Balance Sheet

	Notes	The Group 2014 £m	The Group 2013 £m	The Company 2014 £m	The Company 2013 £m
Assets					
Non-current assets					
Goodwill	13	**1,816.8**	1,813.9	-	-
Other intangible assets	14	**406.8**	409.8	-	-
Property, plant and equipment	15	**689.3**	609.9	**0.1**	0.1
Derivative financial instruments	24	**18.7**	9.3	**18.7**	9.3
Investment property	16	**0.4**	0.4	-	-
Interest in associates	17	**1.7**	7.3	**1.3**	7.7
Investment in subsidiaries	17	-	-	**3,605.5**	3,588.8
Available-for-sale investments	17	**3.2**	2.7	-	-
Deferred tax asset	26	-	-	**3.7**	18.2
Total non-current assets		**2,936.9**	2,853.3	**3,629.3**	3,624.1
Current assets					
Inventories		**742.7**	687.7	-	-
Trade and other receivables	18	**931.8**	822.9	**167.4**	133.1
Derivative financial instruments	24	**2.5**	-	**2.5**	-
Cash and cash equivalents	19	**108.3**	79.8	**54.0**	7.3
Total current assets		**1,785.3**	1,590.4	**223.9**	140.4
Total assets		**4,722.2**	4,443.7	**3,853.2**	3,764.5

	Notes	The Group 2014 £m	The Group 2013 £m	The Company 2014 £m	The Company 2013 £m
Equity and Liabilities					
Capital and reserves					
Issued capital	20	**24.9**	24.7	**24.9**	24.7
Share premium account	22	**510.5**	498.0	**509.4**	496.9
Merger reserve	22	**326.5**	326.5	**326.5**	326.5
Revaluation reserve	22	**18.1**	18.4	-	-
Hedging reserve	22	**0.2**	-	**0.2**	-
Own shares	22	**(28.5)**	(40.6)	**(28.5)**	(40.6)
Other reserves	22	**(1.5)**	(1.7)	-	-
Accumulated profits	22	**1,827.5**	1,689.9	**261.0**	214.3
Total equity		**2,677.7**	2,515.2	**1,093.5**	1,021.8
Non-current liabilities					
Interest bearing loans and borrowings	23	**440.0**	421.6	**385.4**	363.9
Derivative financial instruments	24	**0.5**	4.5	**0.5**	4.5
Retirement benefit obligations	28	**97.5**	71.4	-	-
Long-term provisions	25	**7.8**	20.7	-	-
Long-term other payables	27	-	1.9	-	1.9
Amounts due to subsidiaries		-	-	**2,303.9**	2,308.0
Deferred tax liabilities	26	**66.7**	61.3	-	-
Total non-current liabilities		**612.5**	581.4	**2,689.8**	2,678.3
Current liabilities					
Interest bearing loans and borrowings	23	**43.5**	5.8	**45.6**	3.2
Trade and other payables	27	**1,255.2**	1,218.1	**24.3**	59.4
Derivative financial instruments	24	-	1.8	-	1.8
Tax liabilities		**71.6**	73.2	-	-
Short-term provisions	25	**61.7**	48.2	-	-
Total current liabilities		**1,432.0**	1,347.1	**69.9**	64.4
Total liabilities		**2,044.5**	1,928.5	**2,759.7**	2,742.7
Total equity and liabilities		**4,722.2**	4,443.7	**3,853.2**	3,764.5

Income Statement

EBITDAR: Earnings Before Interest, Tax, Depreciation, Rental Cost

Impairment of Assets seeks to ensure that an entity's assets are not carried at more than their recoverable amount

SUMMARY STATEMENTS OF INCOME

In € millions	2011[1]	2012
Consolidated revenue	5,568	5,649
Operating expense	(3,809)	(3,861)
EBITDAR	**1,759**	**1,788**
Rental expense	(903)	(938)
EBITDA	**856**	**850**
Depreciation, amortization and provisions	(341)	(324)
EBIT	**515**	**526**
Net financial expense	(92)	(75)
Share of profit of associates	5	17
Operating profit before tax and non-recurring items	**429**	**468**
Restructuring costs	(38)	(40)
Impairment losses	(64)	(119)
Gains and losses on management of hotel properties	105	11
Gains and losses on management of other assets	6	(81)
Operating profit before tax	**437**	**239**
Income tax expense	(166)	(143)
Profit or loss from discontinued operations	(221)	(679)
Net profit/(loss)	**50**	**(584)**
Net profit/(loss), Group share	**27**	**(599)**
Net profit attributable to minority interests	23	15
Weighted average number of shares outstanding (in thousands)	*227,107*	*227,266*
In €		
Earnings per share	**1.09**	**0.35**
Ordinary dividend per share	**1.15[2]**	**0.76**

Balance Sheet

Assets = Liabilities + Shareholders' Equity

Assets= Current Assets + Non-Current Assets

- Current Assets = Can be converted into Cash in less than one year. eg. Cash, Cash Equals, Inventory (raw, WIP, finished), Account Receivable

- Non-Current Assets: Tangible: machinery, computers, buildings, and land. Intangible: goodwill, brand, patents or copyright

Liabilities = Current Liabilities + Long Term Assets

- Current Liabilities: interest payment on a 10-year loan, short term borrowing, account payable,

- Long-term Liabilities: Debt and non-debt long term financial obligations

Shareholders' Equity: Initial amount of money invested into a business.
If company decide to reinvest the net earning then this can be transferred from income statement onto the balance sheet and shareholder's equity account

Financial Ratios

Profitability ratios

1. **Contribution Margin** = Sales - Variable expenses
2. Contribution Margin % = 100 * **Contribution Margin** / Sales.
   - This ratio indicates the percentage of each sales dollar that is available to cover a company's fixed expenses and profit.
3. **Gross margin** = Revenue - Cost of goods sold (COGS)
4. Gross Margin (%) = 100* **Gross margin** / Revenue

5. **Operating income** = operating revenues - operating expenses
6. Operating margin % = 100***Operating Income** / Net Sales

7. **Net profit** = Sales revenue - Total costs
8. Return on sales (%) ROS = 100 * **Net profit** / Sales revenue

9. Profit margin = 100 * Net Profit /Net Sales
   - Profit margin is an indicator of a company's pricing strategies and how well it controls costs. Differences in competitive strategy and product mix cause the profit margin to vary among different companies,

   Example
   Cost price = $50
   Selling price (revenue) = $100
   Profit = $100 – $50 = $50
   Profit percentage (profit divided by cost) = $50/$50 = 100%
   Return on investment multiple = $50 / $50 (profit divided by cost). = 100%

10. Return on equity (ROE) = Net Income / Shareholder Equity
    - Measure of management's ability to generate income from the equity available to it.
    - ROEs of 15-20% are generally considered good.

11. Return on assets (ROA) = Net Income / Average Total Assets
    - How many dollars of earnings they derive from each dollar of assets they control. ROAs over 5% are generally considered good.

Liquidity ratios

1. Working Capital = Current Assets - Current Liabilities
2. Current ratio (Working Capital Ratio)= CA / CL
   - Whether a company has enough short term assets to cover its short-term debt.

- >2 means that the company is not investing excess assets or company has too much inventory
- Most believe that a ratio between 1.2 and 2.0 is sufficient.

3. Acid-test ratio (Quick ratio)= (CA - Inventories - Prepayment) / CL
4. Cash ratio = Cash & Marketable Securities / Current Liabilities

Case Study of Apple Inc.

Cash and cash equivalents	**15,319**
Short-term marketable securities	**19,384**
Accounts receivable, less allowance of $83	**10,370**
Inventories	2,042
Deferred tax assets	5,010
Vendor non-trade receivables	**9,537**
Other current assets	9,291
Total current assets	70,953
Accounts payable	26,474
Accrued expenses	22,724
Deferred revenue	9,088
Commercial paper	4,499
Current portion of long-term debt	2,500
Total current liabilities	**65,285**

Acid-test ratio = (15,319 + 19,384 + 10,370 + 9,537) / 65,285 = 0.84

Activity ratios (Efficiency Ratios)

Activity ratios measure a firm's ability to convert different accounts within its balance sheets into cash or sales. Relative efficiency of a firm based on its use of its assets. Activity ratios are most useful when compared to competitor or industry to establish whether an entity's processes are favorable or unfavorable.

1. Average collection period = 365 * Account Receivable / Annual Credit Sales
   - A long debtors collection period is an indication of slow or late payments by debtors.

2. Asset turnover = Net Sales / Total Assets
   - Measures the efficiency of a company's use of its assets in generating sales revenue or sales income

3. Merchandise Inventory Turnover Ratio = Cost of goods sold / Average inventory
   - Higher calculations indicate inventory is quickly converted into sales and cash.

4. Total Assets Turnover Ratio = Total sales are divided by total assets
    - To see how proficient a business is at using its assets

5. Accounts Receivable Turnover Ratio = Total credit sales / average accounts receivable balance
    - Determines an entity's ability to collect money from its customers. A low ratio suggests a deficiency in the collection process.

Debt ratios (leveraging ratios)

1. Debt ratio = Total Liabilities / Total Assets

    - Indicates the percentage of a company's assets that are provided via debt
    - a company with $2 million in total assets and $500,000 in total liabilities would have a debt ratio of 25%.
    - If the ratio is greater than 0.5, most of the company's assets are financed through debt. The higher the ratio, the greater risk will be associated with the firm's operation. It indicates lower borrowing capacity. Which indicates lower financial flexibility.
    - A debt level of 40% may be easily manageable for a company in a sector such as utilities
    - A debt level of 30% may be too high for an industry with volatile cash flows

Market ratios

1. Earnings per share (EPS) = Net Earning / No of Shares
2. Payout ratio = Dividend/ EPS
3. Dividend cover = EPS / Dividend Per Share
4. P/E ratio (PER) = Market Price per Share / EPS
    - Average P/E ratio of all companies in the S&P 500 index is 20
    - Single-digit P/E would be considered undervalued. P/E of 50 would be considered overvalued

Capital budgeting ratios

1. Present Value (PV) = FV/(1+Discount Rate)^n
2. Net Present Value = Inflow - Outflow
3. Future Value (FV) = PV * (1+Discount Rate)^n
4. Internal Rate of Return = At discount rate at which present value of inflow becomes equal to present value of outflow.

