	14
Profit/(loss) for the year from continued operations		**(245)**	**(124)**
of which attributable to Group		(240)	(117)
Net profit/(loss) from discontinued operations			(24)
Profit/(loss) for the year		**(245)**	**(148)**
of which attributable to Group		(240)	(141)

[1] See the definition contained in the section Alternative Performance Measures.
[2] This figure does not include extraordinary and non-recurring income and expenses, including expenses from the impact of the spread of COVID-19; see the contained in the section "Alternative performance measures".
[3] Of which Depreciation, amortization and impairment for euro 20 million and Finance costs for 9 million.

They are saying we are doing good

4. Adjustments

Adjustments refer to the amendment of an item (number) disclosed in annual reports

Why?

- When unexpected events occurred or when accounting principles have changed over the years, the disclosed numbers in annual reports can be revised to provide a fair representation of the current situation

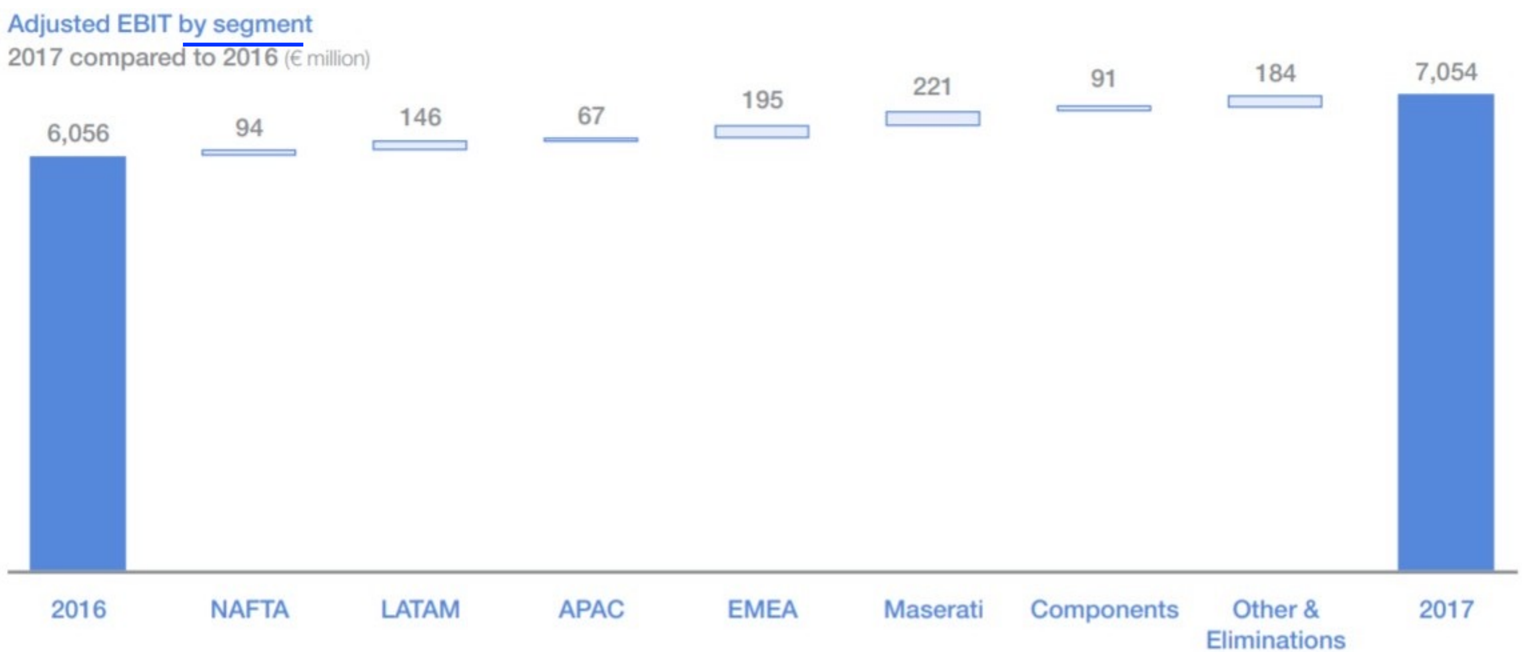
What is adjusted?

- Operating profit, net profit current assets….are typical items that can be adjusted

4. Example of adjustment in income statement- FCA (1)

Adjusted EBIT: excludes certain adjustments from Net profit from continuing operations including gains/(losses) on the disposal of investments, restructuring, impairments, asset write-offs and unusual income/(expenses) that are considered rare or discrete events that are infrequent in nature, and also excludes Net financial expenses and Tax expense/(benefit).

Adjusted EBIT is used for internal reporting to assess performance and as part of the Group's forecasting, budgeting and decision making processes as it provides additional transparency to the Group's core operations. We believe this non-GAAP measure is useful because it excludes items that we do not believe are indicative of the Group's ongoing operating performance and allows management to view operating trends, perform analytical comparisons and benchmark performance between periods and among our segments.



4. Example of adjustment in income statement- FCA (2)

an accident!
Goal => showing the real perfomance

		Years ended December 31	
(€ million)	2017	2016	2015
Net profit from continuing operations	€ **3,510**	€ **1,814**	€ **93**
Tax expense	**2,651**	1,292	166
Net financial expenses	**1,469**	2,016	2,366
Adjustments:			
Reversal of a Brazilian indirect tax liability	**(895)**	—	—
Impairment expense	**229**	225	118
Recall campaigns - airbag inflators	**102**	414	—
Restructuring costs	**95**	88	53
Resolution of certain Components legal matters	**43**	—	—
Deconsolidation of Venezuela	**42**	—	—
Costs for recall - contested with supplier	**—**	132	—
NAFTA capacity realignment	**(38)**	156	834
Tianjin (China) port explosions (insurance recoveries)/costs	**(68)**	(55)	142
Gains on disposal of investments	**(76)**	(13)	—
Change in estimate for future recall campaign costs	**—**	—	761
NHTSA Consent Order and amendment	**—**	—	144
Currency devaluations	**—**	19	163
Other	**(10)**	(32)	(46)
Total Adjustments	**(576)**	934	2,169
Adjusted EBIT	€ **7,054**	€ **6,056**	€ **4,794**

Thousands of cars destroyed in Tianjin port explosions

13 August 2015 | Rachael Hogg

Read this in

In order to show investors the actual performance of the company in the financial year in which port explosions happened (also in the next years), managers excluded the costs related to this occurrence. Otherwise, shareholders might think that the company was not performing well, while it was not true and managers were operating the business very well.
Note: adjustments related to the fluctuation of the currencies are very common and usually big multinational companies may consider this kind of adjustment in their financial statements.

Financial Analysis

1. Sources selection and data “triangulation”
2. Segmental analysis
3. Common size analysis
4. Reclassification and adjustments
5. **Benchmarking**
6. Accounting based indicators (selection)
7. Interpretation

Benchmarking and comparison analysis help us to understand how a company is performing compare to its competitors, thus showing its efficiency and effectiveness. In addition, it provides additional information to investors and shareholders and help them to decide between holding and selling their shares

5. Benchmarking: why?

comparing to other companies

Eni group: 2017 results

Net profit: 3.377 m€

Shareholders' equity: 48.079 m€

→ ROE (Return on Equity) = 7,0%

How is the company performing?

5. Benchmarking: why?

ROE (Return on Equity) = 7,0%

Is this a company contingency, is this a market trend? How can we explain this value?

Looking at competitors can be helpful

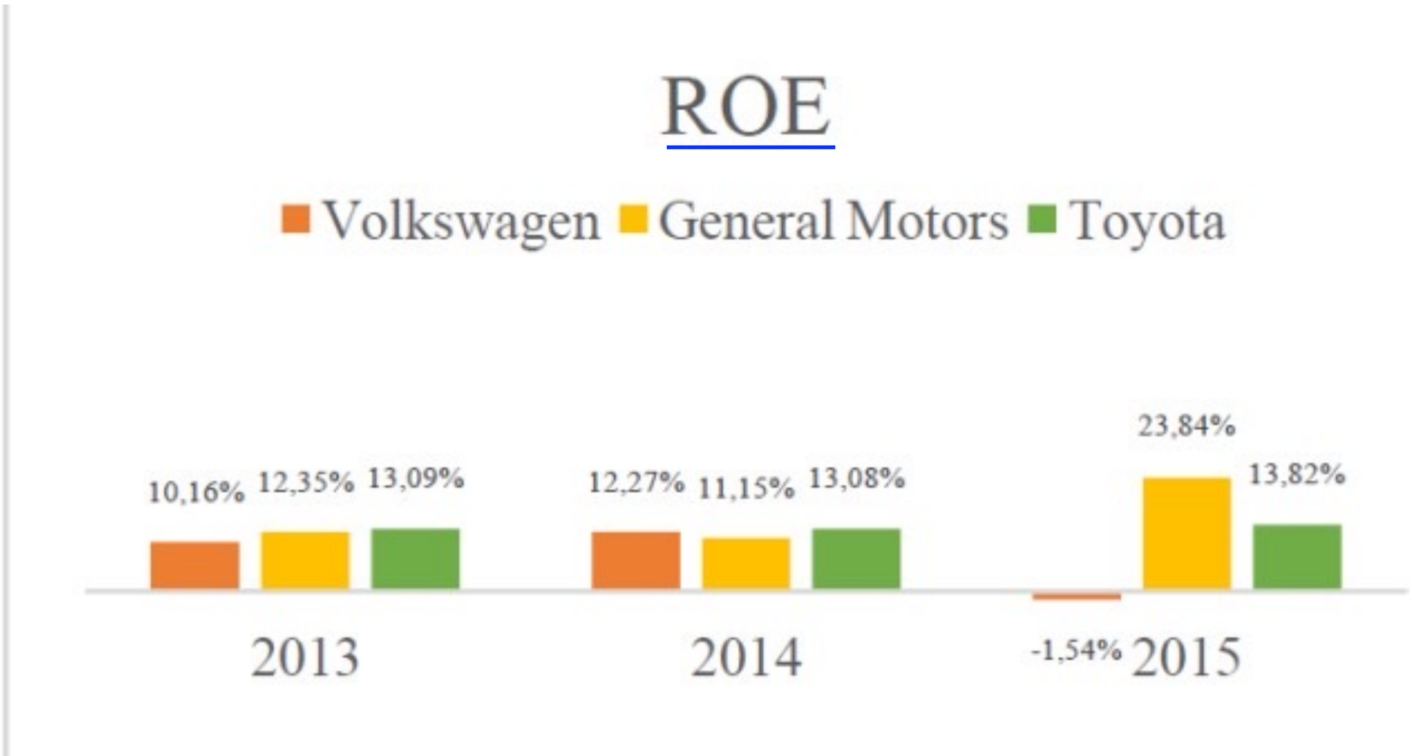
5. Benchmarking: why?

	ENI	TOTAL	BP
Net profit	3.377	8.299	3.076
EBIT	8.012	7.755	8.403
Shareholders Equity	48.079	114.037	89.056
Total Assets	114.928	242.631	245.263
ROE	7,0%	7,3%	3,5%
ROA	2,9%	3,4%	1,3%

Reference year: 2017

Data in m€

5. Benchmarking: why? Automotive Sector



Focus on Volkswagen: why a drop in 2015?

????

5. What is benchmarking?

Different definitions can be found:

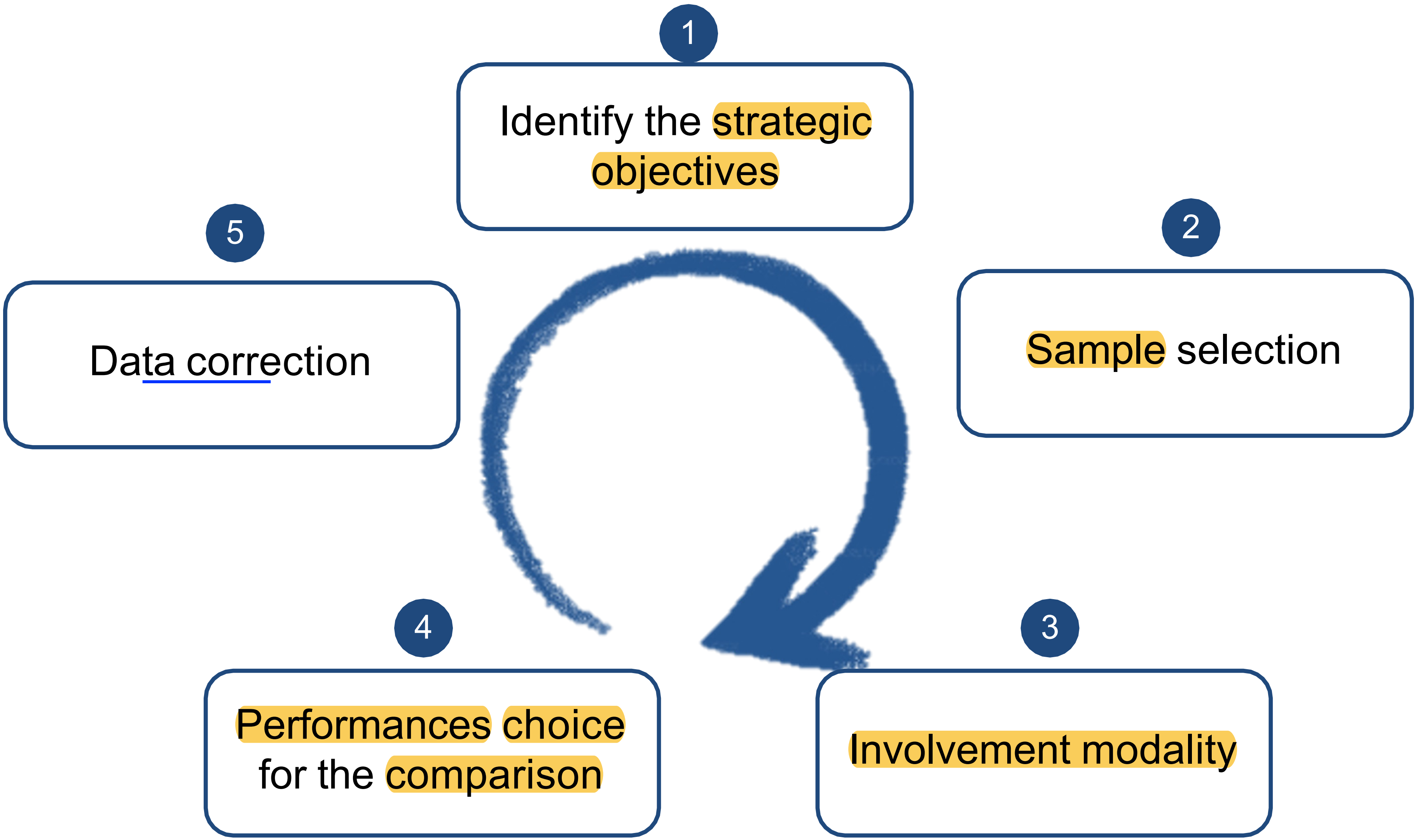
- "The **continuous** process of **measuring** its own products, services, practices against the toughest **competitors** or those companies recognised as **industry leaders**" (Camp, 1989)
- "A kind of **performance** improvement process by identifying, understanding and adopting outstanding practices from **within the same organization** or from **other** businesses" (Cook, 1995)
- "The process of continuously comparing and measuring an organization against **business leaders in the world** to gain information which will help to take actions to improve its performance" (American Productivity and Quality Center, 1999)

5. What is not benchmarking?

Benchmarking never….

- ...**ends**: it is a continuous process that needs recalibration in the perspective of continuous improvement
- ...**copies**: information learned is not copied but adapted to the specificities of context (company's history, needs, culture, structure, ...)
- ...**cheats**: it should be an honest, legal and virtuous analysis

5. The process of benchmarking



5.1. Identify strategic objectives

Performance orientation	Process orientation Not for project
Identification of best practices in terms of flexibility, timeliness, quality, costs, ... → Comparison of **indicators**	Identification of the best practices in terms of organizational structure, responsibilities, technologies, ... → Comparison of **processes**
• There is no guarantee that the various best practices are comparable • Trade-off between the benchmarked performances and the others (not measured): if benchmarked performances improve, what happens to the others • There is the possibility of a time lag between performance and processes	• Difficulty of focusing the analysis on competitive differential (a process includes a variety of factors) • Difficulty to identify the link between processes and performance

5.2. Sample selection

Different options exist

1. **Leader Benchmarking**: benchmarking on a specific performance or process
   – e.g. 1 (performance) Fincantieri benchmarked itself against Boeing on its quality-focused strategy
   – e.g. 2 (process) IBM benchmarked itself against Federal Express on its logistics system

2. **Sector Benchmarking**: benchmarking with companies that act within the same industry

3. **Internal Benchmarking**: benchmarking with different units of the same company

5.2. Sample selection

Type:	Pros	Cons
Leader	▪ Unconventional ways of working (*first mover advantage*) ▪ Stimulating(innovation oriented) ▪ Discovering of new practices	▪ Applicability of one best practice in different contexts ▪ Emphasis of the trade-off between performances when benchmarking is done for each performance
Sector	▪ Feasibility of the individualized best practices ▪ Help to search for best practices in the sector	▪ Do not stimulate innovation ▪ Time consuming ▪ Difficulty to access data
Internal	▪ Cheap ▪ Precision in the comparison of information ▪ Easy to access data ▪ Easy to implement	▪ Self-referential ▪ No guarantee of competitive advantage ▪ No stimulating objectives

In the case of *controlling management*, the **sector benchmarking** is the most suitable approach: reasonable and feasible goals, without being under-stimulating

5.3. Involvement modality

Two different ways:

1. **Unconscious** → Indirect involvement of competitors

   Information are gathered through web sites, publications, magazines, employees, customers and vendors, suppliers, databases, reverse engineering, balance sheets and other institutional public documents.

2. **Conscious** → Direct involvement of the competitors, which provide the needed information

   Best and more precise results BUT...

   …Necessity of the organizations approval

   …Necessity of reveal the own data.

5.4. Performances choice for the comparison

1. Definition of the scope: identification of the areas of the company that need to be benchmarked
   e.g.:
   - Whole company
   - Some products/services (only finished goods, service features, …)
   - Work processes (manufacturing, supply, logistics, ...)
   - Support Functions (HR, Marketing, ...)
   - …

3. Definition of the measurement system: definition of indicators for comparison

5.5. Data correction

The best practices may descend from two different reasons:

1. Better **management**: to be individualize through benchmarking

2. Difference in the conditions of the **context**: to be eliminated to make companies comparable.

   Factors influencing context include:

   - Scale
   - Strategy (efficiency vs. effectiveness)
   - Market expectations and perception
   - Product itself in Leader Benchmarking

Note: one the most important objectives of doing benchmark analysis is to identify competitive advantages of both the company itself and its competitors.
Note: Another objective of benchmarking analysis is to identify the best performances and apply them to our company. In the case of internal benchmarking, we recognize the best practices from different units and use them for other SBUs.

Example

The example of an industry benchmark you may wish to use for <u>customer service</u> – the NPS (net promoter score).