CONSOLIDATED FINANCIAL STATEMENTS AS THE BASIS OF RELIABLE INFORMATION ON THE ACTIVITY OF INTEGRATED CORPORATE STRUCTURES OF UKRAINE

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Abstract. The research presents an algorithm for comparative analysis of the integrated corporate structure reporting including three stages. The proposed algorithm for comparative analysis has been tested on the example of the consolidated financial statements of sub-holding of the industrial and financial group, the financial statements of one of the main asset parent companies in Ukraine and a subsidiary of the sub-holding. It has been established that users cannot make proper conclusions and take decisions in a comprehensive way basing upon information provided in public financial reports.

Keywords: consolidated financial statements, transparency principle, integral corporate structures, subsidiary, holding, parent company.

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Introduction

In the paradigm of modern sustainable development, the energy security of Ukraine, which falls under global dysfunctional influences, has significant threats to its internal stability. Among the most significant reasons the following ones can be distinguished: limitation or lack of certain types of fuel and energy resources; complexity of processes of their extraction (production); high energy intensity of export-oriented industries; loss of objects of the fuel and energy complex and the destruction of oil and gas infrastructure in connection with military actions in the East of the country; the lack of structural reforms in the energy sector due to corruption. All of the above requires the transition to a liberalized model of the domestic fuel and energy market, which puts forward new demands on its subjects, and above all, should intensify the competitive struggle between them. However, domestic energy companies are represented mainly by integrated structures which should act in open way under such circumstances and their consolidated accounts must comply with all the features of the principle of transparency.

Comparative analysis of the financial statements of the parent company of the integrated corporate structure, the sub-holding company and its subsidiary

Implementation of international financial reporting standards in Ukrainian practice allowed increasingthe ability to analyze the activities of domestic integrated corporate structures. According to International Financial Reporting Standard 10, "Consolidated Financial Statements", consolidated financial statements are financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent company and its subsidiaries are presented as belonging to the sole economic entity.

In the research of Walker R. G. *(Walker, 1976)* the attention was paid to the evaluation of the information conveyed by consolidated statements of the United States and Great Britain. It has been emphasized that due to the similarity of consolidated accounts, which were published in 1907 and in the 1970s, their contents has changed substantially over these years. A large number of achievements associated with the changes in the financial reporting standards and contention disputes around consolidation issues are as follows: Pacter P. *(Pacter, 1991)* considered procedural issues in the methodology for composing consolidated financial statements, in particular, whether control or authority of the majority is the main criterion for consolidating the financial statements of two companies, reflection of goodwill and minority interest in the consolidated balance sheet, compliance of the subsidiary accounting policies with the requirements of the parent company for consolidation, etc.; Arcady A. T. and Hugo D. *(Arcady, Hugo, 1999)* investigated FASB's efforts to consolidate the reporting of more entities by focusing on entity (parent) control over subsidiaries unless the control is considered temporary at the time the entity becomes a subsidiary.

Loveday P. *(Loveday, 1993)* researched consolidation technologies based on Australia's legislative requirements in her study. The author, when considering the consolidated financial statements, describes the procedure that is being carried out to meet these requirements and concludes on the usefulness of the consolidated financial statements.

Another controversial issue was the convergence of generally accepted accounting principles (GAAPs) with the International Financial Reporting Standards (IFRSs), which has been studied in details by Casabona Patrick A. and Ashwal Alex *(Casabona, Ashwal, 2005)*. It has been proved that such convergence contributes to the global cross-border capital movement needed to support economic growth and greater transparency of financial reporting.

In Ukraine the majority of integrated corporate structures, reflecting information about their activities, do not provide it fully and try to dissemble the data, revealing prospects for their development. This situation arose in connection with the objective inability to determine the impact of the individual subsidiary on the results of operations and the financial position of the group of enterprises. Moreover, aggregated indicators are difficult to analyze because of the lack of a clear methodology for such an analysis.

The purpose of comparative analysis of group consolidated financial statements and reporting of subsidiaries is to evaluate the contribution of each component of this group. It is expedient to carry out this analysis in three stages:

1. Comparative analysis of the consolidated balance sheet of the group and the balance sheet of the subsidiary.

2. Comparative analysis of the consolidated profit and loss statement of the group and the reporting of the subsidiary.

3. Comparative analysis of the consolidated cash flow statement of the group and the reporting of the subsidiary.

The stages of this analysis can be tested using the example of the largest industrial and financial group in Ukraine: System Capital Management (SCM). The management of the SCM Group includes: System Capital Management JSC(Ukraine), SCM Holdings Limited (Cyprus), SCM Limited (Cyprus), SCM Advisors (UK) Limited (United Kingdom). This business group manages assets in the following areas: international mining and metals groups of "Metinvest" companies; energy holding DTEK; financial intermediaries - First Ukrainian International Bank (FUIB), ASKA, ASKA-Life; heavy engineering holding Corum Group;

telecommunication group Vega Telecom; real estate - ESTA Group; television and printed media - Ukraine Media Group; mineral materials production holding UMG; transportation - Transinvest holding, Lemtrans, Portinvest; oil product retailing - Parallel-M Ltd; grocery retail - Brusnychka; agricultural holding HarvEast; football - FC Shakhtar and Donbass Arena.

In its turn, the private vertically-integrated structure of DTEK is a limited liability company consisting of four following business lines: DTEK Energy B.V., whichis involved in mining and enrichment of coal, generation, electricity, distribution and companies that carry out service and trading functions; DTEK RENEWABLES B.V., which is involved in renewable energy; DTEK OIL & GAS B.V.,which is in charge of gas extraction; DTEK ESCO Limited Liability Company, responsible for energy efficiency and energy saving.

In the structure of the vertically integrated group DTEK Energy B.V. the following components are represented: coal mining and power generation - 27 subsidiaries, electricity distribution - 6 subsidiaries, others - 8 subsidiaries.

According to the Ministry of Energy and Coal Industry of Ukraine, coal provides about 30% of the fuel needs of domestic thermal power stations and thermal power plants. The subsidiary of sub-holding DTEK Energy B.V. (DTEK Pavlogradugol PJSC) accountsfor 60% of the coal volumeand 43% of the total in Ukraine according to 2016 statistics. The subsidiary, which was reorganized through the liquidation of mines as separate structural subdivisions, includes 5 mines and 13 branches. They form a technological chain for the extraction, enrichment and transportation of coal finished products.

For a comparative analysis of the financial statements of System Capital Management JSC as part of the SCM Group, the consolidated total financial statements of the sub-holding DTEK Energy B.V. and reports of the subsidiary company DTEK Pavlogradugol PJSC are presented in tabs. 1-3.

The System Capital Management JSC's financial statements are prepared according to national standards, since the company is private and does not have equity instruments that are traded on the public market. At the same time DTEK Energy B.V. as an intermediate holding company prepares consolidated financial statements in accordance with the requirements of International Financial Reporting Standards.

The results of the analysis allow drawingthe following conclusions. The value of DTEK Pavlogradugol PJSC's non-current assets in the sub-holding is 21.8%, and the value of current assets is 17.2%, which indicates a small portion of assets included in the consolidated balance sheet of DTEK Energy B.V.

It is an objective phenomenon that in assets of System Capital Management JSC the largest share belongs to the financial investments in the authorized capital of subsidiaries, taking into account the type of economic activity which is business and management consulting, as well as the transition of the company from the operational management of individual assets to strategic management of sub-holdings.

More than 50% of the assets of the sub-holding and the subsidiary are property, plant and equipment. When comparing the System Capital Management JSC main assets with those ofDTEK Energy B.V., the significant value of the fixed assets of the subsidiaries should be noted. Fixed assets in consolidated financial statements of DTEK Energy B.V. at the end of the reporting period were represented at fair value different from the book value of property, plant and equipment, which led to the involvement of independent valuers forthe revaluation of fixed assets. In 2016 the revaluation of fixed assets was carried out for theindividual assets of the sub-holding.

Table 1

Comparative analysis of the balance-sheet total of the parent company, sub-holding and subsidiary from 31 of December 2016, UAH million

(public financial statements SCM Group, DTEK Group, 2016)

Index	SCM Group	Sub-holding	Subsidiary	Value of subsidiary in sub-holding, %
	System Capital Management JSC	DTEK Energy B.V.	DTEK Pavlogradugol PJSC	
Non-current assets	38785,0	81571,0	17808,0	21,8
Intangible assets	1,1	1639,0	20,0	1,2
Property, plant and equipment	19,7	64124,0	14031,0	21,9
Financial investments	38763,0	10085,0	247,6	2,5
Trade and other receivables	0,0	210,0	2217,0	1055,7
Current assets	6140,0	38304,0	6604,0	17,2
Inventories	0,4	4686,0	699,0	14,9
Trade and other receivables	6059,0	24008,0	5288,0	22,0
Cash and cash equivalents	63,1	7545,0	0,3	0,0
Total assets	44925,0	119875,0	24412,0	20,4
Equity	30181,0	5714,0	9401,0	164,5
Share capital	3,0	9909,0	1395,0	14,1
Retained earnings / (accumulated deficit)	30177,0	(27742,0)	2053,0	-
Non-current liabilities	5413,0	52050,0	5041,0	9,7
Deferred income tax liability	5407,0	2207,0	0,4	0,0
Eurobonds	0,0	26403,0	0,0	0,0
Current liabilities	9330,0	62111,0	9970,0	16,1
Borrowings	0,0	30101,0	1528,0	5,1
Trade and other payables	324,0	17948,0	3712,0	20,7
Prepayments received	0,0	7288,0	2294,0	31,5
Total liabilities	14743,0	114161,0	15011,0	13,1
Total liabilities and equity	44925,0	119875,0	24412,0	20,4

It is interesting to pay attention to such items of DTEK Pavlogradugol reports as non-current trade and other receivables that reflect relations with corresponding parties, and its volume indicates the significant impact of these entities on the financial position of the subsidiary of the sub-holding (UAH 2.2 billion was withdrawn from the operating cycle).

System Capital Management JSC stocks are almost non-existent in comparison with DTEK Energy B.V. The sub-holding "coal" item accounts for 36% of all stocks, for the "raw materials" itemthe percentage amounts to 27% of their total. Significant volumes of raw material stocks, other materials and finished products are in subsidiaries, in particular, in DTEKPavlogradugol PJSC, their share in the sub-holding amounts to 14,9% of the total stock.

A significant proportion of the sub-holding, as it was in the case of a subsidiary, belongs to current trade and other receivables. Moreover, in the structure of System Capital Management JSC debt the provision of financial assistance, that is to be returned in a certain period, accounted for 99.6% of its total arrears with other debtors at the end of 2016. It obviously suggests the ineffectiveness of transactions and the increase of contracts with counterparties not in favour of the parent company.

Current financial investments in the current assets of System Capital Management JSC amount to UAH 23 million and are absent in the Consolidated Balance Sheet of the sub-holding and the balance sheet of the DTEK Pavlogradugol PJSC. More than half of the cash and cash equivalents that are concentrated in the sub-holding DTEK Energy B.V. accounted for bank balances payable on demand. At the same time, neither the management company nor the DTEK Pavlogradugol PJSC had significant amounts of cash balances and their equivalents.

A comparative analysis of equity and liabilities shows that System Capital Management JSC is the most financially sustainable company, since its share of equity in assets is 67%. On the other hand, DTEK Pavlogradugol PJSC equity capital financing amounted to 38.5%, which indicates the company's dependence on external sources of financing, which were mainly current liabilities. A significant proportion of DTEKPavlogradugol's equity capital at the PJSC in a sub-holding of 164.5% was a consequence of ineffectiveness of the other components of DTEK Energy B.V. This is indicated by the size of the uncovered losses of the sub-holding accompanied by the undistributed profits of the subsidiary in the amount of more than UAH 2 billion.

The investigated integrated corporate structure of Ukraine acts as an active borrower both at the sub-holding level and at the level of individual entities of the group. Moreover, the volume of liabilities of DTEK Energy B.V., accounting for 95% of funding sources, is evidence of a high degree of its financial risk. In 2016 there was an increase in the debt burden caused by an increase of credits and loans. According to the sub-holding data, the main influencing factors were the devaluation of the UAH against the USD and the capitalization of unpaid interest on Eurobonds. The largest share in the structure of non-current borrowings was made up of Eurobonds amounting to UAH 26.4 billion, and in the structure of current liabilities: bank borrowings amounted for UAH 30 billion by December 31, 2016.

In early 2016, DTEK Energy B.V. announced that it was impossible to make coupon payments on the following Eurobonds:

- with maturity date 04.04.2018 for the sum of USD 750 million with a rate of 7,875% per annum,

- with maturity on April 28, 2018 for the sum of USD 160 million with a rate of 10,375% per annum.

As part of a full-scale restructuring of the capital structure of DTEK Energy B.V. the holders of securities agreed to exchange both issues of Eurobonds for new ones with the maturity date of December 31, 2024. The international organization Rothschildwas involved as an advisor on debt restructuring.

Redemption of new securities will be made in the following proportion: 50% - in December 2023, 50% - after December 31, 2024. The coupon rate is divided into two parts at the set level of 10.75%. The coupon rate of payments in cash will amount to 5.5% per annum in 2017-2018, and, correspondingly, 6.5% per annum in 2019, 7.5% per annum in 2020, 8.5% per annum in 2021, 9.5% per annum in 2022-2023 and 10.75% per annum in 2024. The remainder of the non-cash coupon is capitalized and will be added to the principal amount of Eurobonds on a quarterly basis.

The guarantors of the implementation of the sub-holding new obligations were subsidiaries, including DTEK Pavlogradugol PJSC.

Lending banks of DTEK Energy B.V. were offered to convert part of the bank debt into new Eurobonds by holding a tender by sub-holding in order to restructure the bank loan portfolio. At the same time, lenders, representing 76% of the total aggregate bank debt of DTEK Energy B.V., agreed to postpone the maturity of debt on open credit lines until June 30, 2023.

The largest components of the long-term liabilities of DTEK Pavlogradugol PJSC were the following ones:

- loans from non-banking institutions, accounted for UAH 1.17 billion, issued in euro and mainly in USD at 9% per annum;

- long-term bonds, worth UAH 300 mln., 16.7% of which restructured with thesubsequent conclusion of amicable agreement.

Accounts payable of DTEK Energy B.V. make up a significant part of current liabilities. In the prepayments received by the group companies due to future supplies of electricity, coal and gas, only one subsidiary, namely, DTEK Pavlogradugol PJSC accounted for more than 30% with a small amount of prepayments received in the current sub-holding obligations. This resulted from the avoidance of double accounting in the preparation of consolidated financial statements of DTEK Energy B.V. by deducting the mutual debts of the subjects of the group.

As a part of long-term liabilities of System Capital Management JSC, the largest share is formed by a deferred tax liability. The weight of other current liabilities was the highest one in the current liability structure of the parent company. They were represented by arrears of payments made to creditors on the received financial assistance (which is to be returned in a certain period) amounting for almost UAH 9 billion, and, thus, showed the financing of the parent company by the funds of related parties.

Table 2 data indicate that DTEK Pavlogradugol PJSC accounts for 15% of sub-holding revenue. Taking into consideration the number of daughter companies in the group, this indicator is high. At the same time, we should note contributing factors. Thus, the growth of revenue from the sale of DTEK Pavlogradugol PJSC occurred due to an increase of 1010% of the purchase of electricity for export with a simultaneous reduction of coal sales by 9.5% compared to 2015. It is explained by signing of unfavourable contracts by other subsidiaries of the sub-holding, since sales of electricity is not the main activity of the investigated subject.

Table 2

Comparative analysis of income statements of the parent company, sub-holding and subsidiary for2016, UAH million

(public financial statements SCM Group, DTEK Group, 2016)

Index	SCM Group System Capital Management JSC	Sub-holding DTEK Energy B.V.	Subsidiary DTEK PJSC Pavlogradugol	Value of subsidiary in sub-holding, %
Revenue	0,0	127897	19690	15,4
Cost of sales	0,0	(113040)	(15838)	14,0
Gross profit	0,0	15016	3852	25,7
Other operating income	73,8	680	1271	186,9
Distribution costs	(0)	(1021)	(324)	31,7
General and administrative expenses	(250)	(2405)	(346)	14,4
Other operating expenses	(701)	(6323)	(2267)	35,9
Operating profit/(loss)	(877)	5910	2186	37,0
Finance income	0,0	3156	39	1,2
Finance costs	0,1	(9324)	(1297)	13,9
Profit/(loss) before income tax	(452)	(7296)	617	-
Profit/(loss) for the year	(299)	(6695)	647	-

In the revenues from the sale of the sub-holding in the segment "coal and power generation" UAH 53.49 billion have been received (the share of DTEK Pavlogradugol PJSC in 2016 amounted to 36.8%). Taking into account such anincome share in the structure of the sub-holding by the end of the year, the subsidiary received a net profit. Meanwhile, the parent company and the sub-holding suffered losses due to the predominance of costs over revenue. It should be emphasized that the amount of income from sales in the amount of UAH 6,247 million has not been included in the consolidated financial statements of DTEK Energy B.V., namely, in the segment of "coal and power generation", making UAH 3,230 million, in the segment "electricity distribution", making UAH 1,480 million, in the segment "other" which included sales between the segments of the group, it amounted for UAH 1,537 million.

Doubling of the item"other costs" in the process of formingthe selling priceat DTEK Pavlogradugol PJSC in 2016, which amounted to more than 50% of its total size, indicated the ineffectiveness of the gross profitformation at the subsidiary.

Comparing the results introduced in Table 2, we should note that the effectiveness of operating activities is observed both in the sub-holding and its subsidiary.

Other operating expenses were the most influential factor in the formation of operating losses of System Capital Management JSC. In the financial statements of the parent company, taking into account large volumes of long-term financial investments, there was no financial income. This may indicate that it is reflected in other components of the SCM Group management and thus tax payments on the territory of Ukraine are minimized.

The low share of administrative expenses at DTEK Pavlogradugol PJSC, which accounted for 14.4% of the expenses at DTEK Energy B.V., affected the share of operating profit of a subsidiary in a sub-holding, constituting 37%. In this case, the main itemof general and administrative expenses of DTEK Energy B.V. has been the item"staff costs" (69.2%), including wage taxes.

As part of other operating expenses of the sub-holding, charitable donations and sponsorship amounted to UAH 1,217 million or 22.2%, expenses on the idle capacity amounted to UAH 1,092 million or 20%. Whereas the subsidiary charity donations and sponsorship accounted for 71% of other operating expenses, it indicates an overstatement of spending amounts in order to reduce tax payments.

Minimization of taxation in integrated corporate structures is achieved by signing contracts according to which profits or losses of parent companies and subsidiaries are transferred directly to the holding company. This allows the integrated corporate structure to take into account the losses of one entity and the profits of the other one in order to pay taxes from the rest of the profit.

Table 3

Comparative analysis of the abbreviated cash flow statements of theparent company, sub-holding and subsidiary, UAH million

(public financial statements SCM Group, DTEK Group, 2016)

Index	SCM Group	Sub-holding	Subsidiary	Value of subsidiary in sub-holding, %
	System Capital Management JSC	DTEK Energy B.V.	DTEK PJSC	
Net cash generated from operating activities	(834)	13202	4858	37
Net cash used in investing activities	4041	(6395)	(2668)	42
Net cash used in financing activities	(3204)	(206)	(2240)	1087
Net increase/(decrease) in cash and cash equivalents	3	6601	(50)	-
Assessment of the quality of cash flow management	crisis	high	low	x

Comparative analysis of financial reporting on cash flows in Table 3 has allowed making a number of conclusions:

- the abbreviated consolidated statements of cash flows of the sub-holding are constructed indirectly, whereas the reporting of the parent company and the sub-holding entity is direct, making it impossible to carry out a detailed analysis of cash flows bythe type of activity;

- the formation of a net cash flow in System Capital Management JSC has been characterized by crisis management quality. The negative value of cash flows from operating activities and the high consumption of funds in financial activities (in connection with repayment of loans to entities under management) reflected inappropriate level of the company management;

- the positive value of the cash flow as a result of operating activities of DTEK Pavlogradugol PJSC did not allow fully covering the negative value of cash flows from investment and financial activity, which confirmed the low quality management of cash flows at a subsidiary;

- net cash flow of DTEK Energy B.V. in the amount of UAH 6,6 billion has testified to the high quality of management of the sub-holding, since cash inflows from operating activities were sufficient to provide the necessary investment and financing activities. Thus, DTEK Energy B.V. is capable of generating a cash flow and creating the cost of a sub-holding.

Comparing the consolidated income statement with the consolidated statement of cash flows of DTEK Energy B.V. we should note that there is a manipulative component in the formation of a consolidated income statement, because while a significant amount of net loss expressed in the first report demonstrated the ineffectiveness of the activity, the management of the sub-holding as a whole was quite effective, which is indicated by the consolidated statement of cash flows. In other words, consolidated statement of cash flows provides a combination of reporting on the financial position and the formation of profits (losses), and, therefore, it is characterized by completeness, reliability, content and complexity.

Thus, we can say that nowadays in Ukraine there is a lack of a unified methodology on compilation and methods of analysis for consolidated financial statements, a lack of experienced and highly skilled staff for its compilation and audit as well as unwillingness of those who own the integrated corporate structures to transparently and openly display the activities information.

Conclusions and suggestions

The analysis of consolidated financial statements is becominganimportantpart of the public control over the activities of integrated corporate structures. As a result of the analysis, we have identifieda number of problems preventing the users of the consolidated financial statements of the integrated corporate structures from obtaining reliable information about their activities, namely:

- the impossibility of carrying out qualitative comparative analysis in connection with the non-implementation of such a principle of analysis as an adequate basis for comparison;

- the presence of a large number of affiliated companies in an integrated corporate structure which are not required for an open conduct of business, as stated in the official websites of management companies;

- the presentation of information about the property status, profits and losses as well as cash flows of the parent company in an abridged form;

- the disclosure only of the information on the choice of accounting policies in the notes to IFRS financial statements, instead of providing detailed information about the company's activities;

- the lack of unified reporting requirements for information presentation by integrated corporate structures according to segments.

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