

**CASE STUDY REGARDING THE ANALYSIS OF THE DYNAMICS  
AND STRUCTURE OF THE FINANCIAL YEAR RESULT OF  
COMPANIES LISTED AND TRADED ON THE BUCHAREST STOCK  
EXCHANGE, DURING 2006-2013**

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**Abstract**

*This paper presents financial performance in terms of addressing income statement in the form of analysis of the dynamics and structure of the financial year result. The studies has followed the evolution of financial performance embodied in obtaining net profit, on how and the extent in which the operating, financial and extraordinary result contribute to the gross income.*

**Key words:** *financial performance, the dynamics and structure of the financial year result*

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**1. Introduction**

Structural analysis of the results enables judgments about financial performance, in connection with the manner of obtaining it, providing answers to questions such as: was operational activity effective? Is the net result due to the performed activity, or of those extraordinary financial circumstances? Is the current activity able to handle the negative impact of financial circumstances, such those during the crisis and recession, and support a positive net result?

To answer these questions, dynamic and structural analysis of the result is useful and appropriate, involving the breakdown of profit in component elements, highlighting changes and especially the causes that have generated it.

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Materializing previous concepts, a case study during 2006-2012, for industrial companies listed on the Bucharest Stock Exchange, was performed, in order to highlight the crisis's impact on the financial performance of the best performing companies in Romania, and the way they coped with the financial challenges

Structuring the profit and loss account as a table allows the determination of return flows as profit margins, on the levels corresponding to the type of activities, operational, financial and extraordinary, explaining how the result was achieved at different stages and estimating the performance in the preceding financial year (Petrescu, 2008).

They are designed to perform a specific function for the remuneration of the factors of production and financing of future activity (Balteș, 2010). The results characterize the overall performance of the business, reflecting the increase or decrease of the company's accumulations during the financial year.

## **2. Hypothesis of the research**

Selective research on the dynamics and structure of the financial year starts from the following hypothesis: In industry and construction, the operating result has the largest share in obtaining the gross result, and the influence of the financial result is in most cases negative, due to exchange rate developments from the financial crisis.

**Research objectives.** The selective empirical research aimed the following objectives:

- Financial performance analysis of companies listed and traded on the BSE in terms of their ability to obtain profit;
- Structural analysis of the result and outlining the contribution that the financial result and the extraordinary result had in obtaining the gross;
- Analysis of how the financial crisis affected the financial performance of listed companies;
- Identifying companies that consistently registered a poor financial performance.

## **3. Methodology of research**

Analysis of the dynamics and structure of the financial year result was done through a case study of companies listed and traded on the Bucharest Stock Exchange, operating in industry and construction. This is part of a larger

paper, the PhD thesis on the analysis of the financial performance of companies listed and traded on the Bucharest Stock Exchange during the period 2006-2013.

Given the share of the total market capitalization sectors, the number of companies, the performance criteria that must be met, the criteria of homogeneity on the work done, we have chosen for the case study, the analysis of the financial performance of the companies listed and traded on the BSE, which are operating in industry and construction. In November 2013 there was 51 companies listed and traded on the Bucharest Stock Exchange, BSE section, categories I; II; III during 2006-2012, having the business line in industry and construction, according to NACE revision 2. Under this classification, Industry includes Mining and Quarrying, Manufacturing, Electricity, Gas, Steam and Air-conditioning Supply (sections: B, C, D and E). The dynamic and structural analysis of net result was based on information provided by the companies' financial statements available on the website [www.bvb.ro](http://www.bvb.ro), for the period 2006-2013. Starting with the financial statements of year 2012, companies listed on a regulated market were required to apply IFRS in preparing separate financial statements, according to Minister of Finance Order no. 1286/2012. In applying these regulations, companies restated financial statements for 2011, according to the law, which led to the recording of value differences between the information provided by the initial and restated financial statements. The financial statements for 2011 are extracted from the reports for the year 2012 made in accordance with IFRS and presented in the following as „the year 2011r”.

It was analyzed in each year  $t_i$  in the period 2006-2013 if companies had profit, namely whether they reported losses for each type of result. As the number of companies analyzed was not the same each year, developments of financial performance in terms of recording profit was assessed by the change in weightings of companies that have achieved this performance. The shares of companies that have obtained profit or losses were calculated using the model:

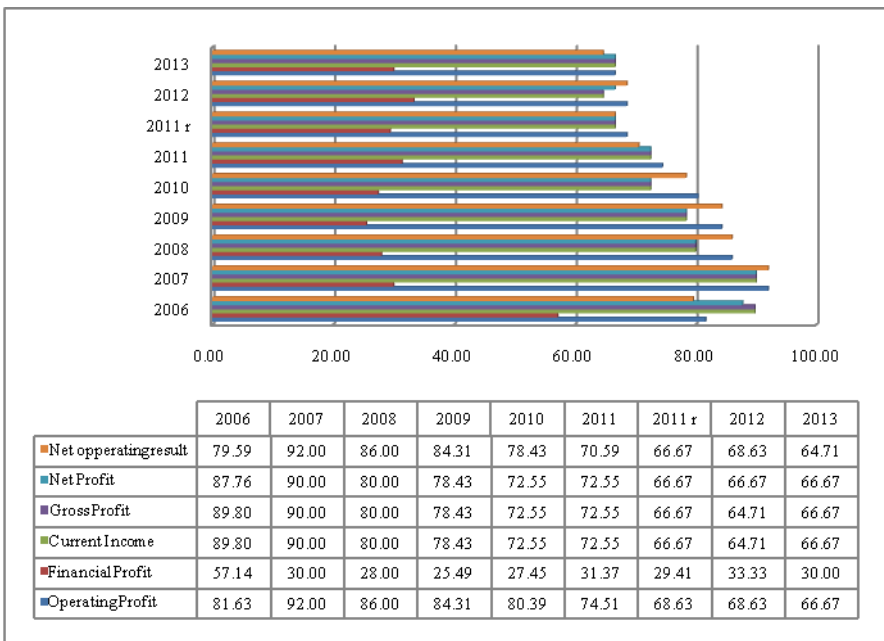
Share of companies that recorded profit=
$$\frac{\text{Share of companies that recorded profit in the year } i}{\text{Number of companies analysed in the year } i}$$

Share of companies that recorded loss=
$$\frac{\text{Number of companies that recorded loss in the year } i}{\text{Number of companies analysed in the year } i}$$

#### 4. Data analysis and presentation of results

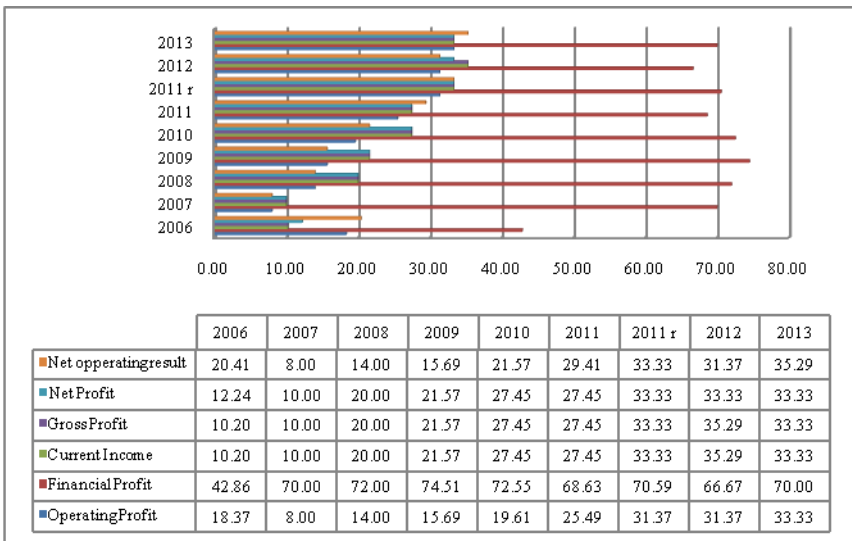
Figure 1 presents the share of companies that had a positive result during 2006-2013, depending on the activity this derives from (figure 1) as well as the shares of companies that had losses during (figure 2).

**Figure 1: The share of companies listed and traded on the BSE, which recorded profit in the period 2006-2013**



Source: author's processing, based on information provided by the annual financial statements in the period 2006-2013 of the companies listed and traded on the BSE, which operate in industry and construction, available on [www.bvb.ro](http://www.bvb.ro)

**Figure 2: The share of companies listed and traded on the BSE, which recorded loss in the period 2006-2013**



Source: author's processing, based on information provided by the annual financial statements in the period 2006-2013 of the companies listed and traded on the BSE, which operate in industry and construction, available on [www.bvb.ro](http://www.bvb.ro)

Analyzing the evolving share of companies based on obtaining profit or not, we note the high percentage of companies that have obtained operating profit (over 65%). During the analyzed period there is a diminishing share of companies that have obtained operating profit at a average annual rate of 2.85%, while the share of companies that have recorded operating loss increased by an average annual rate of 8.88%. The strongest decrease in the number of companies that have achieved operating profit was recorded in 2011 compared to 2010, the decrease being of 8% (or 15% for the restated situations 2011r); the strongest growth in the share of companies that have achieved operating profit, of 12%, occurred in 2006-2007.

The percentage of companies that have achieved financial profit was the lowest, 25%, in 2009 and the highest, 57% in 2006. The share of companies that have achieved financial profit decreased by an average annual rate of 8,79%, while the share of those who reported losses increased by an average annual rate of 7.26%. The strongest decrease in the number of

companies that have achieved financial profit was recorded in 2007 compared to 2006, the decrease being of 48%; the strongest growth in the share of companies that have achieved financial profit, of 14%, occurred in 2010 compared to 2011.

The shares of companies that have achieved current income, gross profit and net profit are almost identical. It should be noted that regardless of the economic stage analyzed, **over 66% of the companies analyzed recorded net profit**. The share of companies that have achieved net profit recorded a downward trend, decreasing by an average annual rate of 2.85%, falling from 90% in 2007 to 66% in the period 2011- 2013.

The evolution of the share of companies based on achieving profit, or recording losses, analyzed based on indices with a chain base, and the synthesis of this development in the period 2006-2013, based on the average rate of change is presented in Annex 7. The share of companies that reported netlosses increased by an average annual rate of 15%, a situation occurred amid the increase with an average annual rate of 7% of the share of companies that have registered financial loss, and the increase with an average annual rate of 9% of the share of companies that have recorded a negative result of the operation.

*Subscribing to most experts' beliefs, that financial performance without obtaining profits cannot be assumed; there must be mentioned companies that in this regard have had a constant lack of performance over the entire analyzed period. Discussing about companies listed and traded on the stock market, we consider it very important to obtain a positive net result to remunerate investors.*

Companies faced with a constant lack of financial performance were Siretul Pașcani S.A, Rompetrol Rafinare S.A., Mj Maillis Romania S.A., Electroputere S.A., Electroaparataj S.A., Turbomecanica S.A. Among the causes that have generated such situations, according to reports of the Board of Administration, the independent auditors and the explanatory notes, are the following: financial expenses above the level provided from exchange differences and currency depreciation<sup>2</sup>, increased interest expenses<sup>3</sup>, significantly reducing the national and international demand, occurred amid

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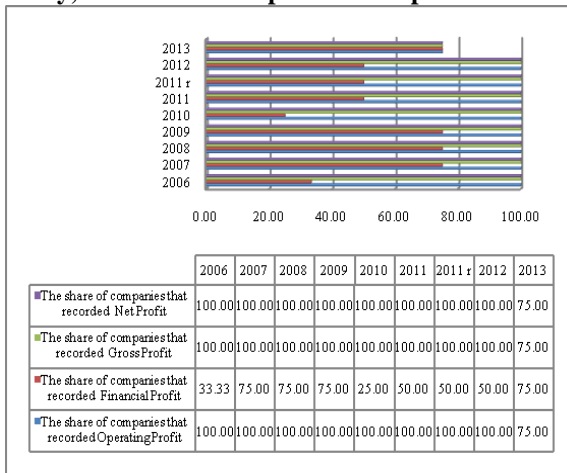
the global financial crisis, which caused some companies to restrict production activity significantly or even stop work.

To analyze the evolution of the financial performance based on the the field of activity where the companies analyzed operate, classification made on industries, according to NACE Rev. 2 code, the shares of companies that had profit were analyzed dynamically in *the extractive industry, manufacturing, production and supply of electricity, gas, steam and air conditioning and constructions.*

*In mining and quarrying (Vaiu, Balteş 2013), all the companies had operating, gross and net profit in all the period 2006-2012. In 2013, their share was reduced to 75%. If in 2006 only 33.3% of companies had financial profit in 2007-2009 financial profit was obtained by 75% of companies. In 2010 there were the fewest companies that have achieved financial profit, only 25%, their share increasing to 50% in the years 2011 to 2012. The evolution of the companies that have registered operating, gross and net profit was identical, declining by an average annual rate of 4%, while the share of companies that have registered financial profit increased by an average annual rate of 12%.*

The evolution of companies listed and traded on the BSE, *the extractive industry*, which recorded profit during 2006-2013 is shown in figure 3.

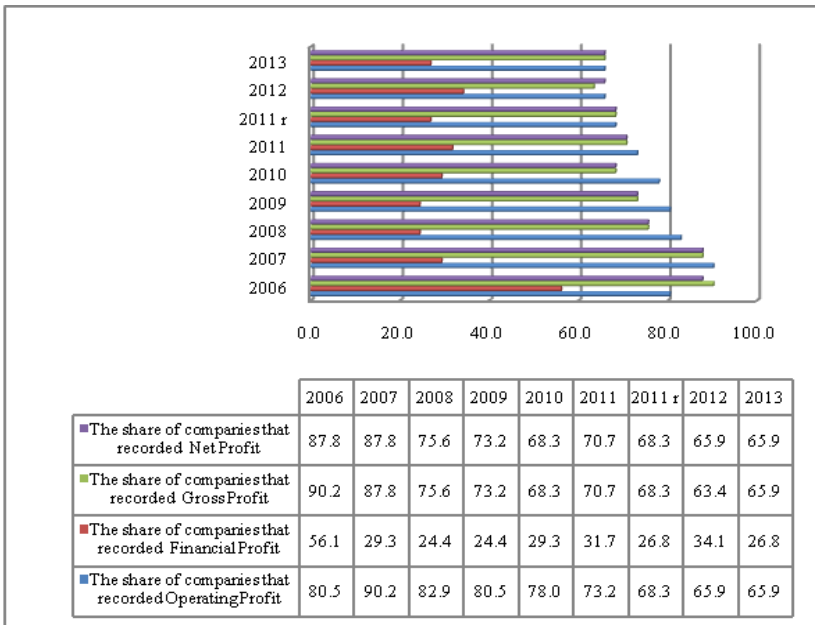
**Figure 3: Share of companies listed and traded on the BSE, in the extractive industry, which recorded profit in the period 2006-2013**



Source: author's processing, based on information provided by the annual financial statements in the period 2006-2013 of the companies listed and traded on the BSE, which operate in industry and construction, available on www.bvb.ro

In manufacturing, the share of companies that had profit is decreasing, irrespective of the result to which we refer. The strongest decrease is recorded in the case of companies that have achieved financial profit, their share decreasing by an average annual rate of 10%. The share of companies that have obtained gross profit or net profit decreased by an average annual rate of 4.4% and 4.02%. A lower dynamics was recorded for companies that have obtained operating profit, their share decreasing by an average annual rate of only 2.82%. The evolution of the share of companies listed and traded on the BSE, in manufacturing, which registered profit in the period 2006-2013 is shown in figure 4.

**Figure 4: Share of companies listed and traded on the BSE, in the manufacturing industry, which recorded profit in the period 2006-2013**

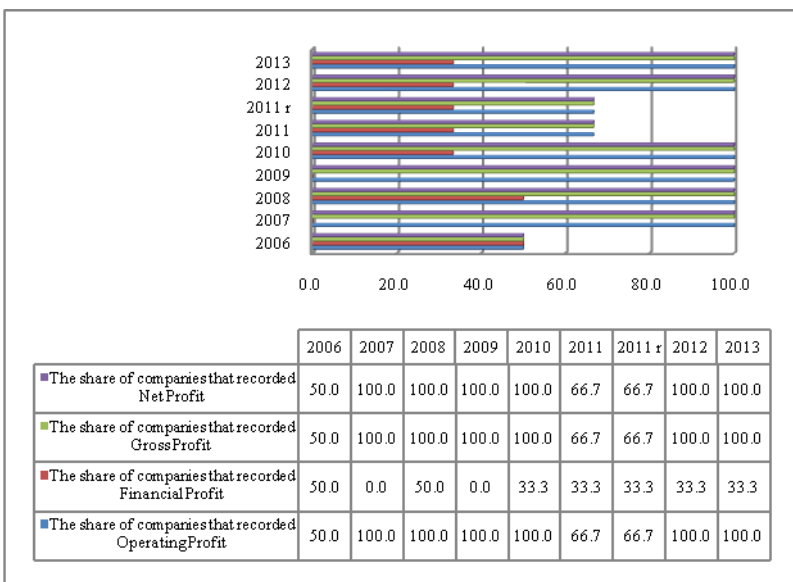




Source: author's processing, based on information provided by the annual financial statements in the period 2006-2013 of the companies listed and traded on the BSE, which operate in industry and construction, available on www.bvb.ro

*In the production and supply of electricity, gas, steam and air conditioning*, the share of companies that have achieved financial profit declined by an average annual rate of 5.76%. With respect to operating, gross and net profit, taking into account the whole period 2006-2013, the share of companies that registered these profits increased by an average annual rate of 10.40%, being the largest increase in the sections, according to NACE. All these companies have achieved operating, gross and net profit in the period 2007-2010 and 2012-2013, registering a 66.7% decrease in the share of companies that made profits in the year 2011. The evolution of the share of companies listed and traded at the BSE, in *the production and supply of electricity, gas, steam and air conditioning*, which recorded profit in the period 2006-2013 is shown in figure 5.

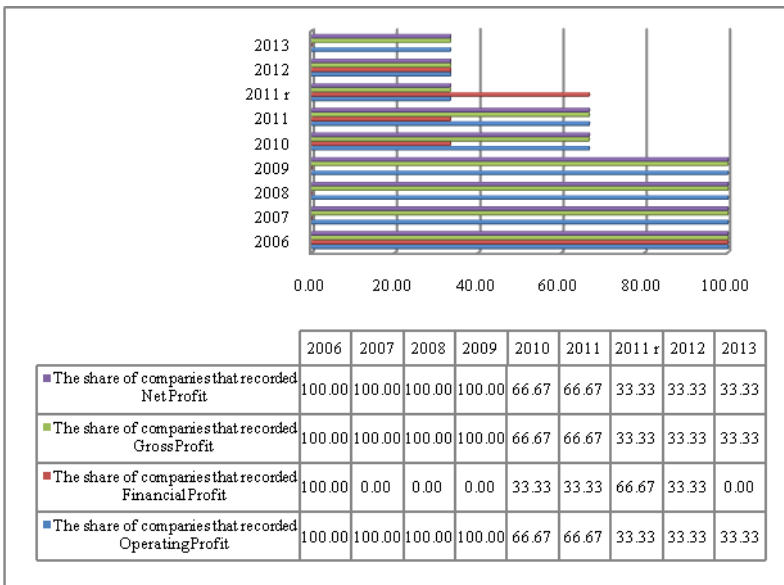
**Figure 5: Share of companies listed and traded on the BSE, in the production and supply of electricity, gas, steam and air conditioning, which recorded profit in the period 2006-2013**



Source: author's processing, based on information provided by the annual financial statements in the period 2006-2013 of the companies listed and traded on the BSE, which operate in industry and construction, available on www.bvb.ro

In *construction*, the average variation rate for companies that had profit, excluding financial profit, is identical, the average annual decrease being of 14.64%. As with other sectors analyzed, the share of companies that have achieved financial profit had a different evolution from the share of companies that have obtained operating, gross and net profit. The evolution of the share of companies listed and traded on BSE, in *construction*, which recorded profit in the period 2006-2013 is shown in figure 6.

**Figure 6: Share of companies listed and traded on the BSE, in Constructions, which recorded profit in the period 2006-2013**



Source: author's processing, based on information provided by the annual financial statements in the period 2006-2013 of the companies listed and traded on the BSE, which operate in industry and construction, available on www.bvb.ro

In the *structural analysis* of the results it is intended to highlight the contribution of different forms of the result in obtaining the gross income.

In the period 2006-2013, and for all the companies analyzed, the gross result was achieved mainly on account of the operating result, which has contributed over 70% for more than 78% of companies. The negative contribution of the operating result was higher in the period 2008-2010, when the negative exploitation contribution to achieving the gross result was between 10% and 11%.

The financial result had a lower contribution than the operating result to achieving gross income, only between 10% and 25% of companies recording a higher intake of 30% of the financial result to obtaining the gross result. In most cases, the contribution of financial result to achieving the gross result was negative, thus affecting between 30% and 60% of companies. Most cases of this kind were recorded in 2007-2009, for 64% of the companies.

The extraordinary result was registered in very few cases, and is due to, as explained by administrators in the reports, adverse weather conditions that affected the corporations operating in the energy field<sup>4,5</sup>. The strongest influence of the extraordinary result on the gross result was recorded in 2009, in the case of TRANSELECTRICA.

## **5. Conclusions**

The analyzes allow us to draw the following conclusions:

- for most companies, the formation of the gross income was due to a higher proportion of over 70%, of the operational, the financial result contributing to a lesser extent, and in most cases having negative influence. These issues are also highlighted by the Pearson correlation coefficient between the three elements of performance, which indicates a direct and strong relation, of over 99%, between operating result and gross profit, and a moderate and reverse link, of -22%, between the gross result and the financial result;
  - the share of companies that have obtained operating profit was significantly higher, over 65% of companies obtaining operating profit throughout the period analyzed. Nevertheless, the share of companies that have obtained operating profit declined by an average annual rate of 2.85%, while the share of those which recorded operating loss increased by an average annual rate of 8.88%. Regardless of the economic stage analyzed, over 66% of the companies analyzed recorded net profit.
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- There were companies that were faced with a constant lack of financial performance: Siretul Pascani S.A, Rompetrol Rafinare S.A., Mj Maillis Romania S.A., Electroputere S.A., Electroaparataj S.A., Turbomecanica S.A.

- extraordinary result, when registered, has resulted in loss, which occurred primarily in the manufacture of electrical equipment or production and supply of electric and thermal energy and was due to weather conditions that negatively affected operating capabilities;

- in industry and construction, for companies listed and traded on the BSE, operating activities have the greatest impact on the gross result, and further, on net earnings and hence the income of shareholders, materialized in dividends. Financial activity had in most cases a negative impact, which was accentuated during the crisis, materializing in losses caused especially, as most administrators' reports indicate, by exchange rate variations.

The results of the research confirm the first hypothesis, namely that the operating result has a significant contribution to achieving net earnings, financial results and the extraordinary result influencing the net result in a smaller proportion. It is also confirmed the hypothesis that the performance of companies to get profit was strongly affected by the crisis. The steady decrease in the share of companies that have made a profit for the period under review, does not confirm the hypothesis that companies listed and traded on BSE operating in industry and construction have successfully overcome the negative effects of the crisis and the recession.

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