

Annual report Akelius Fastigheter AB

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Introduction

The purpose of this essay is to explain the structure of an annual report and describe what is compulsory to report according to accounting standards. The annual report of Akelius Fastigheter AB has been used to show examples. The annual report consists of two reports: one for the Akelius Fastigheter AB-group and one for the parent company Akelius Fastigheter AB. The focus is on the report of the group. If there is a difference between the different reports this will be commented.

An annual report must consist of the following parts:

- Management report
- Income statement
- Balance sheet
- Cash flow statement (compulsory only for some companies)
- Notes

The different parts will be presented separately. The notes will be explained in connection with the items in the income statement or the balance sheet.

Since Akelius Fastigheter AB is not a listed company it does not have to follow the International Financial Reporting Standards (IFRS). The annual report must be reported in accordance with the Swedish Company Accounts Act and the Swedish Accounting Standards Board as well as with some recommendations of the Swedish Financial Accounting Standards Council.

Management report

The management report shall contain an overview of the development of the business, financial position, and result of the company. The size and the shape of it should be in line with the history, size, and structure of the company. The management report shall consist of such descriptions of the company that are not reported in the balance sheet, income statement or the notes that are important for the assessment of the company. In the section with the heading "Business operations", in the management report of the annual report of Akelius Fastigheter

AB, are some example of such information. The text describes the business concept of the company.

The management report could however include information that is able to be found in other parts of the annual report. If it is necessary, the overview should have references to other sections in the annual report and even contain further information and explanations to that information. The main part of the information that is presented in the section "Turnover and results" is able to be found in other parts of the annual report. In the section it is possible to have further explanation of the result and underlying facts.

There should be information concerning the structure of the ownership and essential changes in the ownership. In the annual report of Akelius Fastigheter AB, the ownership structure is presented in the section "Ownership".

Even though the management should focus on the last financial year, it should be designed so that it is possible to follow the development of the company during a longer period, usually 4-5 years. The development of Akelius Fastigheter AB for the period from 2003 to the end of the previous financial year is presented in the comparative schedule that covers several years. It is also desirable that financial information for the last financial year is presented in the management report for comparison. In the annual report of Akelius Fastigheter AB the financial information for the previous financial year is presented in parentheses. In the section "Business operations" there is an explanation describing how the items on the income statement for comparison are calculated, since the previous financial year was 18 months instead of the usual 12 months.

The management report shall contain information of significant business activities in the company during the financial year. Even significant activities that have taken place after the end of the financial year should be included in the management report. It should include information concerning changes in the business of the company, like for example sales or acquisitions of subsidiaries, agreements entered into and significant investments. In the annual reports of Akelius Fastigheter AB this information is usually to do with acquisitions and sales of properties and investments in properties. The information is in the sections "Property sales" and "The property portfolio". In the annual report there is also the section "Important events after the end of the financial year" that explains the business activities that has taken place after the end of the financial year.

The management report should also describe the expected development of the company including significant risks and

factors of concern are confronted. The information should refer to real facts about the future and the expectations of the company that are based upon known facts that concern the company directly, for example agreements entered into, or indirectly, for example changes in the market. It is not necessary to include information about plans for changes to the business if no definite decision has been made. It is the same situation if there is an agreement but there are uncertainties as to whether the transaction will be carried out or not. In the annual report of Akelius Fastigheter AB there is a section with the heading "Risks" concerning risks and uncertainties. In the passage it is also possible to read about the company's expectations for future development of the company.

In addition to this information, the management report should also contain information that is significant for the business, amongst other things, information about environmental and staffing matters. Companies that pursue activities that require licensing or are subject to reporting in accordance with the Swedish Environmental Code, must leave information about the impact that business has on the environment. It is also possible, but not compulsory, to include information about the company's activities for achieving a better environment. In the annual report of Akelius Fastigheter AB there is only a comment that the company does not pursue any activities that require licensing or are subject to reporting in accordance with the Swedish Environmental Code. There is no information regarding any efforts the company has carried out to improve the environment.

Information about personnel matters that could be presented in the annual report include: policies of employment and working conditions, results of evaluations that have been carried out among the staff, and efforts that have been made in the personnel area. Goals for absenteeism, as a result of sickness could be commented. The management report could also include information regarding the guidelines the company has for ethics, choice of business partners, and suppliers. In the annual report of Akelius Fastigheter AB there is no information regarding personnel matters or the company's view on ethics.

The management report shall include a proposal from the Board of Directors on the allocation of the profit or loss. The profits that are at disposal shall be the sum of: the accumulated profit, appreciation funds that have been accounted after 1st January 2006, other funds that are classified as non-restricted equity, and the result of the financial year. Dividends must be justifiable with regard to the company's need of equity and future capital needs. If dividends are proposed, the Board of Directors must comment as to whether the dividend is justified or not. In the annual report of Akelius Fastigheter AB, the proposal suggests

that the profits are carried forward. The Board of Directors does not need to comment on the proposal in this case.

Income statement

The income statement shall in summary form, show all the revenues and costs of the company for the financial year. It shall be drawn up according to one of the dispositions published in the Swedish Company Accounts Act. It is possible to add items other than those in the disposition, and the items can also be sub-divided into several items. If an item is of significance it should be reported as a separate item. Complementary items should have a denomination that clearly states what is included in the item. Adjustments should also be made in accordance with the nature of the business in the company. For every item in the income statement there shall be an item for the previous year for comparison.

The income statement of Akelius Fastigheter AB is divided into 5 sections: "Operating surplus", "Gross profit", "Operating profit", "Profit after financial items", and "Profit for the year". The "Operating surplus" shows the result from the primary business operations of the company, the property business. Net turnover is reduced with costs related to maintaining the properties: "Operating costs", "Maintenance costs", "Site-lease rent", and "Property tax". The company should, if the lines of business or markets differ significantly from each other, present the distribution of the net turnover on the lines of business and markets. This has been considered unnecessary in Akelius Fastigheter AB. Information regarding which accounting principles that have been applied, shall be presented in the annual report. In the annual report of Akelius Fastigheter AB, this information can be found in the section "Accounting principles".

The item "Operating costs" includes usage-bound costs, for example, water, heating and electricity, other operating costs, and the part of the administration cost that is distributed on the properties. More information regarding the distribution of the administration cost, is presented in connection with the item "Central administration expenses".

There is a reference to note 19 and 20 in connection with the item "Operating costs". Note 19 shows how much remuneration the audit company has received and how much of the remuneration that is costs for auditing and other assignments. It is compulsory to leave information regarding the remuneration to the audit company and also the distribution of it.

Note 20 is also compulsory if the company has employed staff. The note shall include information about the average number of

employees during the financial year, and the proportion of men and women among the staff. It should also contain information regarding the proportion of men and women in the board, and management of the company. This information is compulsory for companies with an average number of employees that, for the last two financial years, amounted to at least 10 people; this is the case in Akelius Fastigheter AB.

In the note, the costs for personnel should be presented in two different groups: the Board, the chief executive officer and other senior executives, and other employees. The following information shall be presented separately:

- Salaries and other remunerations
- Social and pension costs

If the company has reached a severance pay agreement or other benefits with members of the board, the chief executive officer, or other executive officers; information shall be provided about the agreement and the essential conditions in the agreement. This information is able to be found in note 20 as well.

The parent company must provide information about the absenteeism due to sickness during the financial year. The absenteeism shall be presented in percentage of the total working hours. The following information shall also be provided:

- The proportion of the absenteeism due to sickness, that concerns absenteeism for more than 60 days or more
- The absenteeism due to sickness for men and women separately
- The absenteeism due to sickness, for groups of employees in the age range from 29 years or younger, 30-49 years and 50 years or older.

The information shall not be presented if the amount of employees in the respective group is less than 10 people, or the information could be accounted for by one individual.

Employees in countries other than Sweden should not be included in the information. This information is also presented in note 20.

Maintenance costs include running and planned maintenance and costs for modifications. The items "Site-lease rent" and "Property tax" are examples of items that have been added to the disposition in the Swedish Company Accounts Act, and have specific titles and there is no need for further explanation. Under the "Gross profit": depreciation, write-downs, and reversals of tangible fixed assets, all have been added to the result. The depreciation refers to depreciation on properties and machinery and inventory. The principles for depreciation are presented in the section "Accounting principles", which is compulsory. It is described that in Akelius Fastigheter AB the residential

buildings are depreciated by 0.75 %, commercial buildings by 1,5 % and machinery and inventory by 20 % annually. When it comes to buildings used for both residential and commercial purposes it is the main usage of the building that determines how the building is classified. In the German companies, the properties are depreciated by 2 % annually. The depreciation is adjusted in the group accounts to be on the same level as the rest of the properties in the group.

If a fixed assets has a reported book value that exceeds the estimated recovery value, the reported book value must be written down to the recovery value if the difference in values is considered to be permanent. When there has been a change in the conditions, the write-down shall be restored. In the section "Accounting principles" as well as in the management report in the annual report there is a description of the valuation process that the recovery values are based upon. One thing worth mentioning is that properties that are acquired during the financial year are valued at their acquisition costs. This means that no write-downs are accounted for these properties during the first financial year, they are included in the report. In notes 8 "Properties" and 10 "Machinery and inventory" it is possible to find information concerning how much of the item in the income statement that refers to depreciation, write-downs and reversals.

The "Operating profit" contains revenues that are not as easy to compare with similar revenues for previous financial years, such as "Profit from sales of properties", "Profit from other sales" and "Other revenues". Information about such items should be presented in notes. In note 1 "Profit from sales of properties" how much of the total purchase-sum for the properties was is specified, and also how much the book value was, and how much the sales expenses amounted to. One thing worth mentioning in connection with this item is, that sales of subsidiaries have been converted into property sales in the group accounts; this has to do with the fact that shares in subsidiaries are eliminated in the group accounts. The shares in subsidiaries are replaced with assets and liabilities of the subsidiaries. In the report for the parent company, note 1 only includes profit from sales of properties. Profit from sales of subsidiaries is included in the item "Earnings from share in group companies".

The item "Profit from other sales" refer to profit from sales of condominiums and inventories. Note 2, which is a specification to this item, is presented in the same way as the note referring to profit from sales of properties. Other revenues refer to revenues from IT-costs that are invoiced to property management companies. In the "Operating profit" the item "Central administration expenses" are also included. "Central

administration expenses” refer to costs for the Managing Director and marketing department. All other administration costs are distributed on the properties and are included in the “Operating surplus”.

The next level in the income statement includes the financial items: interest subsidy, interest income and expenses and similar profit/loss items. These items are presented in detail in notes 4 and 5. In the parent company’s accounting, the interest income and expenses from and to group companies is specified; this is compulsory. All revenues and costs between the group companies are eliminated in the group accounts. The currency exchange differences are included in the item “Interest expense and similar profit/loss items”. The item contains both revenues and expenses as a result of currency exchange rate differences. It is however desirable to account the currency exchange rate differences in one place.

In the report of the parent company there is an additional item among the financial items. It is the “Earning from shares in group companies” which is specified in note 3. The transactions of the item include received group contributions, received, and expected dividends, profit from sales of subsidiaries and other profit from subsidiaries. As explained above, all transactions between group companies are eliminated in the group accounts, which explain the fact that this item is not included in the report for the group.

On the result after financial items the appropriations are added in the report of the parent company. Appropriations are a result of tax legislation and an opportunity to reduce tax, or at least postpone the payment of the tax. The company has the possibility of transferring some of the result to a tax allocation reserve, which means that the taxable income is reduced and as a consequence, also the tax for the year. Since a group is not subject to tax, no appropriations are accounted in the group account.

On the result after financial items, and for the parent company after appropriations, the tax cost is added. It is not so simple to get the tax cost just by calculating 28 % on the “Profit after financial items”. In the result there are items that are not deductible, for instance, costs for entertainment and some interest expense, and items that are not subject to tax like profit from sales of shares in subsidiaries, and some interest revenues. In addition, there are a few other adjustments like for instance adjustments for fiscal depreciation, in order to get the fiscal income.

In the note for the item "Tax on profit for the year", note 7, it is broadly explained how the tax is calculated. The starting point is the result after financial items, 751,292 MSEK. If the tax would have been calculated directly on that result it would have been 210,362 MSEK. After the adjustments explained above, the tax is 26,398 MSEK in the end. In the item there are also adjustments for changes in the tax costs for the previous financial years. In addition, deferred tax is included in the item. Tax on the profit and deferred tax must be reported separately as well as tax that is accounted for directly against equity. The tax effect on imputed interest on tax allocation reserves must also be reported. All other taxes, such as property tax, are included in other items in the income statement.

The minority share of the earnings of the year is accounted as an adjustment before the "Profit for the year". This item refers to the share of the German company "GVG", which is owned by an external party. The item is positive since there is a loss in the company.

Balance sheet

The balance sheet shall in summary form, show all the assets, equity, allocations, and liabilities of the company at the end of the financial year. It shall be drawn up according to the disposition published in The Swedish Company Accounts Act. It is possible to add other items other than those in the disposition, and the items can also be sub-divided into several items. If an item is of significance it should be reported as a separate item. Complementary items should have a denomination that clearly states what is included in the item. Adjustments should also be made in accordance with the nature of the business in the company. For every item in the balance sheet there shall be an item for the previous year.

The assets are divided into tangible and financial fixed assets and current assets. The fixed assets are intended to be permanently used in the business, or owned by the company. All other assets are classified as current assets. The fixed assets are reported at the acquisition cost. It is permitted to increase the book value of a property with expenses for the improvements of the property that increase the value of the property. There is also the possibility of writing up the book value if the recovery value permanently exceeds the book value. The appreciation is accounted by deposition to an appreciation fund. Depreciation is calculated on the book value including the appreciations.

For every item that is reported as a fixed asset in the balance sheet such as: the acquisition value of the assets, added plus outgoing assets, transfers, depreciation, write-downs and write-ups for the year plus accumulated depreciations, write-downs

and write-ups must be specified. In groups with subsidiaries, the note for fixed assets must include information regarding the translation differences.

The tangible fixed assets include the items: "Properties", "Building work in progress" and "Machinery and inventory". It is possible to report building and land as separate items, but it is not so common. In the annual report of Akelius Fastigheter they are included in the same item. In the item "Properties", machinery and other installations that are connected to a property are reported, as well as outdoor facilities. "Machinery and inventory" are assets that are used in the administration departments or property management. The item "Building work in progress" in addition to on-going building works, contains deposits for acquisitions of properties. The deposits are only temporarily reported as "Building work in progress".

A specification for the item "Properties" is reported in note 8 in the annual report. The book value is as prescribed in the Swedish Company Accounts Act, divided into the sections: acquisition value, depreciation, write-ups, depreciation on write-ups and write-downs. The sections all summarize in the item "Closing residual value, according to plan". The sections are divided even more into investments, acquisitions, sales, conversions, translations differences and reclassifications.

The definition of investment is, investment on properties that increase the value of the property. In the note "Properties" only the investments that have been finished are reported. Ongoing building works are reported in the item "Building work in progress". As acquisition purchases of properties are reported and, sales represent the book value of sold properties. The items that are reported as conversions are items that have been transferred between different items, for example a building work that has been finished is transferred from the item "Building work in progress" to the item "Properties". The translation differences emerge when the book values of the German properties are translated from one currency to another. Reclassifications are usually items that have been transferred to or from a cost account. The note shall also contain the tax assessment values of the properties. It is however, only the values of the Swedish properties, since the tax assessment value may have a different meaning in other countries.

The note for the item "Building work in progress", note 9, is disposed in the same way as the note for "Properties". Building works are valued at costs incurred, which mean that the value is not usually written down, neither up nor depreciated. The note for "Machinery and inventory" also has the same disposition.

”Long-term receivables” are classified as financial fixed assets. The item includes promissory notes, condominiums, bonds, and other receivables, which are not able to be read in the note 12 to the item. It is not compulsory to leave such information. In the note, the change in value shall be itemized into added, outgoing or reclassified receivables. The proportion of interest-bearing receivables should be mentioned.

In the report for the parent company, the item ”Shares in group companies” is classified as a financial fixed asset. The note, in this case note 11, must in addition to a specification of the change in values, contain the name of the subsidiary, corporate identity number, headquarters, share of the company, number of owned shares, and the book value of the shares.

The current assets include the items “Inventory of fuel oil”, “Accounts receivable”, “Income taxes recoverable”, “Other current receivables”, “Prepaid expenses and accrued income” and “Cash and bank balances”. The report of the parent company also includes the item “Receivables from group companies”. Current assets shall be reported at the lowest of the acquisition value and the net-selling price, where the net-selling value is the sales price reduced by sales expenses. As a prepaid expenses cost, that has been paid during the financial year that belongs to the next financial year, for example prepaid rents are accounted. Revenues that belong to the financial year but have not yet been paid, for example interest, are accounted as an accrued income. An overdraft facility in a cheque account shall be accounted as a current liability and shall not be included in the item “Cash and bank balances”. The current assets are not specified in notes and that is not compulsory if the amount of an item is not so big or if there is no point in specifying the item further.

The equity shall be reported differently for the report of a group than for the report of a parent company. The equity in the report of a group shall be divided into share capital, restricted reserves, free reserves, and result for the year. In the report of a parent company the equity shall be divided into restricted and non-restricted equity. Share capital, reserve fund, and appreciation fund (accounted before 1st January 2006) are parts of the restricted equity and accumulated result, appreciation fund (accounted after 1st January 2006) and result of the year are parts of the non-restricted equity. The difference between the reports is able to be seen in note 13.

In the note for the equity, the change in equity shall be specified. Dividends paid decreases the “Free reserves” or the “Accumulated profit”. The adjustments that have been made in the note for the group refer to dissolutions of restricted reserves,

for example an appreciation fund as a result of sold and depreciated properties that earlier had been written up. The translation difference is a result of translating the foreign subsidiaries from one currency to another.

The minority's share of the equity in a subsidiary is usually accounted as an item between equity and liabilities. Since that subsidiary has a loss the minority's share is accounted in the item "Long-term receivable" instead.

The next section in the balance sheet is the allocations. Commitments that exist, but it is not clear how much they amount to, or when they are due for payments; these should be accounted as an allocation. Deferred tax is an example that is classified as an allocation, and that is the only allocation in the annual report of Akelius Fastigheter AB which is specified in note 14. There is a difference between an asset's or liability's book value and the fiscal value; it is referred to as temporary, and that it will be cancelled some time in the future. It means that there is a tax asset or liability that is due for payment when the asset or liability is realized. In Akelius Fastigheter AB 28 % of the difference between the properties' book value and fiscal value is accounted as a deferred tax liability and 28 % of deductible deficiencies is accounted as a deferred tax asset. In so-called net asset acquisition the valuation is based on the purchase price. The deferred tax assets and liabilities are netted and included in the same item in the balance sheet.

In the report of the parent company there are also untaxed reserves in the balance sheet. This item has been explained already in connection with the item "Appropriations" in the income statement.

The liabilities in the balance sheet are divided into long-term and current liabilities. A liability is classified as a current liability if it is

- expected to be paid in the ordinary course of events
- due for payment within 12 months

All other liabilities are classified as long-term liabilities. The liabilities in the balance sheet in the annual report of Akelius Fastigheter AB are also divided into interest-bearing and non-interest-bearing liabilities; it is recommended to perform this division. It is compulsory to submit information of the proportion of liabilities that are due for payment later than 5 years. This information is in note 15, together with some additional information regarding interest-bearing debts. The main part of the liabilities consists of interest-bearing liabilities. Interest-bearing liabilities are the liabilities the group has to other associated companies. Other items accounted as liabilities are "Other long-term liabilities", "Accounts payable", "Other

current liabilities” and “Accrued costs and prepaid revenues”. It is compulsory to specify the item “Accrued costs and prepaid revenues” in a note, as in note 16, in the annual report. Costs that have incurred but not been accounted during the financial year are accounted as accrued costs, and revenues that have been paid but belong to next year are accounted as prepaid revenues.

In connection to the balance sheet the items ”Pledged assets” and ”Contingent liabilities” are reported. The item “Pledged asset”, that are specified in note 17, includes assets that have been pledged for a loan. Assets in Akelius Fastigheter AB that have been pledged are real estate mortgages, pledged funds, other assets and in the parent company also shares in subsidiaries. It is the book value of the pledged asset or the real estate mortgage that shall be stated in the report. Contingent liabilities are commitments a company has undertaken and they are presented in note 18 in the annual report. These include pledged guarantees, responsibilities as a co-partner in a partnership and guarantee commitment for subsidiaries.

Cash flow statement

A cash flow statement shall be included in the annual report if a company meets at least two of the following conditions in each of the last two years:

- The average number of employees has been more than 50
- The total assets have amounted to more than 25 MSEK
- The net turnover has amounted to more than 50 MSEK

Akelius Fastigheter AB meets all conditions. The cash flow statement shall present the ingoing and outgoing cash flow for the company during the financial year. The cash flow shall be divided into 3 different parts to make it easier to assess of the company:

- Cash flow from **operating** activities
- Cash flow from **investing** activities
- Cash flow from **financing** activities

The ”Cash flow from operating activities” represents the cash flow from the company’s core business. This cash flow is of significant importance when studying the company’s ability to generate enough funds to be able to pursue the operating activities, repay loans, and pay dividends without infusion of capital.

In the cash flow statement in the annual report of Akelius Fastigheter AB, the cash flow from operating activities has been divided into 3 steps:

- Cash flow from current management operations
- Cash flow before working capital changes
- Total cash flow from operating activities

The cash flow statement starts with the “Operating surplus” in the income statement. Since depreciation has no significance on the cash flow, it is not included in the cash flow statement. To the operating surplus the items “Central administration expenses”, “Interest subsidy”, “Interest income and similar profit/loss items”, “Interest expenses and similar profit/loss items” and “Taxes paid” are added. In the cash flow statement of the parent company the item “Profits from group companies” is also included, except for profit from sales of subsidiaries that is included in the investing activities.

The interest expenses could also have been considered as a cost for the financing of the company and been included in the financial activities. The interest income could have been considered as return on investment, and included in the investing activities. It is important to report in a similar way every year. Payments for tax should be included in the cash flow from the operating activities if they cannot be related to financial or investing activities. The item “Tax paid” in the cash flow statement in the annual report includes current tax for the year and the change in “Income tax recoverable”.

The items add up to the “Cash flow from current management operations”. To that cash flow is added, the item “Difference between paid and carried as an expense operating and interest expenses”. This item includes the changes in the items “Prepaid expenses and accrued revenues”, “Accrued expenses and prepaid revenues” and the translation differences and the reclassifications of the fixed assets. The “Cash flow before working capital changes” is obtained. To get the “Cash flow from operating activities” the changes in stock, non-interest-bearing receivables and liabilities is added.

The next part of the cash flow statement is the “Cash flow from the investing activities” that gives information about the cash flow for the investments that are expected to generate revenues in the future. This cash flow consists of cash flow from investments in fixed assets and sales of fixed assets. The cash flow from investing activities should also include the cash flow from acquisitions and sales of subsidiaries, which is the case in the parent company’s cash flow statement.

The last part of the cash flow statement is the “Cash flow from the financial activities” that provides some information about the future expectations of cash flows from banks. This cash flow includes the items “Outstanding interest-bearing” and “Amortizations of interest-bearing liabilities” and “Dividends paid”. The total cash flow is the sum of the three cash flows and

it shall be equal to the change of the item “Cash and bank balances”.

References

Swedish Company Accounts Act
Recommendations from the Swedish Accounting Standards Board and the Swedish Financial Accounting Standards Board