

Financial Statements Decoded

The purpose of financial statements is to communicate the Group's financial information to its stakeholders, especially shareholders, investors and lenders. In this section we try to help readers who are not familiar with accounting rules and financial expressions to understand our financial information, by explaining the functions and relationships between the essential financial statements: the statement of comprehensive income, the statement of financial position and the statement of cash flows. For comprehensive and authoritative definitions and explanations, readers should turn to the relevant accounting standards, but we hope this section offers useful guidance.

Statement of comprehensive income

"Financial performance measured by recording the flow of resources over a period of time"

This statement comprises (a) profit or loss and (b) other comprehensive income ("OCI") which represents changes in net assets/equity not arising from transactions with owners (i.e. shareholders).

An example of OCI in CLP is the exchange loss arising from the translation of our Australia and India businesses in 2011 which decreased our net assets in these two regions. Transactions with owners such as dividends are presented in the statement of changes in equity.

Statement of financial position

"A snapshot, taken at a point in time, of all the assets the company owns and all the claims against those assets"

This statement sums up the Group's economic resources (non-current assets and working capital), obligations (debts and other non-current liabilities) and owners' equity at a particular point of time, in this case, our year end at 31 December 2011. It also shows how the economic resources contributed by lenders and shareholders are used in the business. In the past, we used to call this statement a "balance sheet" because at any given time, assets must equal liabilities plus owners' equity (in other words, be in balance). The current name reflects its function more accurately.

Statement of cash flows

"Where the company gets its cash and how it spends it"

This statement divides the cash flows into operating, investing and financing cash flows. While the operating profit underlies the operating cash flows, certain non-cash charges or credits, such as depreciation, amortisation and fair value changes on derivatives, mean the operating cash flows and the operating profit are different. Investing cash flows are the cash flows arising from the purchase or disposal of non-current assets. Financing cash flows represent the cash flows between the Group, its shareholders and lenders.

Financial Statements Illustrated

The diagram opposite illustrates the relationships between the statement of comprehensive income, the statement of financial position and the statement of cash flows, as well as their links with the Group's stakeholders.

On the one hand, the Group earns revenue from customers through the deployment of non-current assets and working capital. On the other hand, it pays operating expenses to suppliers of goods and services, incurs staff costs and also invests in additional non-current assets. The net balance of revenue, operating expenses and staff costs is the operating profit. After deducting income taxes charged by tax authorities, this profit is available for payment to lenders (interest expenses and debt repayment) and for distribution to shareholders (dividends) in return for their contribution of funds to the Group in the form of debt and equity. Moreover, the Group also makes investments and advances to its project entities and receives dividend income from them in return.

Financial Statements – An Illustration

