AUDITOR GENERAL'S DEPARTMENT

FINANCIAL STATEMENTS ANALYSIS OF PUBLIC BODIES

CLARENDON ALUMINA PRODUCTION

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The Department is headed by the Auditor General, Pamela Monroe Ellis, who submits her reports to the Speaker of the House of Representatives in accordance with Section 122 of the Constitution of Jamaica and Section 29 of the Financial Administration and Audit Act.

This report has been prepared by the Auditor General's Department of Jamaica for presentation to the House of Representatives.

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FOREWORD

The analysis of the audited financial statements of Clarendon Alumina Production Limited (CAP) was undertaken to assist Parliament and the Public Accounts Committee (PAC) in their review of the financial performance of public bodies, in the context of the Fiscal Responsibility Framework. The Public Bodies Management and Accountability (PMBA) Act requires public entities to demonstrate prudent financial management of public resources.

Our review largely focussed on trends in CAP's key financial ratios over the period FY2012/13 to FY2016/17. We found that CAP's debt ratio reflected a trend decline to 1.02 for FY2016/17 from 1.66 in FY2012/13. In particular, the ratio fell sharply between FY2012/13 and FY2013/14, in a context where Government of Jamaica (GOJ) acquired 84.1 per cent of CAP's outstanding loan obligations in 2013. This was a precursor to a Joint Venture Agreement with the Noble Group, which would also boost the likelihood of CAP's divestment by improving its financial position and removing the need for further GOJ support. However, a substantial deterioration in CAP's cash position necessitated US$27 million in loans from GOJ in FY2016/17 to settle outstanding arrears to the Joint Venture partner. The additional borrowing was contrary to GOJ's stance regarding continued support to the entity. Of note, the deterioration in CAP's liquidity position resulted in a context where more cash was demanded to finance CAP's operations than was generated.

Consequently, CAP's solvency position remained weak over the review period, despite marginal improvement to 2 per cent at end FY2016/17, which was well below the threshold of 20 per cent. Further, CAP consistently recorded a negative working capital turnover, which was also linked to CAP's inability to generate profits or a positive return on its investment. Accordingly, CAP will require greater operational efficiency by Jamalco in order to improve its financial position on a sustainable basis.

Pamela Monroe Ellis, FCCA, FCA, CISA
Auditor General


Net Losses
High Debt
Liquidity Constraints
Insolvency Threat
High Receivables

PART ONE

Disclaimer

This Financial Statements Assessment is solely an analytical review of the audited financial statements of the Clarendon Alumina Production Limited (CAP). We did not conduct an audit of the financial statements of the entity and hence, did not test the management's assertions regarding the figures in the financial statements and disclosures. The calculation of ratios was merely intended to provide trend analyses of key financial items in the balance sheets and income statements of the entity, along with the notes provided.

Introduction

This report was prepared using information from CAP audited annual financial statements FY2012/13 to FY2016/17, annual reports and other supplementary information.

Profile of the Entity

1.1 CAP, which is owned by the Government of Jamaica (GOJ), was founded in 1985 as a producer and refiner of alumina. CAP currently executes a joint venture between Jamalco and General Alumina Jamaica LLC (GAJ), a company owned by the Noble Group. The joint venture comprises an integrated alumina production and export network consisting of bauxite mining operations, an alumina refinery, a power plant, a rail transportation system and a port with docking and loading facilities. CAP currently holds 45 per cent interest as co-tenants in the assets of Jamalco whereas Alcoa, the previous joint venture partner, continues to manage the refinery under a three-year Management and Transition Agreement (MTSA).

Prior to January 16, 2015	December 1, 2014	1988 to April 2007
• GAJ operated under the name Alcoa Minerals of Jamaica (AMJ).	• 100 per cent ownership of GAJ (formerly AMJ) was acquired by Noble from Alcoa World Alumina and Alcoa Caribbean Holdings.	• Following on the completion of the early works expansion by approximately 150,000 tonnes, funded entirely by the then joint venture partner, CAP's share in ownership was reduced to 45 per cent from 50 percent.

CAP Financing and Operational Structure

1.2 In June 2013, the CAP concluded arrangements with Noble, which relieved the national budget of shortfalls on CAP's joint venture obligations through the cessation of the provision of grants from the GOJ. Prior to the arrangement, GOJ acquired 84.1 per cent (US$$389.6 million) of CAP's outstanding loan obligations, a requirement for securing a US$120 million loan from Noble with whom the company was entering a long-term Alumina Sales agreement. Of note, CAP is a price taker, given that the price at which it sells alumina is derived from the price of aluminium on the world market.

1.3 The intention of the debt acquisition was to boost the likelihood of CAP's divestment by improving its financial position and removing the need for further GOJ support of its participation in the Jamalco joint venture. Accordingly, the loans acquired by GOJ were replaced by the US$120 million loan facility from the new Joint venture partner, which would enable CAP to repay its remaining obligations and provide financing for its share of working capital in Jamalco's day-to-day operations. The execution of this new sales contract was an important pillar of the Joint Venture Agreement under which CAP would sell Noble up to 6,075,000 tonnes of alumina over 12 years, commencing July 2013. Noble in turn, would disburse the funds between July 2013 and January 2015, with moratoria on interest to July 1, 2015 and principal until July 1, 2016. The servicing of the loan began in July 2015, in keeping with alumina shipments with CAP using its 45 per cent interest in Jamalco to secure the debt. CAP, although not involved in day to day operations of the Jamalco plant, has direct influence over the strategic and operational direction of Jamalco by virtue of its share ownership in the joint venture.

Vision 2030/United Nation's SDGs

1.4 CAP's operation in the bauxite/alumina industry is aligned to the achievement of National Outcome #7: *A Stable Macro-economy* and National Outcome #12: *International Competitive Industry Structures* of the National Development Plan, Vision 2030. This outcome is also aligned with the United Nation Sustainable Development Goal #9: *Build Resilient Infrastructure, promote inclusive and sustainable industrialization and foster innovation*.

WHAT WE FOUND

Net Profit margin
-0.10

- **CAP's net losses narrowed to US$15.2 million at end FY2016/17 from US$95.2 million in FY2013/14**. Net losses declined in a context where total expenses fell at a faster rate than total income over the five-year review period. However, consistent with the net loss position, CAP's net profit margin remained negative throughout the period, moving to -0.10 for FY2016/17 from -0.46 in FY2012/13.

Current Ratio
0.32

- **The current ratio fell to 0.32 at end FY2016/17 relative to 0.71 for FY2013/14, but exceeded the 0.16 recorded for FY2012/13.** CAP's short term assets were inadequate to cover immediate liabilities over the five year review period. CAP short-term assets were primarily inventory and accounts receivables, which when combined, accounted for 96 per cent of total current assets at end FY2016/17. CAP's current ratio was consistently less than 1.0, indicating that current assets were insufficient to cover current obligations, which indicates a negative working capital ratio.

Debt Ratio
1.02

- **CAP's debt ratio worsened to 1.02 for FY2016/17 relative to 0.61 in FY2013/14 but improved relative to 1.66 in FY2012/13.** The worsening position was underpinned by a combination of rising liabilities and a shrinking asset base, while the GOJ's acquisition in 2013, of 84.1 per cent of CAP's outstanding loan obligations, resulted in the improvement of the debt ratio the following year. Further, CAP's solvency ratio of 2 per cent for FY2016/17 was well below the threshold of 20 per cent, while the interest coverage ratio of 0.45 times for FY2016/17 was substantially lower than the threshold of 1.5 times, implying that both ratios failed to meet the respective benchmarks for financial soundness.

Receivable Turnover
17.3

- **CAP's receivables grew exponentially by 163.5 per cent to US$16.6 million at FY2016/17 from US$6.3 million in FY2012/13, while receivables turnover increased to 17.3 from 16.5 over the same period.** The deterioration of receivables was in a context of lower collections from Noble under the sales agreement. Payables on the other hand, fell sharply to US$42.5 million at end FY2016/17 from US$115.1 million at end FY2012/13, representing the combined effect of declines in trade payables, amounts due to Noble as well as accruals. Notably, for FY2016/17, there were no outstanding payables to Noble.

WHAT SHOULD CAP DO

Continue to use its position as a joint venture partner to influence the operational efficiency of JAMALCO

To reduce operational expenses and thus turn around its net loss position and improve liqudity and solvency levels

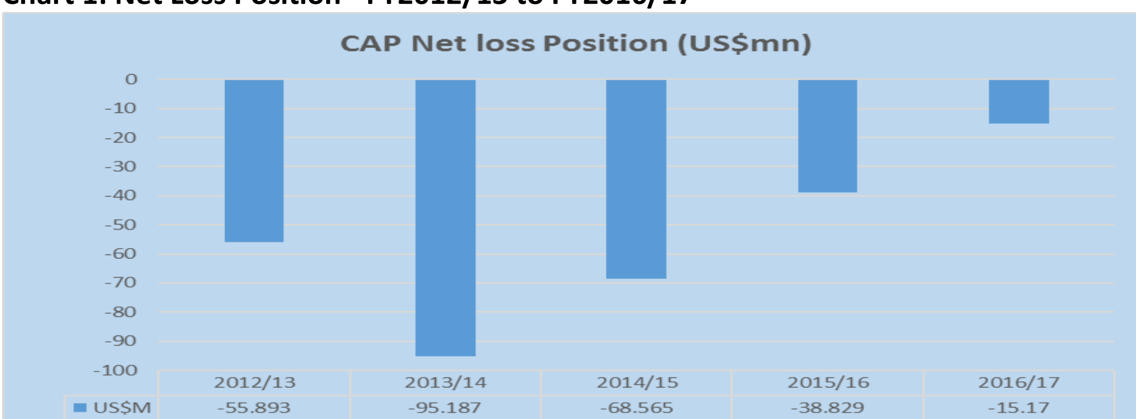
PART TWO

FINANCIAL STATEMENTS ANALYSIS

Profitability

2.1 **CAP's net losses narrowed to US$15.2 million at end FY2016/17 from US$95.2 million in FY2013/14, as total expenses fell at a faster rate than total income over the five-year period.** Net losses declined from U$55.9 million in FY2012/13, despite a fall in total revenue of US$7.2 million (4.6 per cent) and a reduction of US$53.1 million (25 per cent) for total expenses (**Chart 1**). However, CAP's net profit margin remained negative throughout the period despite improving to -0.10 for FY2016/17 when compared to -0.46 in FY2012/13. The net profit margin ratio for FY2016/17 indicated that CAP recorded 10 cents of losses for each dollar of income received, relative to 46 cents for FY2012/13. The decline in the ratio was however not reflective of an improvement in operational efficiency attributable to CAP's efforts but rather, the impact of external factors on net losses, engendered by lower international fuel prices. In addition, for FY2016/17, CAP's gross margins and operating margins were positive based on gross and operating profit of US$15.5 million and US$8.2 million respectively.

Chart 1: Net Loss Position - FY2012/13 to FY2016/17



Source: CAP's Financial Statements

2.2 CAP's core sales increased by 23 per cent to US$149.7 million for FY2016/17 from US$121.8 million in FY2012/13, despite significant volatility in world market prices for alumina, particularly in FY2015/16 where aluminium price fell significantly[1]. This increase helped to buffer a US$35.0 million decline (99.4 per cent) in Other Operating Income to US$0.23 million in FY2016/17 relative to FY2012/13 (**Table 2**). The significant reduction in Operating Income in FY2013/14 largely emanated from the cessation of GOJ support (provision of grants) to the entity in 2013 in line with the joint venture agreement between CAP and Noble.

[1] Alumina price is derived from the aluminium price on the world market.

Table 2: Income Statement Extract - FY2012/13 to FY2016/17

Income (US$mn)	2016/17	2015/16	2014/15	2013/14	2012/13
Sales	149.6	137.1	178.5	157.0	121.8
Other Operating Income	0.2	0.1	0.2	0.3	35.3
Total Income	**149.8**	**137.2**	**178.7**	**157.3**	**157.1**
Expenses					
Cost of Goods Sold	134.2	158.0	230.3	212.3	174.5
Total Expenses	159.9	178.4	250.1	234.0	213.0
Net Profit (Loss)	**(15.2)**	**(38.8)**	**(68.6)**	**(95.2)**	**(55.9)**

Source: CAP's Financial Statements

2.3 Expenses largely reflected a reduction of US$40.4 million (23.1 per cent) on cost of goods sold over the period, underscoring a reduction in operating expenses, especially those related to energy. Cost of sales fell noticeably by US$72.3 million (31 per cent) between FY2014/15 and FY2015/16 due primarily to the reduction in the cost of Heavy Fuel Oil, which benefited from lower global oil prices. Of note, Heavy Fuel Oil is a critical energy component for alumina production.

Asset Performance

2.4 **CAP's return on assets[2], although remaining negative, improved over the period moving to -0.06 in FY2016/17 from -0.17 in FY2012/13.** For the five-year period, return on assets averaged -0.19, which indicated that CAP suffered a net loss of US$0.19 for every US dollar of assets it invested. CAP's total assets declined by US$89.4 million (26.6 per cent) to US$246.2 million over the period, as CAP liquidated its short-term deposits given the softer than expected global market for aluminium which impacted revenue and weakened CAP's cash position.

2.5 The return on equity ratio, which indicates how well CAP uses its own funds to generate profits, exhibited a trend similar to that of net profit margin over the period. Prior to FY2013/14, the shareholder's equity, reflected by the return on equity ratio, was affected by significant accumulated deficits resulting in overall negative shareholder's equity. However, in FY2013/14, there was a sharp turnaround with GOJ's assumption of CAP's debt[3], which resulted in an accumulated surplus and positive shareholder's equity. The shareholder's equity exhibited a positive but downward trend from FY2013/14 to FY2015/16, recording a negative value in FY2016/17. At the same time, CAP's net income showed a negative, but downward trend. Even with the lingering negative income over the review period, the return on equity ratio recorded a positive outcome, ending at 3.57 for FY2016/17. This outcome however was influenced by the

[2] The return on assets ratio indicates how well management is employing the company's total assets to make a profit. The higher the return, the more efficient management is in utilizing its asset base.

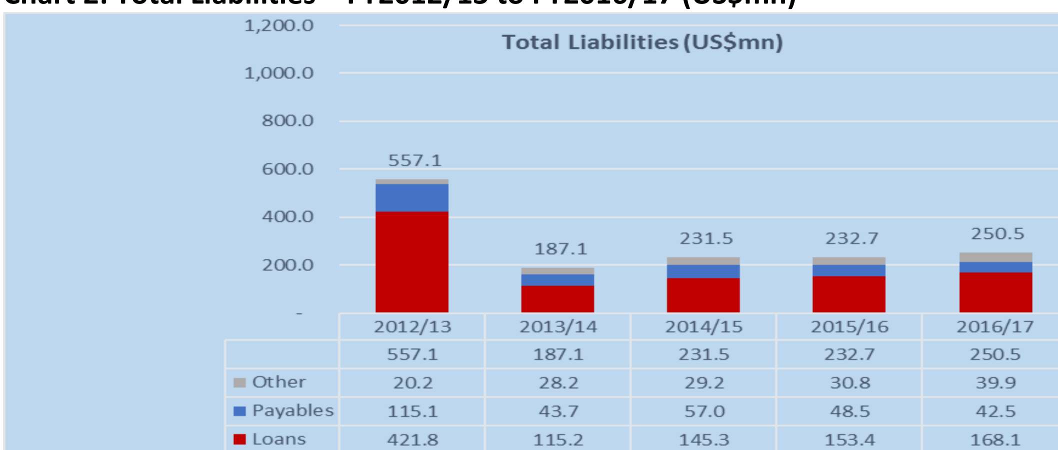
[3] This transaction with the GOJ, in their capacity as owners, was recognized directly in equity.

negative shareholders equity, which was underpinned by the increase of US$15.4 million (24 per cent) in the accumulated deficit, which moved to US$79.6 million from US$64.2 million.

Debt Management and Solvency

2.6 CAP's total debt amounted to US$250.5 million at end FY2016/17, reflecting a 55 per cent decline relative to end FY2012/13, but a 33.8 increase over the stock at end FY2013/14 **(Chart 2)**. The decline in liabilities mainly reflected reductions in outstanding loans by US$253.7 million through GOJ's acquisition of CAP's debt in 2013, which engendered a fall in the stock to its lowest level of US$187.1 million in FY2013/14. At the same time, the annual drawdown on the US$120 million loan facility and capitalization of interest under the Joint Venture Arrangement reflected in incremental increases in the debt stock between FY2013/14 and FY2016/17. Further, in a context where CAP's liquidity position deteriorated as the entity demanded more cash to finance its operations than was being generated, CAP borrowed US$27 million from the GOJ in FY2016/17 to settle outstanding arrears to the Joint Venture partner. The additional borrowing was contrary to GOJ's intention of continued support to the entity.

Chart 2: Total Liabilities – FY2012/13 to FY2016/17 (US$mn)



Source: CAP Financial Statements

2.7 **CAP's debt ratio worsened to 1.02 for FY2016/17 from 0.61 in FY2013/14, which was underpinned by the combination of rising liabilities and a shrinking asset base.** However, the sharp improvement in the ratio in FY2013/14 from 1.66 in FY2012/13 was due to GOJ's acquisition of 84.1 per cent of CAP's outstanding loan obligations in 2013 (**Table 3**)**.** Whereas the value of CAP's operations and its net worth were positive in FY2013/14, it returned to a negative position in FY2016/17, eroding the benefits brought on by GOJ's acquisition of CAP's debt in 2013 and hence thwarted its divestment effort. The FY2016/17 debt ratio also suggested a significant imbalance in CAP's capital structure as CAP financed its entire asset base from external sources.

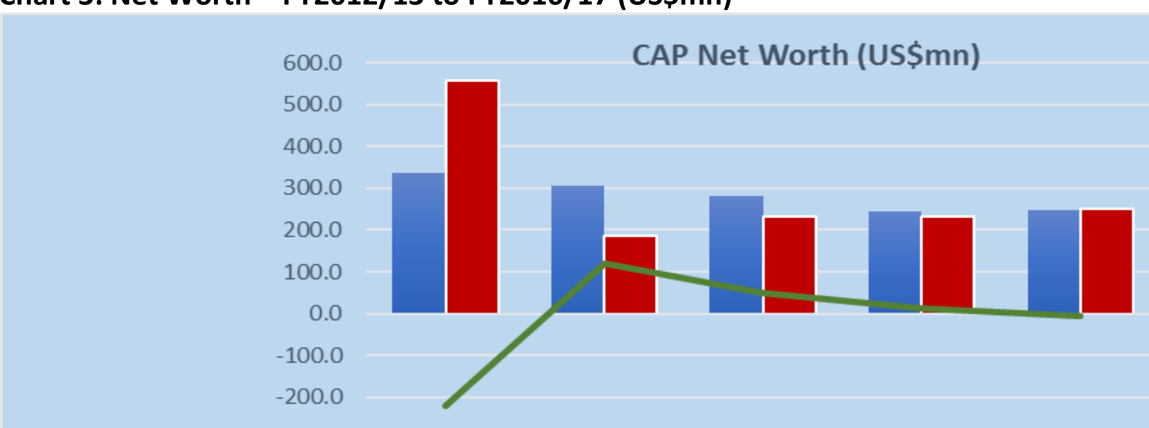
Table 3: Selected Solvency Indicators - FY2012/13 to FY2016/17

Financial Year	2016/17	2015/16	2014/15	2013/14	2012/13
Total Assets (US$mn)	**246.22**	**243.91**	**281.05**	**306.01**	**335.65**
Total Liabilities (US$mn)	**250.47**	**232.73**	**231.51**	**187.13**	**557.07**
Share Capital (US$mn)	75.39	75.39	75.39	75.39	75.39
Accumulated deficit/Retained Earnings (US$mn)	(79.64)	(64.22)	(25.86)	43.49	(296.81)
Equity (US$mn)	**(4.24)**	**11.18**	**49.53**	**118.88**	**(221.41)**
			RATIOS		
Debt Ratio (Total Liabilities/Total Assets)	**1.02**	**0.95**	**0.82**	**0.61**	**1.66**
Debt-Equity Ratio (Total Liabilities/Equity)	**-59.02**	**20.83**	**4.67**	**1.57**	**-2.52**

Source: CAP's Financial Statements

2.8 The imbalance in the capital structure was also reflected in the debt-to-equity ratio which returned to a negative position in FY2016/17 similar to the position which existed prior to the debt acquisition by the GOJ (**Table 3**). The negative ratio of 59.02 in FY2016/17 was in a context where the accumulated deficit outweighed share capital, resulting in negative equity of US$4.24 million. The ratio of 1.57 in FY2013/14 implied that CAP utilised US$1.57 in external funds for every US dollar of internal resources to finance assets. The worsening ratio reflected declining equity (net worth) due to accumulated net loss positions, which erased CAP's positive retained earnings for FY2013/14 (**Chart 3**).

Chart 3: Net Worth – FY2012/13 to FY2016/17 (US$mn)



	2012/13	2013/14	2014/15	2015/16	2016/17
Total Assets	335.7	306.0	281.0	243.9	246.2
Total Liabilities	557.1	187.1	231.5	232.7	250.5
Networth	-221.4	118.9	49.5	11.2	-4.2

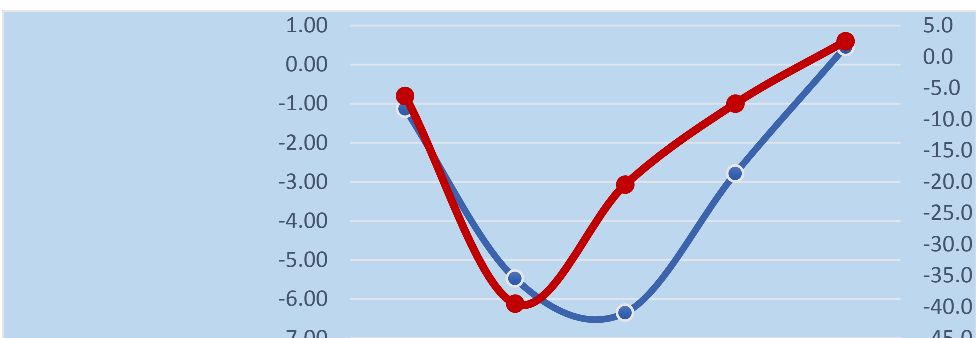
Source: CAP Financial Statements

2.9 Notably, the high use of external financing could constrain CAP's ability to borrow funds in the capital markets if required, especially given the current non-provision of loan guarantees by the GOJ. Furthermore, the associated high and increasing debt servicing level poses a financial risk and increases the potential for insolvency, particularly if juxtaposed against the inability to generate sufficient cash flow from operations and existing cash reserves.

2.10 **CAP's capacity to meet debt and other obligations was limited, despite improvements in the last three years to FY2016/17.** The solvency ratio of 2.5 per cent suggested that for FY2016/17, CAP's cash flow from its operations could only cover 2.5 per cent of all liabilities (**Chart 4**). Although the ratio compares favourably to negative ratios recorded for the previous four years, it was well below the generally accepted threshold of 20 per cent, above which entities are considered to be financially sound. Notably, the improvement in the ratio since FY2013/14 was underpinned by consecutively smaller net loss positions. The ability to generate cash flow from operations is important as the more cash flow generated within the entity, the greater the ability to meet debt and other obligations and the less external financing required.

2.11 CAP's cash flow, although improved, was generally insufficient to meet debt service payments over the period. The interest coverage ratio of 0.45 times for FY2016/17 indicated that the cash flow generated by CAP, though positive, did not cover total interest expenses as these fell due. Consequently, CAP would have been required to draw on cash reserves or borrow more, to close the gap **(Chart 4)**. Furthermore, the ratio for FY2016/17 was significantly below the generally accepted threshold of 1.5 times and as such, lenders could consider CAP a greater financial risk and price their loans to the entity, accordingly. CAP's management indicated that Noble's indebtedness to the venture (CAP's 45 per cent being US$11.2 million) contributed to the substantial increase in debtor days, which does not strictly affects CAP's cash management.

Chart 4: Selected Solvency ratios – FY2012/13 to FY2016/17



	2012/13	2013/14	2014/15	2015/16	2016/17
Interest Coverage Ratio (LHS)	-1.13	-5.48	-6.35	-2.79	0.45
Solvency Ratio (%) (RHS)	-6.3	-39.5	-20.4	-7.5	2.5

Source: CAP's Financial Statements. LHS – Left hand side; RHS – Right hand side

Liquidity and Working Capital Management

2.12 **For the five-year review period, CAP's short-term assets were inadequate to cover its immediate liabilities, despite an improvement in its current ratio**. The current ratio, which measures the ability to pay off current liabilities (short-term debt and other obligations) with liquid assets increased to 0.32 at end FY2016/17 from 0.16 in FY2012/13. The current ratio averaged 0.41 for the period, which indicated that current assets covered on average only 41 per cent of current obligations over the period **(Table 4)**.

Table 4: Current Ratio - FY2012/13 to FY2016/17

Financial Year	2016/17	2015/16	2014/15	2013/14	2012/13
Current Ratio	0.32	0.23	0.63	0.71	0.16

Source: CAP's Financial Statements

2.13 CAP's short-term assets were mainly reflected in Inventory and Accounts Receivables, which together accounted for 96 per cent of total current assets at end FY2016/17, higher than the 74 per cent recorded at end FY2012/13. On the other hand, CAP's short-term liabilities declined by 53 per cent moving to US$139.9 million in FY2016/17 from US$297.15 million in FY2012/13. The movement was primarily influenced by declines in Trade and Other Payables and short-term loans, which fell to US$42.5 million and nil respectively for FY2016/17, from US$115.1 million and US$139.8 million at end FY2012/13 (**Table 5**).

Table 5: Balance Sheet Extract - FY2012/13 to FY2016/17

(US$mn)	FY2016/17	FY2015/16	FY2014/15	FY2013/14	FY2012/13
Current Assets	44.6	25.5	52.7	44.4	47.0
Long-term Liability	110.6	124.3	147.6	125.0	259.9
Short-term Liability	139.9	108.5	83.9	62.2	297.2
Of which: Payables	42.5	48.5	57.0	43.7	115.1

Source: CAP's Financial Statements

2.14 After adjusting short-term assets to exclude accounts receivables and inventory, which are less liquid relative to other assets, the level of coverage was 0.013 times for FY2016/17 declining from 0.04 times at FY2012/13. This indicated that CAP's most liquid assets (cash and cash equivalents) were only able to cover only 1.3 per cent of its current liabilities at end FY2016/17 down from 4 per cent in FY2012/13. This further illustrates the significant liquidity constraints that CAP continues to face, which is in line with its lack of profitability.

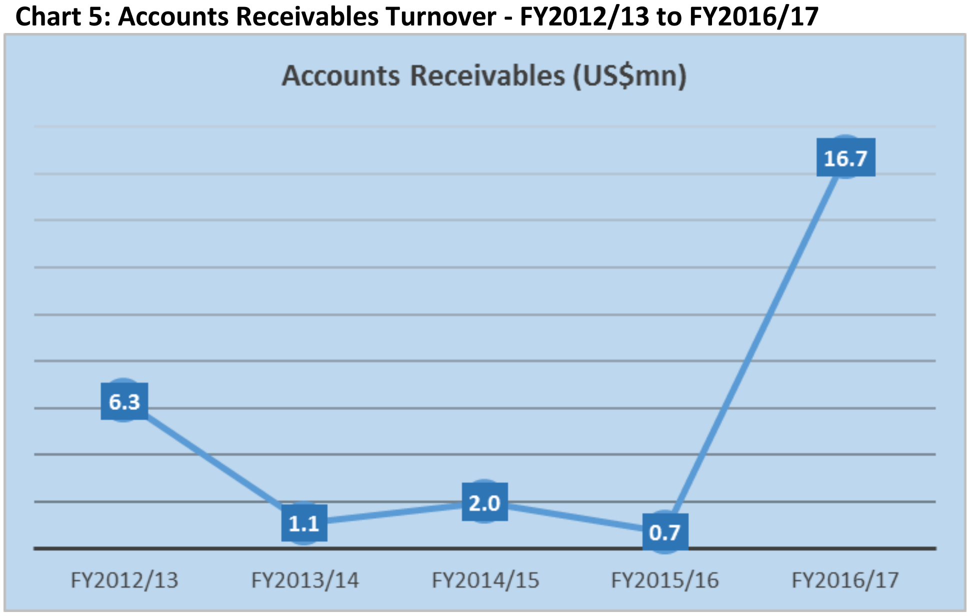
2.15 **CAP's working capital turnover ratio was -1.7 in FY2016/17, an improvement relative to the -2.4 recorded in FY2015/16, but a decline relative to -0.6 for FY2012/13**. The main drivers of working capital include accounts receivables, inventory and sales. The goal of working capital management is to provide sufficient cash flow to satisfy both maturing short-term obligations and other operational expenses in order to minimize the risk of insolvency and maximize returns on sales. CAP's continued negative working capital turnover was influenced by its current liabilities, which were 2.9 times greater than current assets in FY2016/17, relative to 6.3 times in FY2012/13. The lower ratio in FY2016/17 indicated that CAP's short-term obligations exceeded its assets, albeit an improving performance.

2.16 Further, the negative working capital turnover was also linked to CAP's inability to generate profits or a positive return on its investment and signalled that the level of sales generated did not correspond to the level of invested funds in the entity's operations. A weak working capital position places a strain on CAP's ability to react quickly and appropriately to unanticipated changes in market variables.

Cash Management

2.17 **CAP's management of receivables deteriorated in a context of lower collections from Noble from deliveries made under the sales agreement although its management of payables improved**. Consequent on an 84.8 per cent increase in accounts receivable in FY2014/15, the receivable turnover ratio increased to 115.5 up from 42.3 in FY2013/14; however, relative to a turnover ratio of 16.5 in FY2012/13, the ratio rose marginally to 17.3 in FY2016/17. The accounts receivable turnover ratio refers to the number of times per year that a business collects its accounts receivables. CAP's accounts receivables grew by 163.5 per cent to US$16.6 million in FY2016/17 from US$6.3 million in FY2012/13 **(Chart 5)**. Of note, US$11.2 million or 67.5 per cent of outstanding receivables at end FY2016/17 was due from Noble. Similar to the increase in receivables in FY2016/17, there was also an increase in the average time to collect outstanding amounts from debtors moving to 41 days in FY2016/17 from 19 days in FY2012/13.

Chart 5: Accounts Receivables Turnover - FY2012/13 to FY2016/17



Source: Analysis of CAP's Financial Statements

2.18 **CAP's accounts payable turnover improved to 3.1 in FY2016/17, from 1.3 in FY2012/13, indicating that CAP was paying off its short-term debt at a faster rate**. The accounts payable turnover ratio measures the rate at which a company is able to pay off its creditors. While CAP's accounts payables turnover ratio for FY2016/17 improved relative to FY2015/16, the ratio showed a decline when compared to FY2014/15. There was a significant improvement in FY2014/15, which was facilitated by payment to creditors using funds from the US$120 million loan facility. Despite the lower cost for heavy fuel oil, which resulted in an improvement in trade payables, CAP experienced an increase in other payables in FY2015/16, which resulted in a worsening of the payables turnover ratio relative to the previous year. A further decline in total payables in FY2016/17 reflected the combined effect of declines in trade payables, balances owed to Noble, as well as accruals in a context where other payables rose by 85.2 percent (**Table 6)**.

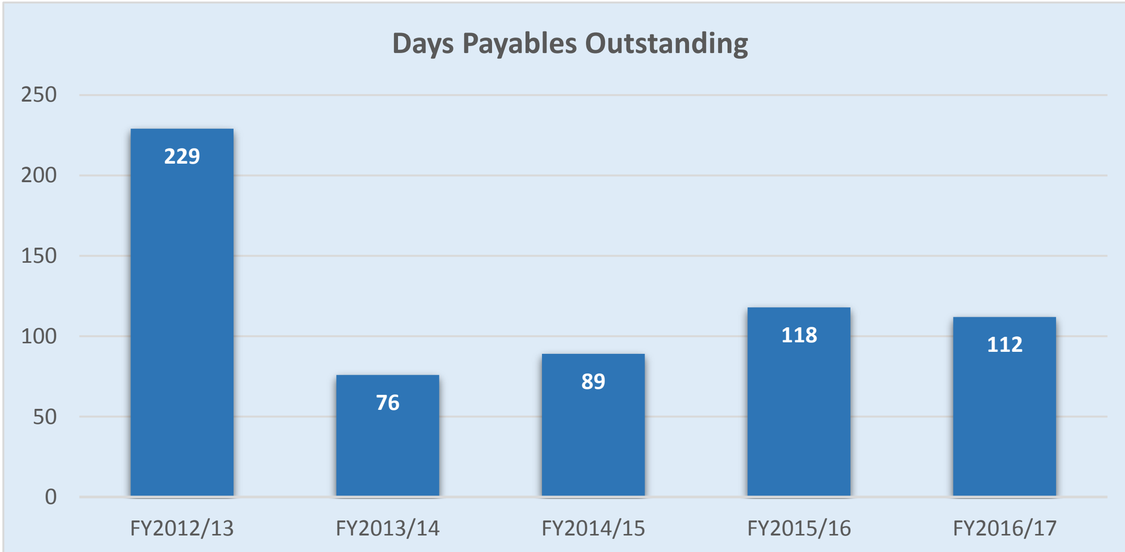
Table 6: Total Payables - FY2012/13 to FY2016/17

Financial Year (US$'000)	FY2016/17	FY2015/16	FY2014/15	FY2013/14	FY2012/13
Trade Payables	6,574	6,638	34,306	34,789	41,732
Due to Noble	-	19,782	12,325	3,410	58,876
Accruals	2,585	4,080	6,508	3,345	11,159
Other	33,312	17,993	3,858	2,139	3,368
Total Payables	**42,471**	**48,493**	**56,997**	**43,683**	**115,135**

Source: CAP's Financial Statements

2.19 CAP reduced days payables outstanding for FY2016/17 to 112 days from 229 days in FY2012/13. The reduction would have also stemmed from payments to creditors using the US$120 million loan facility. The days payables outstanding ratio measures the average number of days that an entity takes to pay its trade creditors. For FY2016/17, CAP paid creditors on average, 6 days faster relative to 118 days on average in FY2015/16 (**Chart 6)**. Despite the reduction in days payables, the number of days to pay creditors remained in excess of the 90 days allowed under the joint venture agreement.

Chart 6: Payables Days - FY2012/13 to FY2016/17



Source: Analysis of CAP's Financial Statements

Appendix 1

Activity Ratios

Working Capital Turnover ratio – refers to the ratio of sales to working capital (current assets less current liabilities). This measures the company's efficiency in its use of working capital.

$$Formula = \frac{Sales}{Working\ Capital}$$

Receivable Turnover ratio - refers to the ratio that measures the rate at which a company collects its accounts receivables.

$$Formula = \frac{Credit\ Sales}{Average\ Accounts\ Receivables}$$

Payables Turnover ratio - refers to the ratio that measures the rate at which a company is able to pay off its suppliers for goods.

$$Formula = \frac{Total\ Purchases}{Average\ Accounts\ Payables}$$

Inventory Turnover ratio - refers to the ratio that measures the rate at which a company sells its inventory.

$$Formula = \frac{Cost\ of\ Goods\ Sold}{Average\ Inventory}$$

Liquidity Ratios

Cash Ratio – refers to the ratio of cash and cash equivalents to current liabilities and measures an entity's ability to pay off its current liabilities with only cash and cash equivalents.

$$Formula = \frac{Cash + Cash\ equivalents}{Current\ Liabilities}$$

Current Ratio - refers to the ratio of current assets to current liabilities and indicates an entity's ability to meet current liabilities with its current assets.

$$Formula = \frac{Current\ Assets}{Current\ Liabilities}$$

Debt and Solvency Ratios

Debt-to-Assets (Debt Ratio) – refers to the ratio of an entity's debt to total assets and measures the proportion of assets that are financed with debt.

$$Formula = \frac{Total\ Liabilities}{Total\ Assets}$$

Debt-to-Equity – refers to the ratio of an entity's debt to total equity and indicates the relative use of debt and equity as sources of capital to finance the entity's assets.

$$Formula = \frac{Total\ Liabilities}{Total\ Equity}$$

Times Interest Earned/Interest Cover – this ratio compares the earnings available to meet interest obligations with the interest obligation.

$$Formula = \frac{Earnings\ before\ Interest\ \&\ Taxes\ (EBIT)}{Interest\ Expense} = \frac{Net\ Income + Interest\ Expense + Taxes}{Interest\ Expense}$$

Profitability Ratios

Net Profit Margin – refers to the ratio of an entity's net income to sales and measures how much of each dollar of sales is left over after all expenses.

$$Formula = \frac{Net\ Income}{Sales}$$

Rate of Return on Assets – refers to the ratio of net income to total assets. This indicates the amount earned on each dollar of assets.

$$Formula = \frac{Net\ Income}{Total\ Assets}$$

Appendix 2

Criteria for Financial Standards - FAA Act (amended) 2015, Regulations

	Selected Criteria for Public Entities not forming part of the specified public sector	**Met/ Not Met**
1.	The auditor of the public body has expressed an unqualified opinion on the financial statements of the public body, including an opinion that the accounts comply with the International Financial Reporting Standards (IFRS).	Met
2.	Annual reports, including audited financial statements of the public body have been submitted in accordance with section 3(2) of the *Public Bodies Management and Accountability Act.*	Met
3.	The public body has, on average over the three preceding financial years, recorded a positive net profit after tax, on a stand-alone basis or, if applicable, on a consolidated basis.	Not Met
4.	At least one of the following provisions apply in respect of a public body -	
	a) The average long term debt to equity ratio of the public body (on a stand-alone basis, or, if applicable, on a consolidated basis) over the three preceding financial years is no more than 2.5, where long term debt means debt that is due over a period that is longer than one year,	Not Met
	b) The positive working capital and current ratio of the public body (on a stand-alone basis, or if applicable, on a consolidated basis) is at least 1.2, where current ratio means current assets divided by current liabilities.	Not Met