

Analyzing Financial Statements

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ABSTRAKT

Tato práce se zabývá finanční analýzou společnosti, BD Sensors s.r.o. Cílem této práce je zhodnotit finanční situaci společnosti v letech 2005-2008, pomocí různých nástrojů finanční analýzy s cílem doporučit opatření pro společnost vedoucí k ekonomickému zlepšení. Celá práce se skládá ze dvou částí: z teoretické a analytické. První část popisuje význam a metody finanční analýzy účetních výkazů z pohledu uživatele. Druhá část obsahuje základní informace o společnosti a nástroje finanční analýzy tj. horizontální, a vertikální analýzu a poměrovou analýzu. Na základě výsledků finanční analýzy jsou navržena doporučení vedoucí ke zlepšení finanční situace společnosti.

Klíčová slova: finanční analýza, horizontální analýza, vertikální analýza, poměrová analýza.

ABSTRACT

This work dealt with the financial analysis of a company, BD Sensors LLC. The purpose of this thesis was to assess the financial situation of the company in the years between 2005 and 2008, by using various tools of financial statement analysis in order to recommend necessary precaution for company's economic improvements. The whole work consisted of two parts: theoretical and analytical. The first part described importance and methods of financial statement analysis as well as its users. The second section contained basic information about the company and numerous financial analyzing tools as horizontal, vertical analysis and ratio analysis. Based on the result of financial analysis, there are some proposed recommendations to improve the company's financial situation.

Keywords: financial analysis, horizontal analysis, vertical analysis, ratio analysis.

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DECLARATION OF ORIGINALITY

I hereby declare that the work presented in this thesis is my own and certify that any secondary material used has been acknowledged in the text and listed in the reference.

April 29, 2010

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INTRODUCTION

In the 21th century, everyone tends to run their own business. However, some entrepreneurs have lack of knowledge of understanding their financial statements. Thus, analyzing financial statements is vital knowledge for those who are involved with a business.

Financial analysis provides valuable information about a company's financial condition, based on main financial statements. The first statement is a balance sheet which demonstrates a company's financial situation over a certain period of time. The second one, an income statement reports an organization's financial performance over specified period of time. The measurement that company's output and input is called a statement of cash flows. In fact, financial analysis is required for many financial management decisions of a company.

In addition, every companies use a different form of financial statements depending on where they run a business. The aim of this bachelor thesis is to analyze financial statements of BD SENSORS LLC (Czech branch) through widely used tools and methods. The analysis has been made based on intra-company comparisons within BD SENSORS LLC, between its same items and relationships in four accounting periods. The result will be useful for the company to estimate future risks and potential.

This work consists of two parts: theory and analyze. The theoretical part focuses on briefly explaining the basic tools of analyzing financial statements as well as its usage. The analytical part includes financial statement analysis of BD SENSORS LLC, and also basic characteristics of the chosen company. Finally, there is an evaluation of the company financial strengths and weaknesses as well as some recommendations for BD SENSOR LLC's further improvements.

I. THEORY

1 CHARACTERISTICS OF FINANCIAL STATEMENT ANALYSIS

Financial statement analysis is a company's fundamental performance that is aimed to provide essential information about its financial position in the form of financial statements. Basically, it is valuable for company's internal as well as external users to make a decision. External and internal users including lenders, shareholders, investors, owners and managers have special needs depending on the types of decisions to be made. They focus on three characteristics of a company: solvency, profitability and liquidity. For instance, a short-term creditor, such as a bank, is particularly interested in ability of the borrower to pay obligation when they come due. Therefore, creditors concentrate on the liquidity of the borrower before lending money.

The most important characteristics of useful information are relevance and reliable. In order to have relevance and reliable, accounting information must be timely as well as verifiable. In addition to being relevant and reliable, accounting information should be comparable and consistent. Information that lacks either of these characteristics is considered insufficient for decision making. Comparability refers to the ability to make relevant comparisons between two or more companies in the same industry at a point in time. Consistency refers to the ability to make relevant comparisons within the same company over a period of time.

1.1 Financial statements

Financial statements are a set of formal records that is used as a main source in analyzing financial statements. There are three primary financial statements: *balance sheet*, *income statement* and *statement of cash flows*.

Balance sheet is a summary of companies' financial condition on a specific date. It presents what the organization owns as well as what the organization owes to its external users and internal owners. The statement has three parts: assets, liabilities and ownership's equity. According to financial equation, assets must equal liabilities plus stockholder's equity.

The aim of *Income statement* is to show how profitable the firm has been over a certain accounting period. It reports a summary of how the business incurs its revenues and expenses through both operating and non-operating activities. A result of this statement is given as net profit or loss. Income statement is the most important report that investors, creditors and analysts are interested in.

Statement of cash flows provides information about the firm's cash outflows and inflows during the accounting period of time. It consists of three sections: cash flows from financing, cash flows from investing and cash flow from financing activities.

1.2 Comparative analysis

To analyze financial statements, it is required to use comparative techniques. A financial statement only shows a company's financial position of a given time. For instance, knowing that a company's net profit was \$200 million, it is not adequate to know whether the amount represents an increase or decrease over the period. To obtain such information, it is necessary to compare one financial statement data with another financial statement data. The most popular comparative techniques are *intra-company basis*, *intercompany basis* and *basis of industry averages* (Weygandt, Keiso and Kimmel 2008, 207)

The *Intra-company basis* is used to compare items or financial relationship within a company in current year with the same item or relationship in one or more years. The Intra-company basis is also useful for detecting changes in financial relationship and significant trends.

The *Intercompany basis* compares an item or financial relationship of one company with the same item or relationship in other one or more competing companies. This comparison is useful to determine a company's competitive position.

The *Industry averages* compare an item or financial relationship of a company to industry averages published by financial organizations. The industry averages show a position of a company's relative performance within the industry.

1.3 Users of financial statements

Users of financial statement information include managers, creditors, stockholders, investors and regulatory agencies. These individuals and organization can be divided into two groups as *internal* and *external* according to their interests in financial statement information. Their purposes of using accounting information are different than one another. External users include *shareholders*, *customers*, *regulators*, *lenders*, *government* and other *suppliers* that who are not directly involved in running an organization. Internal users include *managers* and *employees* that who are directly involved in running and managing the organization.

Shareholders/owners use accounting reports to decide whether to buy, hold or sell stock. As well as shareholders have a right to elect a board of directors to oversee their interests in an organization.

Regulators often have legal authority over certain activities of organizations. Tax authorities require organizations to file accounting reports in computing tax. Other regulators include utility boards that use accounting information to set utility rates and securities regulators that require reports for companies that sell their stock to the public. (Wild 2008, 5)

Lenders/Creditors are individuals or organizations who loan money or other valuable resource to an organization. Banks and loans, mortgage and finance companies are lenders. Lenders use accounting information to ensure that the organization can repay its loans with interests.

Government/Legislators look for information to monitor and evaluate government receipt and expenses.

Investors focus on an organization's profitability and potential for growth. On the other words, investors fully rely on financial statements information in making their investment decisions.

Managers utilize financial statement information in many of their financing, investment or operating decisions. They need very detailed information to plan and control an organization's human and material resources effectively. (Spiller 1990, 5)

Employees often have an interest in the continued and profitable operations of their firm. They use accounting information to monitor the viability of their pension plans.

2 TOOLS OF FINANCIAL STATEMENT ANALYSIS

Various tools are used to evaluate financial statements. Financial statement analysis consists of applying analytical tools and techniques to financial statements and other relevant data to obtain useful information. Three of the most common tools of financial statement analysis are: *horizontal analysis*, *vertical analysis* and *ratio analysis*. (Wild 2008, 540)

2.1 Horizontal analysis

Horizontal analysis, also called trend analysis, is a tool for evaluating a series of financial statement data over a period of time. Its purpose is to investigate whether an increase and decrease that has taken place. The analysis is used mainly in intra-company comparisons. The advantage of *horizontal analysis* is that the changes can be expressed in amounts as well as in percentages. Horizontal analysis of changes from period to period is relatively straightforward and is quite useful. However, complications can occur in making the computations. If an item has no value in a base year or preceding year and a value in the next year, no percentage change can be computed. If a negative amount appears in the base or year or preceding period and a positive amount exists the following year, no percentage change can be computed. (Weygandt, Keiso and Kimmel 2001, 720)

2.2 Vertical analysis

Vertical analysis is a tool that consists of the study of a single financial statement in which each item is expressed as a percentage of a significant total. The use of vertical analysis is especially helpful in analyzing income statement data such as the percentage of cost of goods sold to sales. (Hermanson, Edwards and Salmonson 1989, 781)

2.3 Ratio analysis

Ratios are most widely used tools of financial analysis, due to they provide clues to and symptoms of underlying conditions. Like other analysis tools, ratios are usually future oriented, and it helps accountant analysts to uncover conditions and trends difficult to detect by inspecting individual components making up the ratio. Besides, a ratio expresses a mathematical relation between two quantities. It can be expressed as a percent, rate as well as proportion. Moreover, usefulness of a ratio analysis fully depends on a user's

skillful interpretation. The *ratio analysis* can be used to evaluate three fundamental qualities of a company: liquidity, solvency and profitability. (Wild 2008, 549)

2.3.1 Liquidity ratios

Liquidity ratios are used to indicate a company's short-term debt paying ability. Usually, short-term creditors such as suppliers and bankers are interested in assessing liquidity of a company. The most used liquidity ratios are *current ratio*, *quick ratio*, *cash ratio*, *inventory turnover* and *receivables turnover ratio*.

Current ratio indicates the ability of a company to pay its short-term financial obligations from current assets and, in this way, shows the strength of the company's working capital position. The current ratio is computed by dividing current assets by current liabilities. (Hermanson, Edwards and Salmonson 1989, 786)

$$\text{Current ratio (CR)} = \frac{\text{Liquid assets}}{\text{Current liabilities}}$$

Quick ratio also known as the *acid-test ratio*, is a conservative variation of the current ratio. The *quick ratio* measures a company's immediate debt paying ability. Only cash, receivables, and current marketable securities are included in the numerator. Less liquid current assets, such as inventories and prepaid expenses, are omitted. Inventories may take several months to sell; prepaid expenses reduce otherwise necessary expenditures but do not lead eventually to cash receipts. The *quick ratio* is computed as follows. (Edmonds et al. 2006, 538)

$$\text{Quick ratio} = \frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$$

Inventory turnover indicates the number of *times* on average the inventory is sold during the period. Its purpose is to measure the liquidity of the inventory. The *inventory turnover* is computed by dividing cost of goods sold by the average inventory. Unless seasonal factors are significant, average inventory can be computed from the beginning and ending inventory balances. (Weygandt, Keiso and Kimmel 2001, 689)

$$\text{Inventory turnover ratio} = \frac{\text{Cost of goods sold}}{\text{Average inventory}}$$

Receivables turnover is used to evaluate the liquidity of a firm's receivables. In fact, liquidity might be measured by how quickly certain assets can be converted to cash. Therefore, main purpose of *receivables turnover* is to measure how many times account receivables are collected during the period. The *receivable turnover* is computed as follows.

$$\text{Receivable turnover ratio} = \frac{\text{Net sales}}{\text{Average receivable}}$$

2.3.2 Solvency ratios

Solvency ratios are used to analyze a company's ability to cover its long-term obligations. Usually, long-term creditors and stockholders show an interest in a company's ability to pay its interests when it comes due and to repay face value of debt at maturity. Mainly used ratios are *debt to total assets ratio*, *debt to equity ratio* and *time interest earned ratio*.

Debt to total assets ratio measures the percentage of a company's assets that are financed by debt. It is computed by dividing total liabilities by the total assets. (Edmonds et al. 2006, 540)

$$\text{Debt to total assets ratio} = \frac{\text{Total debts}}{\text{Total assets}}$$

Debt to total equity is used to compare creditor financing to owner financing. It demonstrates what proportion of equity and debt the firm is using to finance its assets. This ratio is calculated as follows. (Edmonds et al. 2006, 540)

$$\text{Debt to total equity ratio} = \frac{\text{Total liabilities}}{\text{Total equity}}$$

Time interest earned provides an indication of the company's ability to meet interest payments as they come due. It is calculated by dividing earnings before interest expense and taxes (EBIT) by interest expenses.

$$\text{Times Interest Earned} = \frac{\text{EBIT}}{\text{Interest expense}}$$

2.3.3 Profitability ratios

Profitability ratios measure the income or operating success of an enterprise for a given period of time. Income, or the lack of it, affects the company's ability to obtain debt and equity financing. It also affects the company's liquidity position and the company's ability to grow. As a consequence, both creditors and investors are interested in evaluating earning power – profitability. Profit ability is frequently used as the ultimate test of management's operating effectiveness. (Weygandt, Keiso and Kimmel 2002, 690)

Commonly used *profit ability* ratios are *net income margin*, *return on assets* and *return on equity*.

Net income margin, sometimes called *operating margin*, or *profit margin* is calculated by dividing net income by net sales. The result of this calculation is often expressed as a percentage. For instance, a high net profit margin ratio shows how effective your business is at converting sales into profit. On the contrary, a low net profit margin demonstrates that a company is not generating enough sales, or that a company is unable to control its production costs.

$$\text{Net income margin} = \frac{\text{Net income}}{\text{Net sales}}$$

Return on assets (ROA), also called *return on investment*, is the ratio of wealth generated (net income) to the amount invested (average total assets) to generate the wealth. In general, higher *return on assets* suggests better performance. ROA can be calculated as follows. (Edmonds et al. 2006, 544)

$$\text{Return on Assets (ROA)} = \frac{\text{Net income}}{\text{Average assets}}$$

Return on equity (ROE) is often used to measure the profitability of the stockholders' investment. ROE is computed as follows. (Edmonds et al. 2006, 544)

$$\text{Return on Equity (ROE)} = \frac{\text{Net income}}{\text{Average total common stockholders' equity}}$$

3 LIMITATIONS OF FINANCIAL STATEMENT ANALYSIS

Significant business decisions are frequently made using one or more of the above analytical tools. However, there are some limitations of these tools and of the financial statements on which they are based. In other words, financial statement analysis is based on financial statements of a firm, and those financial statements does not provide key non-financial information like quality of revenues, types of customers and risk factors. Some of the limitations include:

- Financial statements contain numerous estimates. Estimates are used in determining the allowance for uncollectible receivables, periodic depreciation, the costs of warranties, and contingent losses. To the extent that these estimates are inaccurate, the financial ratios and percentages are inaccurate. (Weygandt, Keiso and Kimmel 2002, 706)
- Financial statements provide financial statistic of past performance of a company; however, they are not forward looking. Therefore, past performance cannot guarantee future results of an analyzed company.
- The cost principle is used to prepare financial statements. Financial data is not adjusted for price changes or inflation and deflation.
- Companies may have different fiscal year ends making comparison difficult if the industry is cyclical.
- Diversified companies are difficult to classify for comparison purposes. (Financial statement analysis limitations 2010)

II. ANALYSIS

4 CHARACTERISTICS OF BD SENSORS LLC

BD SENSORS LLC is a successful medium-sized company. In 1993, BD SENSORS LLC was established in Thierstein, Germany in order to produce electronic pressure measurement technology. Nowadays, BD SENSORS has 150 employees at 4 locations in Germany, the Czech Republic, Russia and China. BD SENSORS has solutions from 0.1 mbr 2000 bar:

- Pressure sensors, pressure transducer, pressure transmitters
- Electronic pressure switches
- Pressure measuring devices with display and switching output
- Hydrostatic level probes

At the beginning of establishment, BD SENSORS LLC used to produce only two pressure transmitters and a submersible sensor, based on a stainless steel silicon sensor. However, today the range has been extended to more than 40 standard products, from economical Original Equipment Manufacturer (OEM) devices to high-end products with HART ® communication or field bus interface. Besides, with their unremitting product and quality strategy BD SENSORS LLC has been successful in becoming a major player on the world market for electronic pressure sensing devices with a few years.

Internal marketing environment of BD SENSORS LLC:

Most important analyses that can assess and reveal the internal marketing environment of a company is Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis. In other words, a good SWOT analysis helps the company focus on a strategy that takes advantage of the company's opportunities and strengths while avoiding its weaknesses and threats to its success. (Cannon, Perrault and Jerome 2008)

The following SWOT analysis captures the key strengths and weaknesses within the company, and demonstrates the opportunities and threats facing BD SENSORS LLC.

Strengths:

- *Offers wide range of electronic measuring devices*-BD sensors LLC offers more than 40 different electronic pressure measuring technologies.
- *Has strong relationship with foreign markets*-BD SENSORS has many subsidiaries and agencies in Europe as well as in Asian countries.
- *Reliability*-BD SENSORS has short delivery times and firm dead-lines, even for special designs, make BD SENSORS a reliable partner for their customers.

Weaknesses:

- *Relationship*-BD SENSORS has no close relationship with South and North American countries.
- *Concentrates on one area*-BD SENSORS has concentrated on only electronic pressure measurement technology from the beginning.

Opportunities:

- *Establishing new branches*-It has a chance to expand its branch in North and South American countries or across all over Asia, since BD SENSORS provide electric measurement devices to global market.
- *Expanding products*-BD SENSORS has plenty of opportunities whether to expand their products or concentrating on another field of technology.

Threats:

- *Competition from European electric companies*-Nowadays, there are many other competitors who concentrates on same electric field as BD SENSORS does, in Europe. Especially, numerous competitors exist in the Czech Republic as well as in Germany.
- *Effect of financial crisis*-Due to financial crisis, company turnover cannot be increased as usual. Besides, the crisis also affects cost of products. As a result, company increased its products' price a bit.

According to this SWOT analysis, BD SENSORS has plenty of opportunities to solve the problems that are mentioned in weaknesses. Moreover, by maintaining its current strengths, BD SENSORS has future to increase its efficiency as well as to make business without any losses.

5 ANALYSIS OF THE FINANCIAL STATEMENTS OF BD SENSORS LLC

Analyzing financial statements of BD SENSORS LLC in the years 2005-2008, involves evaluating its three characteristics: liquidity, profitability and solvency. In addition, *intra-company basis* is used in this analytical part. Which means this part is based on comparisons within a company between same data or relationship in four years.

Basically we focus on given information from the balance sheet and income statement. However, we also should pay attention to main events that has taken place in the analyzing years. Methods that are used in this part are divided as, *horizontal*, *vertical* and *ratio analysis*.

5.1 Horizontal analysis

The tables below show horizontal analysis of BD SENSORS LLC. From the tables, we can see what increase or decrease has taken place during analyzing four years of BD SENSORS LLC. It is reflected in a percentage.

Table 1: Horizontal analysis of the balance sheet

BALANCE SHEETS	06/05	07/06	08/07	08/05
TOTAL ASSETS	21.42%	6.18%	9.47%	41.13%
Fixed assets	31.38%	14.45%	5.54%	58.69%
Intangible assets	177.21%	12.59%	24.20%	287.64%
Tangible assets	23.09%	13.36%	3.41%	44.31%
Long-term financial assets	0.00%	685.71%	-13.64%	578.57%
Current assets	13.23%	-3.84%	16.12%	26.44%
Inventories	3.71%	45.10%	12.88%	69.86%
Long-term receivables	-	-	-	-
Short-term receivables	8.43%	-21.10%	1.45%	-13.21%
Short-term financial assets	30.59%	-42.89%	40.73%	4.97%
Other assets	-22.49%	80.63%	-46.58%	-25.20%
TOTAL LIABILITIES AND EQUITY	21.42%	6.18%	9.47%	41.13%
Equity	34.68%	24.20%	25.99%	110.74%
Basic capital	0.00%	0.00%	0.00%	0.00%
Capital funds	0.00%	0.00%	0.00%	0.00%
Reserve funds, non-distributable funds	0.00%	0.00%	0.00%	0.00%
Retained Earnings	60.26%	47.23%	34.39%	217.09%
Profit/Loss for the current year (+ -)	29.91%	3.59%	22.75%	65.20%
Liabilities	7.21%	-18.20%	-23.38%	-32.80%
Reserves	-	-	-	-
Long-term liabilities	-3.45%	-3.95%	-4.73%	-11.65%
Short-term liabilities	-0.95%	-32.51%	-62.94%	-75.22%
Bank loans and short-term notes	40.15%	-18.27%	-10.58%	2.42%
Other liabilities	32.89%	51.49%	-84.75%	-69.30%

On the table above, it has been demonstrated that a number of significant changes have occurred in BD SENSORS financial structure from 2005-2008. For instance, the company's total assets have been regularly increasing every fiscal year. It increased by 41.13 percent from its base year in 2008.

In 2006, BD SENSORS LLC bought new software for 6.4 million CZK. Consequently, intangible assets increased by 177.21 per cent from its previous year. In last two years, BD SENSORS significantly increased its securities and shares. The result affected long-term

financial assets. In 2007, long-term financial assets increased more sharply than the previous year by 685.71 per cent.

Besides, the current assets have regularly increased in analyzing four years. More specifically, Inventories increased by 69.86 per cent from its base year in 2008. In 2007-2008, BD SENSORS spent more money than previous two years on materials.

Furthermore, one of the most important changes is that company's equity has been raised by over 110 per cent from the base year in 2008. It shows that company had no loss during the analyzing periods. Moreover, the liabilities started decreasing sharply since 2006. For instance, liabilities declined by 32, 80 percent from its base year in 2008 due to the company's decrease of accounts payable as well as state-tax liabilities. In most cases, declining liabilities is good for companies. Nonetheless, according to analysts when liabilities are decreased, a company faces more taxes.

Table 2: Horizontal analysis of the income statement.

INCOME STATEMENT	06/05	07/06	08/07	08/05
Revenues from sold goods	0.00%	0.00%	0.00%	0.00%
Cost of sales	0.00%	0.00%	0.00%	0.00%
Sale margin	0.00%	0.00%	0.00%	0.00%
Production/Net sales	4.47%	5.18%	-10.77%	-1.95%
Production consumption	9.02%	8.27%	-5.35%	11.72%
Staff costs	-8.64%	27.31%	6.35%	23.70%
Taxes and fees	-14.81%	121.74%	-36.27%	20.37%
Operating profit/loss	18.85%	2.51%	2.46%	24.83%
Financial profit (loss)	12.72%	-21.52%	-197.63%	-186.37%
Income tax on ordinary activity	-186.08%	11.26%	15.69%	-210.80%
Profit/loss of current accounting period (+ -)	29.91%	3.59%	22.75%	65.20%
Profit/loss before tax (+ -)	18.92%	4.99%	21.39%	51.56%

As we can see from the table, the productions have decreased by 1.95 percent from its base year in 2008. Comparing accounting period 2007 and 2008, the productions decreased by 10.77 per cent. In addition, the significant change was that the company taxes and fees sharply increased in 2007 by 121.74 per cent from the previous year.

Due to growth of due tax, income tax on ordinary activity declined by 186 per cent from the base year in 2008

However, by the end of 2008 net profit has increased by 65.20 per cent from the base year. As a consequence, this statement shows positive trends of BD SENSORS LLC.

5.2 Vertical analysis

The following tables illustrate Vertical analysis of BD SENSORS LLC. All items on the tables are shown as a percent.

Table 3: Vertical analysis of the balance sheet.

BALANCE SHEETS	2005	2006	2007	2008
TOTAL ASSETS	100.00%	100.00%	100.00%	100.00%
Fixed assets	47.42%	51.31%	55.30%	53.32%
Intangible assets	2.57%	5.86%	6.21%	7.05%
Tangible assets	44.74%	45.36%	48.43%	45.75%
Long-term financial assets	0.11%	0.09%	0.66%	0.52%
Current assets	51.41%	47.95%	43.42%	46.06%
Inventories	10.82%	9.28%	14.05%	16.08%
Long-term receivables	-	-	-	-
Short-term receivables	14.66%	13.09%	9.73%	9.01%
Short-term financial assets	15.64%	16.82%	9.05%	11.63%
Other assets	1.17%	0.75%	1.27%	0.62%
TOTAL LIABILITIES AND EQUITY	100.00%	100.00%	100.00%	100.00%
Equity	51.55%	57.18%	66.88%	76.97%
Basic capital	11.63%	9.58%	9.02%	8.24%
Capital funds	0.43%	0.35%	0.33%	0.30%
Reserve funds, non-distributable funds	1.16%	0.96%	0.90%	0.82%
Retained Earnings	21.13%	27.89%	38.68%	47.48%
Profit/Loss for the current year (+ -)	17.20%	18.40%	17.95%	20.13%
Liabilities	48.28%	42.63%	32.84%	22.99%
Reserves	-	-	-	-
Long-term liabilities	19.09%	15.18%	13.73%	11.95%
Short-term liabilities	18.44%	15.04%	9.56%	3.24%
Bank loans and short-term notes	10.75%	12.41%	9.55%	7.80%
Other liabilities	0.18%	0.19%	0.28%	0.04%

According to the balance sheet, it is noticed that fixed assets made more than 50 per cent of total assets in analyzing each year, except its base year 2005. Most of BD SENSORS LLC's fixed assets consist of construction and equipment. Therefore, tangible assets ordinarily filled most proportion of the assets, while the intangible assets made only 7.05 per cent of total assets in 2008. Since 2005, current assets filled less than 50 per cent of total assets. Also, as we can see that BD SENSORS does not use long-term receivables.

The noticeable thing is that the equity permanently made most of the liabilities in analyzing four years. In 2008, equity filled 76.97 per cent of total liabilities and equity. Meanwhile, the liabilities decreased and it made 22.99 percent of total liabilities and equity in same year.

Table 4: Vertical analysis of the income statement.

IN THOUSANDS OF CZK	2005	2006	2007	2008
Revenues from sold goods	-	-	-	-
Cost of sales	-	-	-	-
Sale margin	-	-	-	-
Production/Net sales	100.00%	100.00%	100.00%	100.00%
Production consumption	62.84%	65.58%	67.50%	71.60%
Staff costs	17.92%	15.67%	18.97%	22.61%
Taxes and fees	0.03%	0.04%	0.05%	0.04%
Operating profit/loss	17.86%	20.32%	19.80%	22.74%
Financial profit (loss)	-2.13%	-2.29%	-1.71%	1.87%
Income tax on ordinary activity	3.99%	-3.29%	-3.48%	-4.51%
Profit/loss of current accounting period (+ -)	11.93%	14.84%	14.61%	20.10%
Profit/loss before tax (+ -)	15.92%	18.13%	18.09%	24.61%

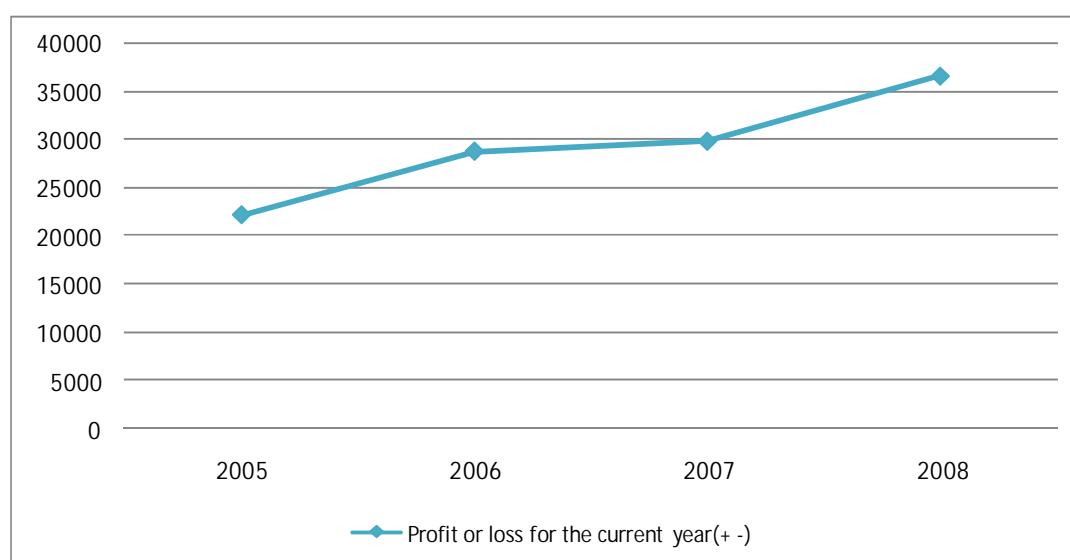
From the vertical analysis of income statement, it is seen that BD SENSORS made its profit by selling its own products and services (100%), which means the company had no revenues from sold goods during the analyzed years. Due to increase of wages and salaries, staff costs increased and it made 22.6 of net sales. Since the beginning of the analyzing years, the proportion of products consumption has increased gradually.

Although income tax increased in 2008, the proportion of net profit increased from previous years. It made 20.10 per cent of net sales, which is highest performance among the four accounting periods.

Moreover, financial profit was positive in 2005, and it filled 1.87 per cent of the sales, while other three years had negative performance.

Table 5: Profit or loss 2005-2008 of BD SENSORS LLC (Czech branch)

(in CZK thousands)	2005	2006	2007	2008
Operating profit or loss	33202	39459	40451	41446
Financial profit or loss	-3954	-4457	-3498	3415
Extraordinary profit or loss	354	202	7	6
Profit or loss for the current period (+ -)	22183	28818	29854	36646
Profit or loss before tax	29602	35204	36959	44866
Interest costs	0	0	0	0
Income tax on ordinary activities	7419	-6386	-7105	-8220

**Figure 1:** Profit or loss 2005-2008 of BD SENSORS LLC (CZECH BRANCH)

This chart illustrates BD SENSORS's profit growth. The profit has increased constantly during the analyzed four years. In addition, net profit increased dramatically in 2006 and 2008. It indicates profitability of BD SENSORS LLC.

5.3 Ratio analysis

Most of *ratio analyses* are used in analyzing financial statements of an industrial company. In this work, widely used ratios as *liquidity*, *solvency* and *profitability ratios* are employed.

5.3.1 Liquidity ratios

Table 6: Current ratio of BD SENSORS LLC

	2005	2006	2007	2008
Current ratio	2.79	3.19	4.54	14.23

In fact, current ratio more than one illustrates that company is good in financial health. Therefore, according to *current ratio* on the table, BD SENSORS was capable to cover its short-term financial obligations as well as to meet unexpected need of cash during the analyzed four years.

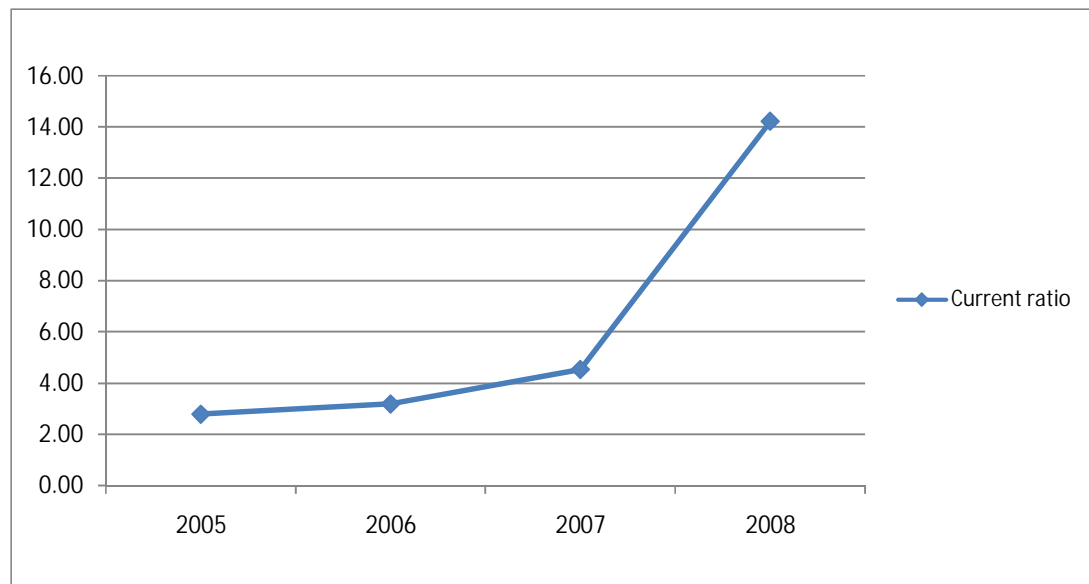


Figure 2: Current ratio of BD SENSORS LLC (2005-2008)

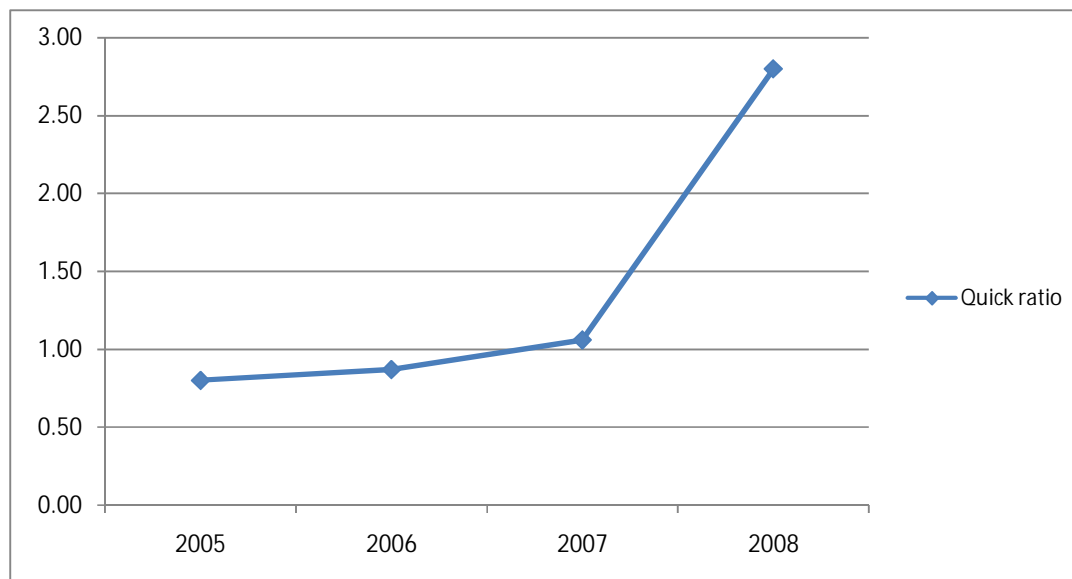
From the figure above, we can see that the company had high rates since the beginning of analyzing years. Comparing analyzing years 2006 and 2007, the current increased by 1.35. The ratio reached the highest proportion in 2008 due to decrease of current liabilities. This rate shows that every CZK of the company's current liabilities, BD SENSORS had CZK 14, 23 in 2008.

Table 7: Quick ratio of BD SENSORS LLC

	2005	2006	2007	2008
Quick ratio	0.80	0.87	1.06	2.80

Similarly with current ratio, a quick ratio higher than one indicates sufficient quick assets.

The table below reflects growth rates of BD SENSORS' current ratio in 2005-2008.

**Figure 3:** Quick ratio of BD SENSORS.

In financial years 2005 and 2006, the company's quick ratio was under the appropriate rates. In those mentioned years, the increase of accounts payable affected total liabilities. Consequently, the result of quick ratio went down. Nevertheless, the rate increased in 2007 and 2008, and BD SENSORS LLC gained ability to pay its short-term debts. The quick ratio reached its highest level in 2008, due to BD SENSORS LLC declined its state-tax liabilities and subsidies.

Table 8: Cash ratio of BD SENSORS LLC

	2005	2006	2007	2008
Cash ratio	0.85	1.12	0.95	3.59

In the analyzing years 2006 and 2008, the cash ratio of BD SENSORS was higher than one. It means that, in those years the company had sufficient cash in case they faced to pay their short-term debts by cash. However, the other two years 2005 and 2007 were under

appropriate rates on account of decrease the investment. The accounting period in 2008, had the highest rate of cash ratio among other three fiscal years.

Table 9: Receivable turnover of BD SENSORS LLC

	2005	2006	2007	2008
Receivable turnover	12.43	9.85	11.14	11.19
Average collection periods	29.36 days	37.06 days	32.76 days	32.62 days

The result of receivable turnover ratio indicates how quickly the company converts its receivables to cash. The accounting period in 2005 had the highest rate. In this year, company had ability to collect its receivables 12.43 times during the period. In other words, the receivables were able to be collected every 29.36 days. In 2006, BD SENSORS LLC had lowest receivable turnover, and the company had capability to collect its receivable every 37 days.

Furthermore, *inventory turnover ratio* cannot be used in analyzing financial statements of BD SENSORS LLC, by reason of the company had no *cost of goods sold* during the analyzing four years. In general, the liquidity analysis of BD SENSORS represents that the company's short-term debt paying ability was sufficient in analyzing four years.

5.3.2 Solvency ratios

Table 10: Debt to total assets ratio of BD SENSORS LLC

	2005	2006	2007	2008
Debt to total assets ratio	48.28%	42.63%	32.84%	22.99%

During the analyzing years BD SENSORS LLC had fairly lower debt to total assets ratio. It means that a majority of the company's total assets were financed through stockholders' equity rather than debt.

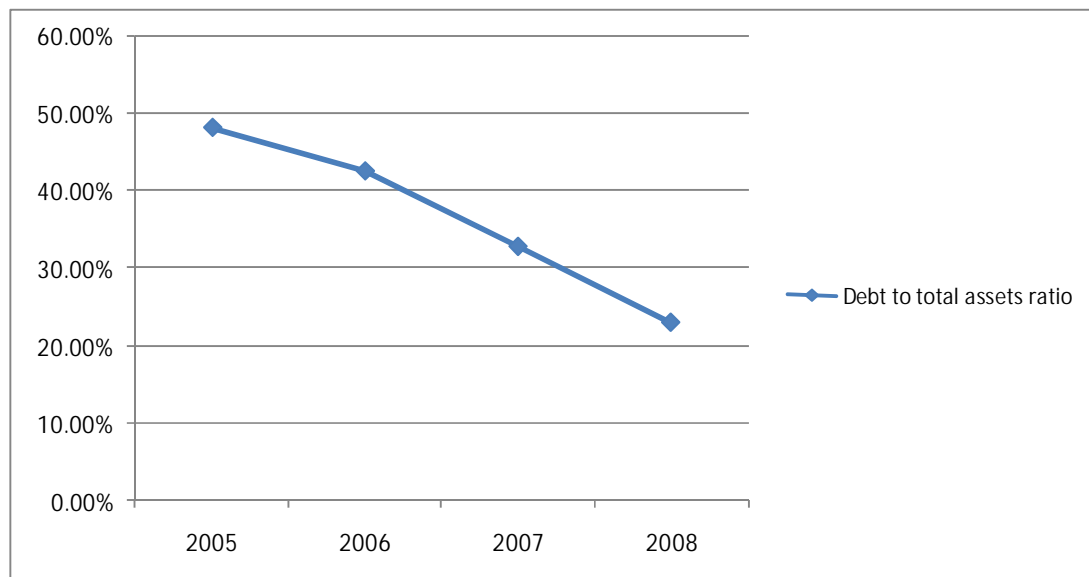


Figure 4: Debt to total assets ratio of BD SENSORS LLC

The debt to total assets ratio declined constantly in analyzing years. Especially, it reached lower level in 2007 and 2008. In 2007, 32.84 per cent of total assets provided by creditors and the rests were from stockholders' equity. The most significant change was that the ratio decreased into 22.99 per cent in 2008. It shows that BD SENSORS LLC had great capacity to borrow in the future, at no risk.

Table 11: Times Interest earned ratio of BD SENSORS LCC.

	2005	2006	2007	2008
TIE	12.23	13.58	13.95	16.18

The table above shows that BD SENSORS LLC had higher times earned ratio during the analyzing years. This demonstrates that the company had sufficient ability to cover its interest payment when they came due, during the analyzing years.

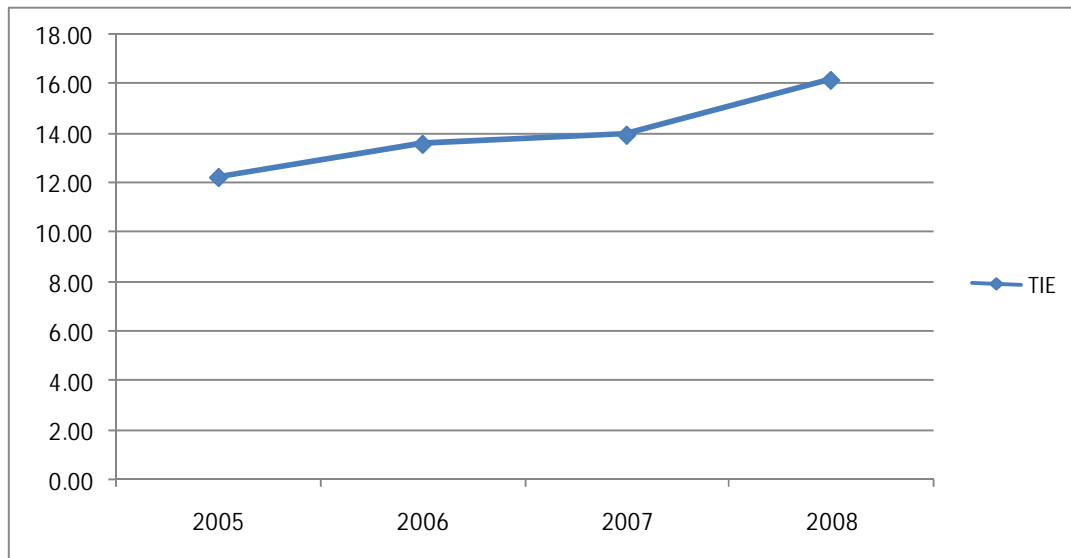


Figure 5: Times interest earned ratio of BD SENSORS LCC

Comparing analyzing years 2005 and 2006, the times interest ratio increased by 1.35. It means that BD SENSORS LLC's earnings before interest and taxes covered its interest expense 13.58 times in 2006. Besides, the ratio reached its highest level in 2008, and the interest expense was covered at 16.18 times.

The result of BD SENSORS LLC's solvency ratios shows that the company was capable to meet its long-term financial obligations.

5.3.3 Profitability ratios

The following tables and figures reflect how efficiently BD SENSORS LLC has used its assets.

Table 12: Profitability ratios of BD SENSORS LLC

PROFITABILITY RATIOS	2005	2006	2007	2008
Net income margin	12.07%	14.34%	13.63%	18.37%
Return on Assets (RoA)	34.39%	20.18%	18.49%	21.04%
Return on Equity	40.04%	36.93%	29.74%	29.16%

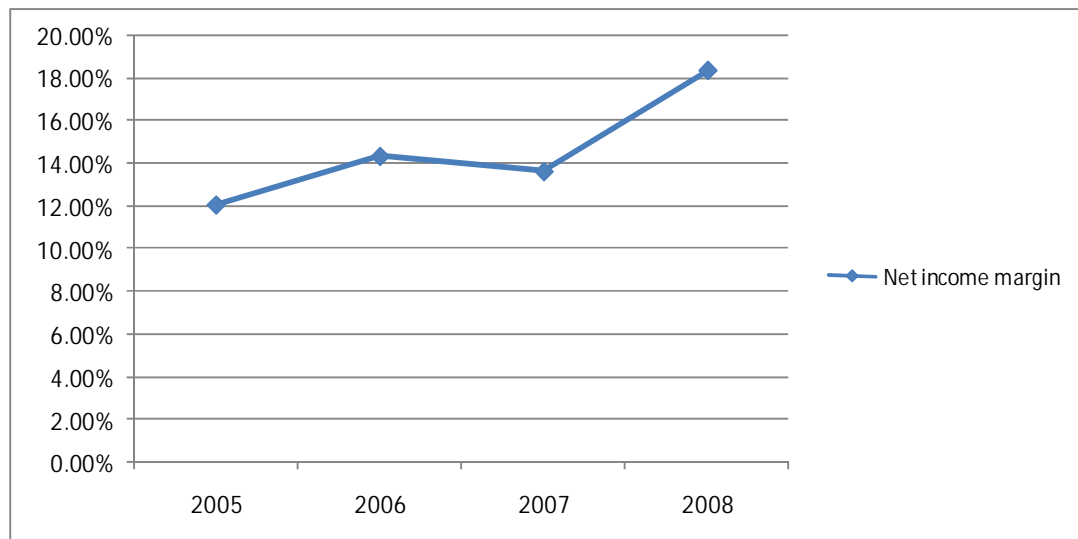


Figure 6: Net income margin ratio of BD SENSORS LLC (2005-2008)

During the analyzing years, the company net income ratio expanded from 12.07 per cent at the end of 2005 to 14.34 per cent in 2006. Although the rates declined slightly in 2007, it reached 18.37 per cent in 2008, which was the highest level among the other fiscal years. The income margin of 18.37 per cent means that the 0.18 of each 1 CZK of the company's sales contributed to its income. Therefore, from the figure we can see that BD SENSORS LLC was more profitable in 2008, comparing with other accounting periods.

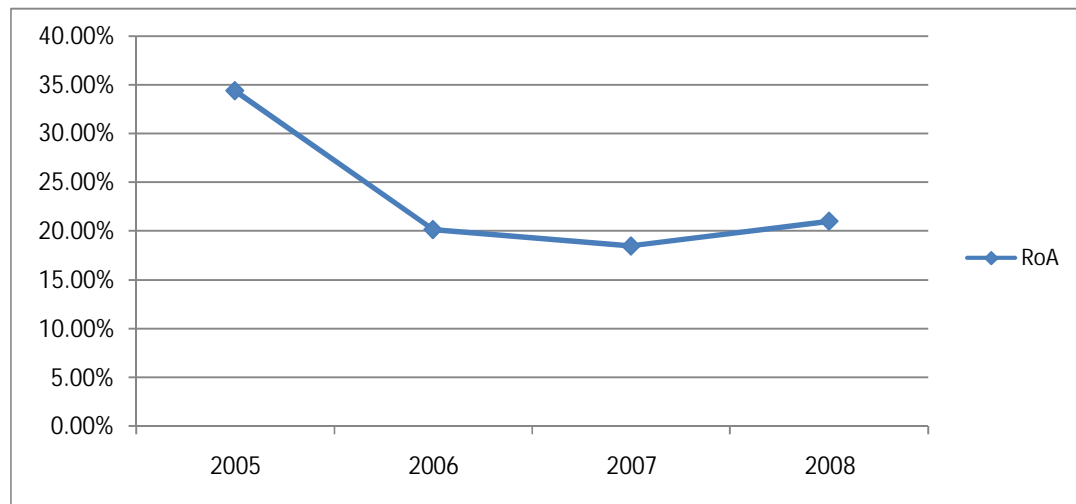


Figure 7: Return on assets (RoA) of BD SENSORS LLC (2005-2008)

In 2005, BD SENSORS LLC return on assets was very high, compared with other three years. Its return was 34.39 per cent. Even though the assets as well as net profits had increased in 2006, the level of RoA declined significantly by 14.21 per cent from 2005. It improved in 2008 by 3.45 per cent from the previous year. The result of RoA reflects that BD SENSORS LLC employed its assets very efficiently.

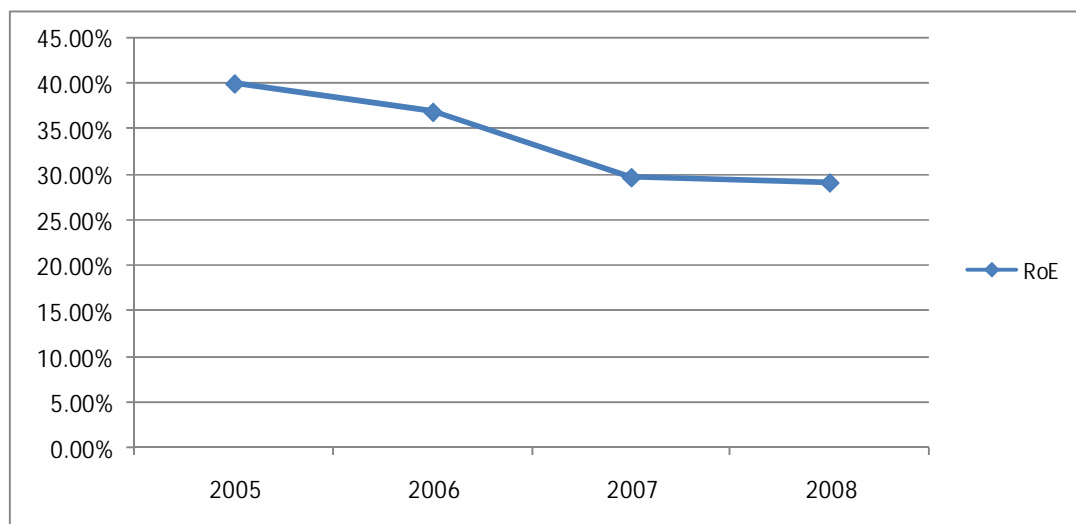


Figure 8: Return on equity (RoE) of BD SENSORS LLC (2005-2008)

Similarly with RoA of BD SENSORS LCC, the company's return on equity ratio was higher than other three accounting periods in 2005. However, RoE of BD SENSORS LLC constantly decreased whilst the net income was increasing during the analyzing years.

Especially, in 2008 it reached lowest level 29.19 per cent, even though the company net income increased by over 70 million CZK from its previous accounting period. Generally, all those rates of RoE within analyzing years indicate that BD SENSORS LLC used its stockholders' equity efficiently. Additionally, BD SENSORS LLC was profitable in the analyzing years 2005-2008.

CONCLUSION

In this financial analysis, BD SENSORS LLC's financial facts and figures were depicted. BD SENSORS LLC is one of the few companies in the Czech Republic manufacturing all four elements of sensor technology used in modern pressure measurement: stainless, silicon, ceramic, capacitive ceramic.

The analyzing years between 2005 and 2008 were the years of consistently high achievement for BD SENSORS LLC. For instance, assets rose 41.13 per cent to CZK 53 million, whilst net income raised 65.2 per cent to CZK 14, 4 million during the analyzing four years. Also, one of the most emphasized achievements was that the company's equity increased enormously, and it filled most of liabilities and stockholders' equity in 2008. The equity was mainly made from retained earnings. In the meantime, BD SENSORS did not have short-term loans and notes. Instead, the company used long-term loans and leasing in analyzed years. However, the company could decrease the loans in last two fiscal years.

The liquidity ratio analysis of the company reflects that BD SENSORS LLC's short-term debt paying ability was sufficient as well as the ratio shows the company's capability to meet unexpected needs of cash in accounting periods 2005-2008. Specifically, the proportions of quick ratio were higher than they should be in analyzing four years. Depending on the liquidity ratio of BD SENSORS LCC, it was seen that the company would have no difficulties with paying its short-term financial obligations. Moreover, solvency ratios proven the company would not have a problem with borrowing in the future on account of debts to total assets ratio. According to times interest earned ratio of BD SENSORS, the proportion of ratio reached highest level in 2008. It also tended to remain stable or even increase in the future.

The most remarkable result of this analysis was BD SENSORS had no loss during the accounting periods, and the profit was increasing every analyzing year. The profitability ratio indicated the company employed its assets in an effective way, and company constantly made profit through its assets and equity in analyzed years 2005-2008.

As result of these factors mentioned above, BD SENSORS was in a strong financial position, and the company's business activities were in a good health in analyzed four years.

Based on analyzing BD SENSORS' liquidity, solvency and profitability, a prediction has been made that BD SENSORS' financial position will continually improve. From the point of view as a student, BD SENSORS should concentrate on its operating activities,

especially increasing sales in order to generate more profit in the future. As mentioned in the company's SWOT analysis, by expanding its branches in the big cities, BD SENSORS LLC has a chance to increase the sales as well as to attract more clients. Furthermore, if BD SENSORS LLC invests its retained earnings in business ventures; it seems that company has good opportunity to obtain more profit. On the other hand, BD SENSORS LLC's purpose to grow must be able to put its money to work. Moreover, the company could expand its business scope through the retained earnings in the future.

It can be concluded that BD SENSORS will hereafter keep its strong financial position and staying profitable, if the suggestions discussed above will be used effectively and efficiently.

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P I Balance sheet of BD SENSORS LLC (Czech branch)

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APPENDIX P I: BALANCE SHEET OF BD SENSORS LLC (CZECH BRANCH) 2005-2008

ASSETS (IN THOUSANDS OF CZK)	2005	2006	2007	2008
TOTAL ASSETS	129001	156628	166303	182057
Receivables from subscriptions.	0	0	0	0
Total fixed assets	61166	80359	91969	97067
Intangible assets	3309	9173	10328	12827
Incorporation expenses	0	0	0	0
Research and development	0	0	0	0
Software	2758	9173	10328	12827
Patents, rights and royalties	0	0	0	0
Small and other intangible	0	0	0	0
Intangible in progress	0	0	0	0
Advances for intangibles	551	0	0	0
Tangible assets	57717	71046	80541	83289
Lands	1556	1556	1556	1556
Constructions	40082	55184	55361	54910
Equipment	11615	14217	23559	26553
Perennial corps	0	0	0	0
Breeding and draught animals	0	0	0	0
Other tangible assets	0	0	0	0
Tangible in progress	4464	95	65	270
Advances for tangibles	0	0	0	0
Adjustment to acquired assets	0	0	0	0
Long-term financial assets	140	140	1100	950
Shares in controlled and managed organizations	0	0	0	0
Shares in accounting units with substantial influence	0	0	0	0
Other securities and shares	40	40	850	850
Intergroup loans	0	0	0	0
Other financial investments	100	100	250	100
Acquisited investments	0	0	0	0
Advance payments for long-term financial assets	0	0	0	0
Total current assets	66323	75097	72217	83859
Inventory	27243	28253	40996	46275
Materials	13962	14541	23371	29279
Work in progress and semi-products	13263	13311	17614	16997
Finished products	18	401	10	0
Livestock	0	0	0	0
Goods	0	0	0	0
Advanced granted	0	0	0	0
Long-term receivables	0	0	0	0
Trade receivables	0	0	0	0
Receivables from partners, cooperative members and association members	0	0	0	0

Receivables from controlled and managed organizations	0	0	0	0
Receivables from accounting units with substantial influence	0	0	0	0
Other receivables	0	0	0	0
Short-term receivables	18910	20504	16178	16412
Trade receivables	17310	18489	15340	16156
Receivables from partners, cooperative members and association members	0	0	0	0
Social and health insurance	0	0	0	0
Due from state-tax receivable	1342	2015	838	256
Short-term deposits given	0	0	0	0
Receivables from controlled and managed organizations	0	0	0	0
Receivables from accounting units with substantial influence	0	0	0	0
Other receivables	0	0	0	0
Short-term financial assets	20170	26340	15044	21172
Cash	107	93	698	107
Bank accounting	20063	26247	14346	21065
Short-term financial assets acquired	0	0	0	0
Other assets	1512	1172	2117	1131
Accruals	1512	1172	2117	1131
Deferred expenses	1512	1172	2117	1131
Complex deferred costs	0	0	0	0
Deferred income	0	0	0	0
Estimated assets	0	0	0	0
LIABILITIES (IN THOUSANDS OF CZK)				
TOTAL STOCKHOLDERS' EQUITY AND TOTAL LIABILITIES	129001	156628	166303	182057
Equity	66497	89557	111226	140137
Basic capital	15000	15000	15000	15000
Basic capital	15000	15000	15000	15000
Company own shares and ownership interests	0	0	0	0
Capital funds	555	555	555	555
Share premium	0	0	0	0
Other capital funds	555	555	555	555
Revaluation of assets and liabilities	0	0	0	0
Revaluation because of transformations	0	0	0	0
Reserve funds, non-distributable funds	1500	1500	1500	1500
Legal reserve funds/Non-distributable funds	1500	1500	1500	1500
Statutory and other funds	0	0	0	0
Retained Earnings	27259	43685	64318	86436
Retained earnings from previous year	27259	43685	64318	86436
Accumulated losses from previous year	0	0	0	0
Profit/Loss current year	22183	28818	29854	36646
Total liabilities	62276	66767	54617	41849
Reserves	0	0	0	0
Reserves under special statutory regulations	0	0	0	0
Reserves for pension and similar payables	0	0	0	0

Other reserves	0	0	0	0
Long-term liabilities	24626	23776	22836	21756
Payables to controlled and managed organizations	0	0	0	0
Payables to accountin units with substantial influence	0	0	0	0
Long-term advances received	0	0	0	0
Issued bonds	0	0	0	0
Long-term notes payables	0	0	0	0
Other payables	24626	23776	22836	21756
Short-term liabilities	23786	23560	15901	5893
Accounts payable	16724	19976	11090	7 956
Payables from partners, cooperative members and association members	0	0	0	0
Payroll	1940	1705	2225	2339
Payables to social securities and health insurance	1307	1039	1412	1429
Due from state-tax liabilities and subsidies	3815	841	1138	-5864
Deferred tax liabilities	0	0	0	0
Payables to controlled and managed organizations	0	0	0	0
Payables to accounting units with substantial influence	0	0	0	0
Other payables	0	0	35	33
Bank loans and short-term notes	13864	19431	15880	14200
Long-term bank loans	13864	19431	15880	14200
Short-term bank loans	0	0	0	0
Short-term notes	0	0	0	0
Other payables	228	303	459	70
Accruals	228	229	0	0
Accrued expenses	228	229	0	0
Deferred revenues	0	0	0	0
Exchange gains	0	0	0	0
Estimated liabilities	0	74	459	70

**APPENDIX P II: INCOME STATEMENT OF BD SENSORS LLC
(CZECH BRANCH) 2005-2008**

PROFIT/LOSS ACCOUNT (IN THOUSANDS OF CZK)	2005	2006	2007	2008
Revenues from sold goods	0	0	0	0
Expenses on sold goods	0	0	0	0
Sale margin	0	0	0	0
Production	185895	194205	204274	182277
Revenues from own products and services	183767	200974	219068	199482
Change in inventory of own products	2128	-6768	-14795	-17205
Capitalisation	0	0	0	0
Production consumption	116820	127357	137890	130517
Consumption of material and energy	90180	98592	102278	95015
Services	26640	28766	35613	35502
Added value	69075	66848	66383	51760
Personnel expenses	33310	30433	38743	41204
Wages and salaries	24119	22041	28060	29647
Remuneration of board members	0	0	0	0
Social security expenses and health insurance	8416	7658	9781	10314
Other social expenses	775	734	902	1243
Taxes and fees	54	46	102	65
Depreciations of intangible and tangible assets	11947	7087	11138	14068
Revenues from disposed of fixed assets and materials	7499	9209	31165	45474
Net book value of disposed fixed assets and materials	2771	4209	12237	10502
Accounting for reserves and accruals to operating revenues	0	0	0	0
Change in operating reserves and adjustments and complex deferred costs	0	0	-14	0
Accounting for adjustments to operating income	0	0	0	0
Accounting for adjustments to operating expenses	0	0	0	0
Other operating revenues	4833	5294	50303	10288
Other operating expenses	123	117	196	238
Transfer of operating revenues	0	0	0	0
Transfer of operating expenses	0	0	0	0
Operating profit/loss	33202	39459	40451	41446
Revenues from sales of securities and ownership interests	1000	0	0	0
Sold securities and ownership interests	1000	0	0	0
Revenues from long-term financial assets	0	0	0	0
Revenues from shares in controlled, managed organizations and in accounting	0	0	0	0
Revenues from other securities and ownership interests	0	0	0	0
Revenues from other long-term financial assets	0	0	0	0
Revenues from short-term financial assets	0	0	0	0

Expenses associated with financial assets	0	0	0	0
Revenues from revaluation of securities and derivatives	0	0	0	0
Cost of revaluation of securities and derivatives	0	0	0	0
Change in financial reserves and adjustments	0	0	0	0
Interest revenues	20	66	43	36
Interest expenses	2636	2799	2853	2955
Other financial revenues	1130	1416	3300	12685
Other financial expenses	2468	3141	3989	6352
Transfer of financial revenues	0	0	0	0
Transfer of financial expenses	0	0	0	0
Profit/loss from financial operations	-3954	-4457	-3498	3415
Income tax on ordinary activity	7419	-6386	-7105	-8220
Due tax	7149	6386	7105	8220
Tax deferred	0	0	0	0
Operating profit/loss ordinary activity	21829	28616	29847	36641
Extraordinary revenues	354	199	7	6
Extraordinary expenses	0	-2	0	0
Income tax on extraordinary activity	0	0	0	0
Due tax	0	0	0	0
Tax deferred	0	0	0	0
Operating profit/loss on extraordinary activity	354	202	7	6
Transfer profit (loss) to partners	0	0	0	0
Profit/loss of current accounting period	22183	28818	29854	36646
Profit/loss before tax	29602	35204	36959	44866