

## **Understanding the TransCorp Annual Report.**

*‘The choice of a common stock is a single act, its ownership is a continuing process. Certainly, there is as much reason to exercise care and judgment in being a shareholder as in becoming one.’*

- Benjamin Graham and David Dodd, Security Analysis

Transnational Corporation of Nigeria Plc. (TransCorp) is committed to Shareholder education because we believe that the investor has a right to make informed decisions. By providing the tools and content for decision making, TransCorp empowers its shareholders to make the right decisions on their investment in our company. At TransCorp, we believe that since it mattered enough to our shareholders to invest their capital in our vision, it also ought to matter enough to them to understand both the business to which we have committed their capital and the results that we have achieved by that commitment.

We recognize that a lot of our shareholders may not have a background in finance. In fact, a lot of our shareholders may not even be financially literate. We understand this. For this reason, we believe that it is part of our responsibility to make the financial information we publish accessible to our shareholders by explaining the meaning of the terms used in the report, as well as the context in which they are used. It is not enough to publish these reports. The publications must be understandable by the majority of its intended audience.

The following guide provides basic information on how to read the financial statements in TransCorp’s annual report. The Guide discusses the key numbers in each of the three types of financial statements –balance sheet, profit & loss account, statement of cash flows- common to all annual reports.

Like all new and fairly complex subjects, the language of financial statements may at first seem a bit daunting. Some of us still have unhappy memories of mathematics in secondary school. However, these numbers and calculations are not an end in themselves. That would be very misleading. The whole idea why these statements are prepared and command the significance that they do is because of their ability to aid decision making, which in turn determines where we invest our capital, your capital. So while we recognize that perhaps we may not all be accountants and financial analysts, we believe that it is the wise decision for investors to understand how their capital is put to use.

We look forward to meeting our shareholders at our annual general meetings and expect them to ask us questions on the contents of our annual report. We want to tell you how we run TransCorp, your company.

The Board and management of TransCorp are committed to creating long-term value for our shareholders. Business decisions are not made by business plans or capital but by people. At TransCorp, each member of the Board and officer recognizes the trust that you have placed in us, collectively but also as individuals.

The annual report is an opportunity to give an account on how well we have used that trust. The Company and Allied Matters Act of 1990, which governs the operation of businesses in Nigeria, requires that all accounting information must assist users to assess the financial liquidity,

profitability and viability of a company must be disclosed in a logical, clear and understandable manner. We believe that after studying this guide and reading the report, our shareholders faith in TransCorp as a competitive vehicle for sustainable value creation would be re-affirmed.



An **Annual Report** is a formal report on a company's performance in the concluded year. The annual report is prepared by public companies as a report card on their activities, especially the allocation of and returns on capital during the preceding year. It also includes details on debt, taxes, risks and other issues such as footnotes that qualify the accounts that may affect the public company's ability to allocate capital and earn expected returns on capital.

The primary audience of an annual report is the company's shareholders. However, in addition to the shareholders, banks and other lenders, customers, suppliers, analysts, investment advisers, regulatory agencies like the Nigerian Stock Exchange (NSE), Corporate Affairs Commission (CAC) and the Securities and Exchange Commission (SEC) also use the reports as a source of information. In fact, the annual report ought to be the most accessible and reliable source of information on a public company in the past year. This is why it is so important for shareholders to read and understand the contents.

### **What are the contents of the Annual Report?**

Although the format of annual reports may differ slightly, the typical annual report has the following contents and usually in the following order:

There are three kinds of financial statements:

- 1) **Balance sheet**
- 2) **Statement of cash flows:**
  - Cash Flow Operations
  - Cash Flow Investing
  - Cash Flow Financing
- 3) **Profit & Loss Account.**

The financial statements are accompanied by notes which explain the company's financial performance and recent financial history. Together, these are used by investors to make investment decisions and assess the company's overall performance.

Each of the above is treated below.

### **INCOME STATEMENT**

**Purpose of the Income statement:** The income statement shows how much revenue TransCorp and its subsidiaries have brought into the business by providing goods and services, or both, to its customers in the year under review. It also shows the costs and expenses associated with earning this revenue during that time. In an annual report, the Income Statement shows sales revenue and expenses for at least the last three years. The net earnings (or loss), often called 'the bottom line' on the statement, shows how much the TransCorp has made (or lost) in the period.

**Key numbers in the Annual Report:** The Income Statement shows two main categories of information for each year covered:

- 1) The revenue from products and services sold; and
- 2) The expenses, or costs, of doing business.

To interpret this information users of the information contained in the Income Statement should focus on the following key numbers:

- Revenue
- Gross profit
- Operating income (operating profit)
- Net earnings (net income, net profit)
- Earnings per share

### **Revenue:**

TransCorp earns revenue in one of the following ways:

- By selling products and services, or both;
- By leasing and renting equipment or property to others; and
- By receiving interest from loans to other companies or individuals.

TransCorp is a diversified company and its subsidiary companies are involved in different sectors. Some of these companies make and sell products, while others are service providers.

### **Gross profit:**

The production of goods and services for sale is the most significant cost of generating revenue. To produce what it sells to its customers TransCorp must make heavy investments in facilities, called capital investments. TransCorp must also invest in IT, pay salaries, spend on overhead-power, maintenance, facilities-, pay consultants and advisers, etc. TransCorp must deduct these costs (cost of sales, cost of goods sold) from revenue, to show gross profit (or loss).

### **Operating income:**

In addition to the expenses directly related to producing goods and services, companies incur operating expenses. These expenses include advertising, salaries, rent, research and development, office supplies, and other administrative amounts spent. TransCorp deducts these operating expenses from gross profit, resulting in operating income (or loss).

TransCorp's operating income is calculated as follows:

$$\text{Revenues} - \text{Expenses required to earn revenues} = \text{TransCorp Operating Income}$$

TransCorp further deducts costs relating to debt financing and tax expenses from its operating income. The remaining amount is referred to as **Net earnings**.

### **Net earnings:**

Net earnings appear as the last line on the income statement, as such, it is called the 'bottom line.' After TransCorp has deducted all costs and expenses from revenue, the statement of earnings shows the net earnings (or loss). When revenue exceeds costs and expenses, the bottom line shows a profit. When costs and expenses exceed revenue, the bottom line shows a loss.

### **Earnings per Share:**

Earnings per share (EPS) shows how much money shareholders would receive for each share they own if TransCorp distributed all net earnings to its shareholders.

Although all net earnings do belong to shareholders, TransCorp can not distribute this full amount to them directly. To sustain our growth and remain competitive, TransCorp needs to retain a portion of its net earnings, known as retained earnings. This may be defined as the total amount of TransCorp's net earnings since its incorporation on November 17, 2004, minus any payments made to our shareholders.

However, this term is a bit misleading since it suggests a large pool of cash in a strong room that could be can be TransCorp's shareholders. Retained earnings are actually part of shareholders' equity and represent the portion of TransCorp's assets that is financed from profitable operations rather than from the issuance of new stock or borrowing from banks.

TransCorp shareholders benefit from retained earnings in two ways. First, when TransCorp invests our retained earnings in profitable ventures, it grows as a company and assures its continued existence as a wealth-generating entity for its owners, our shareholders.

A second way stockholders benefit from earnings is through the payment of dividends. The Board of TransCorp, with the advice of management, decides on the amount of dividends to be paid per share. TransCorp pays dividends once a year.

## BALANCE SHEET

**Authorized Share Capital:** This is the total of the share capital which the company is allowed to issue to shareholders.

**Issued Share Capital:** This is the total of the share capital which is actually issued to shareholders.

**Called up Capital:** Where only part of the amounts payable on each share has been as ked for, the total amount asked for on all the shares is know as the called-up capital.

**Paid up Capital:** This is the total of the amount of share capital which has been paid for by shareholders.

**Fixed Assets:** Assets of a permanent nature required for the normal conduct of a business, and which will not normally be converted into cash during the ensuring fiscal period.

- Land and Buildings
- Plant and Machinery
- Fixtures, fittings, tools and equipment
- Construction in progress
- Prepayment for stocks in transit

**Long –term investments:** Investments that will not be realized into cash, or sold within 1 year

- Shares in group companies
- Loans in group companies
- Shares in related companies
- Loans to related companies
- Other investments other than loans
- Other loans
- Own shares (Treasury shares)
- Bonds, Debentures and Federal Government Development Stocks

**Deferred Charges:** Are amounts that are paid in advance to a vendor or creditor for goods and services. They include:

- Development costs
- Concessions
- Goodwill
- Prepayment for services to be received

**Current Assets:** Assets of a company that are reasonably expected to be realized in cash, or sold, or consumed during the normal operating cycle of the business (usually one year). They include:

- Stocks
- Raw materials and consumables
- Work-in-progress
- Finished goods and goods awaiting sale
- Prepayment for stocks in transit

**Short-term investment:** Investments that are reasonably expected to be realized in cash, or sold within 1 year.

**Cash at Bank and in Hand:** Cash in Bank means coin, currency, and cash items on deposit. Cash in hand means coin, currency, and cash items on hand.

**Prepayment and accrued income:** Payment of all or part of a debt prior to its due date.

**Net current assets (liabilities):** This is the difference between the current assets and current liabilities.

**Total assets less Current Liabilities:** This is the difference between fixed and current assets and current liabilities.

**Provisions for liabilities and Charges:** An amount charged against profits for a specific liability. The liability may be known, but the amount is often uncertain. This uncertainty may lead to an adjustment in a later income statement once the final amount of the liability is ascertained.

- 1) Pensions and similar obligations
- 2) Taxation, including deferred taxation

### 3) Other provisions

**Accruals and deferred income:** The recognition of expenses when incurred, or revenue when earned regardless of when cash is received or disbursed.

**Capital:** Capital is money and other property of a corporation or other enterprise used in transacting the business.

**Reserves:** This is part of the nominal (current value) of a business that has not yet been called up. It is thus a reserve, which can be drawn on in case of need.

**Financial highlights:** This is the most read section of the annual report. It provides a quick summary of TransCorp's performance. It includes tables and graphs to depict the information in a visually striking manner. TransCorp also uses Interactive Data Viewing to show its financials on its website, so that shareholders and analysts can interrogate all the figures and ratios according to their choice.

**Chairman's Letter:** Although, this section often includes two letters: one from the Chairman of TransCorp and another from the Group Managing Director/CEO of TransCorp written to shareholders. Properly speaking, this is a section and not 'a letter'. The section provides an analysis and detailed review of the year's events, including any problems, issues and successes the TransCorp has had. The letters also reveal the business philosophy and management style of our executives and discuss TransCorp's plans for the next year.

**Board of Directors and Management:** This is a list of the names and positions of the members of the Board. It also includes the Board Committees on which they serve. A separate list includes the names of senior members of management.

**Auditors' Report:** This is a summary of the findings of an independent firm of accountants which shows whether TransCorp's financial statements are complete, reasonable, and prepared in a manner consistent with generally accepted accounting principles (GAAP) at the set time.

**Report of Management:** This letter, usually from ..., takes responsibility for the validity of the financial information in the annual report. It also states that the report complies with all regulatory requirements. The letter attests to the presence of internal accounting control systems, financial reporting and compliance with Nigerian laws.

**Management discussion:** This is a series of brief, detailed reports which discusses and analyzes TransCorp's performance and recent financial history. These discussions cover the results of operations, and the adequacy of liquid and capital resources to fund operations.

**Financial Statements and Notes:** These statements provide the raw numbers that describe TransCorp's financial performance and recent financial history. The financial statements disclosed in the TransCorp annual report are the Balance Sheet, Income Statement and the Statement of Cash Flows. All three statements are accompanied by a comprehensive set of related notes (found as footnotes) that provide explanations, additional detail and supplementary financial information.

**Five year financial history:** This information summarizes TransCorp's financial condition over five years. However, since TransCorp has been in operation for less than five years, this data would not be available until 2010. Data for making comparisons over time includes revenue (sales), gross profit, net earnings (net income), earnings per share, dividends per share, financial ratios such as return on equity (ROE), number of shares outstanding, and the market price per share.

## STATEMENT OF CASH FLOWS

The Statement of Cash Flows shows the flow of cash into and out of a company in a particular year. Cash includes currency, cheques on hand and deposits in banks. Cash equivalents are short-term, temporary investments-such as treasury bills, certificates of deposit or commercial paper-that can be quickly and easily converted to cash.

TransCorp uses cash to pay bills, repay loans and make investments, allowing it to provide goods and services to customers.

The Statement of Cash Flows reports TransCorp's sources and uses of cash as well as the beginning and ending values for cash and cash equivalents each year. The statement of cash flows also includes the combined total change in cash and cash equivalents from all sources and uses of cash.

There are three categories of information provided in the Statement of Cash Flows:

- Cash Flow Operating or Net Cash provided or used for Operating activities
- Cash Flow Investing or Net Cash provided or used for Investing activities
- Cash Flow Financing or Net Cash provided or used for Financing activities.

### Cash Flow Operating:

TransCorp like other businesses generates cash when it operates its business. Therefore, the first key number is net cash provided from operating activities or net cash operating. This figure includes items from the income statement such as:

- Net earnings, which show TransCorp's profit or loss; and
- Depreciation expense.

This key number also includes changes in some items from the Balance Sheet such as:

- Inventory changes which either use up cash or increase cash from sales
- Changes in accounts receivable, which are the sales that have not been paid for
- Changes in accounts payable, which is the cash that TransCorp owes its vendors and suppliers.

The Statement of Cash Flows adds the net cash from each type of operating activity and reports the company's total net cash provided by all operating activities.

**Net Cash provided by Investing activities:**

This category of information includes the investments in property (land), and other fixed assets like computer systems, etc. Investing in such assets is a use of cash. Selling them is a source of cash. The statement of cash flows adds the net cash from each type of investing activity and reports the company's total cash provided (or used) by all investing activities.

**Net cash provided (or used) by Financing activities:**

This third category of information includes the sources and uses of cash for financing activities. Sources of cash include what TransCorp raises when it sells shares and by borrowing from the banks. Uses of cash under this category include the payment of dividends and the repayment of debts.

The statement of cash flows adds the net cash from each type of financing activity and reports TransCorp's total net cash provided (or used) by all financing activities.

**GLOSSARY OF TERMS USED IN THE ANNUAL REPORT**

**Accounts payable:** Amounts TransCorp owe its suppliers for goods and services. These obligations fall due within one year. The accounts payable is listed in the current liabilities section of the balance sheet.

**Accounts receivable.** Amounts customers owe TransCorp from sales of goods or services that the TransCorp expects to collect within one year. The accounts receivable is listed in the current assets section on the statement of the Balance Sheet.

**Annual Report:** This is the report of annual results and future plans that TransCorp publishes for its shareholders assessment at the end of each fiscal year. The report includes required elements such as an auditor's report and the TransCorp's Balance Sheet, Income Statement and Statement of Cash Flows. All these financial highlights are accompanied with important footnotes that should be read as well. The report also includes elements such as Letters from the Chairman and the Group Managing Director/CEO.

**Assets:** These are things owned by TransCorp which includes physical assets such as buildings, equipment and cash. Assets may also be intangible such as goodwill. This is listed as a category in the Balance Sheet.

**Auditor:** A firm of chartered accountants which TransCorp hires as an independent third party to review its financial information. The auditor's main purpose is to make sure the statement of earnings, statement of financial position and statement of cash flows fairly present the company's financial condition and that they comply with GAAP. By law, the firm of auditors that will audit the TransCorp's accounts in the following year is selected in the current year during the Annual General Meeting. This mandate from shareholders is supposed to ensure their independence from interference from management and the Board.

**Auditor's Opinion:** A summary of the findings of the auditors which is included in the TransCorp's annual report. It is also referred to as the **Auditor's Report** and the **Report of Independent Accountants**. When an auditor's opinion is qualified, it means that the auditors are not fully convinced that the preparation of the accounts was according to the strictest standards.

**Auditor's Report:** Same as the **Auditor's Opinion**.

**Authorized Share Capital:** This is the total of the share capital which the TransCorp is allowed to issue to shareholders.

**Balance Sheet:** The financial statement that reports TransCorp's assets and the claims against them – liabilities and stockholders' equity – at a set date noted on the statement. It is also called the Statement of Financial Position.

**Bond:** A form of interest –bearing or debt security with a stated interest, maturity and a face value. Bonds are usually secured by specific assets. Most bonds have a maturity of greater than one year and generally pay interest semi-annually. The amount paid on specified future dates is called a **coupon**, unlike the amount paid to shareholders, which is called a dividend. The return on a bond compared to its purchase price is called its **yield**.

**Book Value:** The value of an asset, a liability or a stockholders' equity account. For a fixed asset, it is typically the cost of the asset minus accumulated depreciation. Generally, as companies continue to use fixed assets to generate revenue, the book values lessen over time and sometimes ultimately reach zero. See also **depreciation**.

**Cash:** Currency and checks on hand and deposits in banks. It is listed in the current assets section on the Balance Sheet. See also **cash equivalents**.

**Cash Equivalents:** Short-term, temporary securities that can be quickly and easily converted to cash. It is listed in the current assets section on the Balance Sheet.

**Consolidated Statements:** This is the combined financial statements of TransCorp and its subsidiaries. The consolidated statements presents the financial information of all TransCorp's holdings as one company.

**Coupon rate:** The annual rate of interest that the issuer of a bond promises to pay to the holder of the bond.

**Coupons:** Certificates attached to a bond that indicates the interest due on a payment date. The coupons are detached as they come due (usually semiannually) and are presented for payment of interest. The term 'coupon' refers to the rate of interest the issuer promises to pay the issue holder.

**Coupon yield:** The annual interest rate of a bond divided by the bond's face value and stated as a percentage.

**Current Assets:** These are assets that TransCorp can convert to cash within one year. Examples are accounts receivable and inventories of products to sell. Current assets are listed in the Balance Sheet.

**Current Liabilities:** TransCorp's obligations to creditors, suppliers, regulatory agencies and tax authorities, payable within one year. These are listed in the liabilities category on the Balance Sheet.

**Debt:** Money that TransCorp has borrowed and must repay with interest. Debt is listed in the liabilities category on the Balance Sheet.

**Depreciation:** An allowance for wear or age made to the value of a fixed asset, allocating its cost over its estimated useful life. It is listed in the assets category on the Balance Sheet. See also **book value**.

**Dividends:** Cash or stock payments from a TransCorp's profits distributed to shareholders.

**Earnings per share (EPS):** The portion of a company's profit assigned to each share of stock. It is listed in the *per share of common share amounts* category on the Balance Sheet.

**Earnings Report:** A financial statement that reports the results of a company's business operations (revenue and expenses) for a set period, usually one year. Also called an income statement, statement of earnings, statement of operations and statement of profit and loss.

**Equity:** The part of TransCorp's assets that belongs to the shareholders. It is the amount that would remain if TransCorp sold all of its assets and paid off all of its liabilities. It is listed as shareholders' equity on the Balance Sheet.

**Expenses:** Costs such as salaries, rent, office supplies, advertising and taxes. This is listed in the operating expenses category on the statement of earnings.

**Fixed Assets:** These are also called "Property, plant and equipment" because that's what fixed assets usually are. This item is listed after current assets in the Assets category on the Balance Sheet. See also assets, non-current assets.

**Footnotes:** An annual report section that provides information essential to fully understanding the financial statements. Notes explain the financial statements' numbers and any significant events affecting them. The notes also provide additional detail and provide supplementary financial information.

**Generally Accepted Accounting Principles (GAAP):** A set of rules and financial reporting guidelines companies must follow to prepare and present the financial information on the statements. See also Nigerian Accounting Standards Board (NASB).

**Goodwill:** An intangible assets that adds value to the worth of a company; for example, the reputation of its products, services or personnel. It is listed in the assets category (sometimes as "Investments and sundry assets") on the Balance Sheet.

**Gross Income:** This is the difference between total sales of TransCorp subsidiaries and the cost of sales. It is listed as a category on the Balance Sheet. Same as Gross profit.

**Gross Profit:** Same as Gross income.

**Income Statement:** A financial statement that reports the results of TransCorp's business operations (revenue and expenses) for a set period, usually one year. Also called an Earnings report, Statement of earnings, Statement of operations and Statement of Profit and Loss or simply P & L.

**Income Taxes:** Fees placed by federal, state, local and foreign governments on a company's earnings. Listed on the statement of earnings or income statement.

**Intangible Assets:** Anything non-physical, such as goodwill, trademarks and patents, that has value for a company. This is listed in the assets category (sometimes as "Investments and sundry assets") on TransCorp Balance Sheet.

**Inventories:** All goods and materials available for sale or raw materials and supplies, work in process and finished goods (in the case of manufacturers). This is listed in the current assets section on the statement of financial position.

**Investments:** This is TransCorp's equity ownership in unconsolidated subsidiaries and affiliates. Listed in the category of assets (for example, "Investments and sundry assets") on the statement of financial position.

**Investor Relations:** The Unit responsible for advising management on earnings releases, maintaining liaison with analysts and investors, answering shareholders' questions, and sending them regular updates about the company's performance.

**Leverage:** The use of debt, instead of its equity, to support acquisitions, purchases and growth.

**Liabilities:** Debts that TransCorp owes to a lender, a supplier of goods and services, a tax authority, a landlord and others. This is listed as a category on the statement of financial position.

**Liquid Asset:** An asset that can be quickly converted into cash. Examples include cash and marketable securities. See also cash equivalents.

**Long-Term Debt:** Debts that are due or that TransCorp will repay after one year.

**Market Value:** The amount two unrelated parties agree one of them will pay for something the other has. This value may also be determined by multiplying the total number of outstanding shares by the market price per share.

**Marketable Securities:** Financial assets, such as stocks and bonds that companies can convert to cash. This is listed under assets on the Balance Sheet.

**Net Earnings:** TransCorp's total revenue less total expenses. This item shows what TransCorp earned (or if lost, called **net loss**) for a set period, usually one year. It is often listed as the "bottom line" on the statement of earnings. This item is also referred to as **Net income** and **Net profit**.

**Net Income:** A company's total revenue less total expenses, showing what a company earned, (or if lost, called net loss) for a set period, usually one year. This item is also referred to as the "bottom line" on the Income statement. It is also referred to as **Net earnings** and **Net income**.

**Net Profit:** This is TransCorp's total revenue less total expenses, showing what a company earned (or if lost, call net loss) for a set period. Usually one year. It is often called the "bottom line" on Income Statement. It is also referred to as **Net earnings** and **Net income**.

**Net Sales:** This is calculated as total sales less returned merchandise and discounts. This item is listed on the Income Statement.

**Net Worth:** The amount of a company's stockholders' equity. It is listed as total shareholders' equity on the statement of financial position.

**Nigerian Accounting Standards Board (NASB):** The only independent body in Nigeria responsible for the development and issuance of Statements of Accounting Standards (SAS) for users and preparers. As an association of accounting professionals that decides, maintains and communicates generally accepted accounting principles (GAAP) for Nigerian companies.

**Non-current assets:** Anything of long-term value to TransCorp, including fixed assets and intangible assets. It is listed in the assets category (after current assets) on the statement of financial position.

**Notes:** An annual report section that provides information essential to fully understanding the financial statements. Notes explain the financial statements' numbers and any significant events affecting them. Notes also provide additional detail and provide supplementary financial information.

**Operating Expenses:** Costs related to a company's operations. Examples are salaries, advertising, sales commissions, travel and entertainment. Operating expenses are listed as a category on the statement of earnings.

**Operating Income (or Loss):** This is the result of deducting the cost of all sales and operating expenses from a company's net sales. It is listed on the Income Statement.

**Price Earning Ratio (P/E Ratio):** A ratio used to evaluate the relationship between a company's price per share and the earnings per share (EPS).

**Ratio:** A measure of the relative size of two numbers. Usually, financial ratios are expressed as a times multiple (x) or a percentage (%). There are several types of financial ratios.

**Retained Earnings:** This is calculated as the total amount of TransCorp's net earnings since its inception, minus any payments made to shareholders. Retained earnings is actually part of stockholders' equity and represents the portion of a company's assets that are financed from profitable operations rather than from selling stock to investors or borrowing from external sources. It is listed on the Balance Sheet.

**Revenue:** The total flow of funds into a company, mostly for sales of its goods or services. It is listed as the first category on the income statement.

**Securities:** Investments, including stocks and bonds. This is listed as assets on the Balance Sheet.

**Share:** A certificate of ownership in a company. Shares are also referred to as **stocks**.

**Statement of cash flows:** A financial statement that reports the flow of cash in and out of a company for a set period, usually one year. It reports the operating activities, investing activities and financing activities of the company.

**Shareholders:** An owner of part of TransCorp.

**Trend:** A pattern in a TransCorp's financial performance over time. For instance, if TransCorp's earnings have been growing over time, then analysts may describe this as an earnings growth trend.

