

## Case Mota-Engil<sup>1</sup>

### Introductory Note<sup>2</sup>

Mota-Engil Group is a leader in the private and public construction sector in Portugal. The company operates in the following business areas:

- Engineering and Construction: Infrastructures, Civil Construction, Real Estate and Other Business Areas
- Environment and Services: Waste Management and Multiservices (maintenance and landscape architecture)
- Energy: Production
- Transport Concessions: Highways, Motorways, Bridges, Railways and Underground
- Mining: Prospecting, Extracting and Exploration

Mota-Engil is present in 28 countries and 3 continents. It concentrates its operations in three geographic poles – Europe, Africa and Latin America. The Group is focused on innovation and on being competitive on a global scale.

Mota-Engil is listed on the Euronext Lisbon being part of PSI20 index. The company's main shareholder is the Mota Family, with a stake of 63% held through FM – Sociedade de Controlo. The remaining 37% is free float. Since the company's shares are listed in a stock exchange of a European Union member state it is required by law to prepare its consolidated financial statements according to the International Financial Reporting Standards (IFRS) as adopted by the European Union at the end of the reporting period.

### **PART 1 – Statement of Financial Position (or Balance Sheet)**

Mota-Engil Group's Statement of Financial Position (or Balance Sheet) represents the company's financial position at the end of each reporting period. The entity's Statement of Financial Position at the end of 2016, and the comparative information regarding 2015, is presented below.

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<sup>1</sup> The following case is adapted from the book Fundamentos de Contabilidade Financeira – Teoria e Casos – Edições Sílabo, 1ª Edição, coordinated by Profs. Ana Morais (ISEG), Isabel Lourenço and Ana Isabel Lopes (available only in Portuguese).

<sup>2</sup> Information provided by Mota-Engil on May, 2017

This information was taken from MOTA-ENGIL GROUP's Consolidated Report & Accounts 2016

Statement of Consolidated Financial Position  
on December 31, 2016 and 2015

	Notes	2016	2015
<b>€ '000</b>			
<b>Assets</b>			
<b>Non-Current</b>			
Goodwill	16	39,830	40,891
Intangible assets	17	541,638	593,819
Tangible assets	18	692,858	782,116
Financial investments in associates and jointly controlled companies	19	122,369	34,338
Available for sale and held to maturity financial assets	20	131,568	93,260
Investment properties	21	75,789	82,037
Customers and other debtors	23	64,384	85,466
Other non-current assets		726	1,812
Derivative financial instruments	26		166
Deferred tax assets	14	135,735	137,672
		<b>1,804,896</b>	<b>1,851,576</b>
<b>Current</b>			
Inventories	22	304,960	284,439
Customers	23	775,115	939,389
Other debtors	23	206,391	284,975
Corporate income tax	23	19,875	16,033
Other current assets	23	426,961	525,898
Derivative financial instruments	26		9,183
Cash and cash equivalents with recourse – term deposits	23	13,122	62,391
Cash and cash equivalents without recourse – demand deposits	23	86,754	102,946
Cash and cash equivalents with recourse	23	296,183	278,559
		<b>2,129,362</b>	<b>2,503,814</b>
Non-current assets held for sale	36	<b>286,446</b>	<b>687,237</b>
<b>Total Assets</b>		<b>4,220,704</b>	<b>5,042,627</b>
<b>Liabilities</b>			
<b>Non-Current</b>			
Loans without recourse	25	155,875	203,128
Loans with recourse	25	837,398	698,582
Suppliers and sundry creditors	27	168,289	135,734
Derivative financial instruments	26	759	188
Provisions	28	102,085	123,201
Other non-current liabilities	29	177,838	256,460
Deferred tax liabilities	14	128,765	141,029
		<b>1,571,009</b>	<b>1,558,322</b>
<b>Current</b>			
Loans without recourse	25	31,590	40,534
Loans with recourse	25	616,385	984,914
Suppliers	27	419,408	436,839
Sundry creditors	27	514,909	627,168
Derivative financial instruments	26	6	
Corporate income tax	28	11,783	12,514
Other current liabilities	29	427,320	546,360
		<b>2,021,402</b>	<b>2,648,329</b>
Non-current liabilities held for sale	36	<b>57,703</b>	<b>107,396</b>
<b>Total Liabilities</b>		<b>3,650,114</b>	<b>4,314,048</b>
<b>Shareholder's equity</b>			
Share capital	24	237,505	237,505
Own shares	24	(5,788)	(3,084)
Reserves, retained earnings and share premiums	24	47,825	116,630
Consolidated net profit for the year		50,157	18,128
<b>Own funds attributable to the Group</b>		<b>329,700</b>	<b>369,179</b>
Non-controlling interests	3 and 33	240,891	270,505
Non-controlling interests associated with non-current assets/liabilities held for sale	3 and 33		88,895
<b>Total shareholders' equity</b>		<b>570,590</b>	<b>728,579</b>
<b>Total shareholders' equity &amp; liabilities</b>		<b>4,220,704</b>	<b>5,042,627</b>

## Questions

### 1. *The Balance Sheet's structure and the reported information*

- a) Identify Mota-Engil's most significant categories of current assets, non-current assets, current liabilities, and non-current liabilities, at the end of 2016. Define and give examples of each one.
- b) Suppose that, at the end of 2016, Mota-Engil's Balance Sheet contained the following items. Classify them as current assets, non-current assets, current liabilities and non-current liabilities.

<b>Assets and Liabilities</b>
Equipment to be used in construction works
Patents
Loans to be paid in 2018
Materials to be used in construction works
Office equipment (furniture)
Container terminal concession
Building rent to another company
Guard Dogs
Loans to be paid in 2017
Navigation equipment
Hotel rent to a hospitality business
Debt securities held for trading
Money deposited in a bank account
Telecommunications system
Debts to be paid to suppliers
Investment in a transportation firm (with significant influence)
Shipping containers for transporting merchandise
Software used in project management
Debts to be received from clients
Construction work warehouse
Corporate income tax to be paid to the state

- c) For each of the items listed above, classify each asset or liability according to the description used by Mota-Engil in its Balance Sheet (e.g. intangible asset, tangible asset, ...).

2. *The effect of transactions in the Balance Sheet*

- a) Consider a scenario where the following transactions occur in 2017. Identify the effect of each transaction in Mota-Engil's Balance Sheet (the amounts are expressed in thousands of euros).

Transactions
A 25,000 loan was obtained to invest in a new construction project (dam), payable in five annual installments of 5,000 each.
Acquisition of equipment needed for the dam construction project, with an immediate payment of 3,000.
The company increased its share capital by 60,000. The funds were immediately received in cash.
Acquisition of a logistics company in Angola, with an immediate payment of 7,000, in which the company obtained a significant influence.
Purchase of construction materials in the amount of 2,000, payable in one year.
Distribution of part of the net income of year 2016 in the amount of 15,000.

- b) Imagine a scenario where, in January 2017, you partner with Mota-Engil to set up a company, named High-Mat, dedicated to the sale of construction materials. Consider that, in the first semester of 2017, the above transactions occur and show how the new entity's Balance Sheet changes with the successive occurrence of each transaction (the amounts are expressed in thousands of euros).

Transactions
High-Mat was established with a share capital of 10,000, fully paid-up in cash.
Purchase of a warehouse and a store, with an immediate payment of 5,000.
A 4,500 bank loan was obtained, payable in three annual installments of 1,500 each. The first payment is due in 2018.
Purchase of transport equipment for 1,500, payable in two annual installments of 750 each, in 2016 and 2017.
Purchase of logistics software, with an immediate payment of 600.
Purchase of construction materials to be sold to customers in the amount of 700. The payment will take place in 2018.

## PART 2 – Income Statement

Mota-Engil Group's Income Statement represents the company's financial performance at each reporting period. The company's Income Statement of year 2016, and the comparative information regarding 2015, is presented below.

This information was taken from MOTA-ENGIL GROUP'S Consolidated Report & Accounts 2016

### Consolidated Income Statement for the years ended December 31, 2016 and 2015

	Notes	2016	2015 Restated
<b>€ '000</b>			
Sales and services rendered	4	2,210,081	2,433,640
Other revenues			
Cost of goods sold, mat. cons., changes in production, and subcontractors	5	(831,844)	(1,029,455)
Third-party supplies and services	6	(545,918)	(527,941)
Wages and salaries	7	(524,292)	(506,268)
Other operating income / (expenses)	8	29,919	(3,130)
Amortizations	9, 17, 18	(190,623)	(153,754)
Provisions and impairment losses	10	(66,460)	(47,226)
Financial income and gains	11	26,961	70,294
Financial costs and losses	11	(129,578)	(160,761)
Gains / (losses) in associates and jointly controlled companies	12	(2,130)	67,123
Gains / (losses) on the disposal of subsidiaries, associates and jointly controlled companies	13	100,771	(44,729)
<b>Income before taxes</b>	14	<b>76,886</b>	<b>97,793</b>
Income tax	14	(9,379)	(45,662)
<b>Consolidated net profit of the year</b>		<b>67,507</b>	<b>52,131</b>
Attributable:			
to non-controlling interests	3 and 33	17,350	34,003
<b>to the Group</b>	15	<b>50,157</b>	<b>18,128</b>
Earnings per share:			
basic	15	0.21	0.09
diluted	15	0.21	0.09

To be read with the Notes to the Consolidated Financial Statements

## Questions

### 3. The Income Statement's structure and the reported information

- Identify Mota-Engil's most significant type of revenue. Give some examples of that type of revenue.
- Identify the Mota-Engil's three most significant types of expenses? Give some examples of those types of expenses.
- What distinguishes net profit from income before taxes?

- d) In 2016, Mota-Engil's revenues were higher than its expenses. Based on the previous information, is it correct to assume that receipts were also higher than payments? Justify.
- e) How did Mota-Engil's turnover (sales and services rendered) change from 2015 to 2016?
- f) How did Mota-Engil's net income (net profit) change from 2015 to 2016?
- g) Despite a slight decrease in Sales and services rendered and a more pronounced reduction in income before taxes, net profit increased. What could be a possible explanation for this situation?

4. *The effect of transactions in the Income Statement*

- a) Comment on the following statement: "whenever we record an increase in a revenue account, total equity increases".
- b) Comment on the following statement: "an increase in an expense account is balanced either by an increase in a liabilities account or a decrease in an asset account".

**PART 3 – Statement of Cash Flows**

Mota-Engil Group's Statement of Cash Flows (or Cash Flow Statement) represents the company's inflows and outflows of cash (cash and cash equivalents) during each reporting period. The company's Cash Flow Statement of year 2016, and the comparative information regarding 2015, may be found below.

This information was taken from MOTA-ENGLI GROUP's Consolidated Report & Accounts 2016

**Statement of Consolidated Cash Flows  
for the years ended December 31, 2016 and 2015**

	Notes	2016	2015
<b>€ '000</b>			
<b>OPERATING ACTIVITY</b>			
Cash receipts from customers		2,352,791	2,617,344
Cash paid to suppliers		(1,545,966)	(1,838,199)
Cash paid to employees		(506,058)	(507,364)
<b>Cash generated from operating activities</b>		<b>300,768</b>	<b>271,781</b>
Income tax (paid)/received		(23,676)	(26,628)
Other receipts/(payments) generated by operating activities		4,517	4,277
<b>Net cash from operating activities(1)</b>		<b>281,609</b>	<b>249,431</b>
<b>INVESTING ACTIVITY</b>			
<b>Cash receipts from:</b>			
Financial assets	35	307,283	72,340
Tangible assets		5,547	18,855
Interest and similar income		16,177	6,964
Dividends		406	2,474
		<b>329,412</b>	<b>100,634</b>
<b>Cash paid in respect of:</b>			
Financial assets	35	(84,461)	(219,234)
Other treasury applications		(13,122)	
Intangible assets		(14,115)	(12,767)
Tangible assets		(58,704)	(152,514)
		<b>(170,402)</b>	<b>(384,515)</b>
<b>Net cash from investing activities(2)</b>		<b>159,010</b>	<b>(283,881)</b>
<b>FINANCING ACTIVITY</b>			
<b>Cash receipts from:</b>			
Loans obtained		138,189	317,322
Grants and donations		3,373	5,127
		<b>141,561</b>	<b>322,449</b>
<b>Cash paid in respect of:</b>			
Loans obtained		(424,098)	(72,284)
Amortization of finance lease contracts		(55,703)	(64,799)
Interest & similar expense		(119,720)	(107,994)
Dividends	35	(23,505)	(38,119)
Acquisition of own shares		(2,704)	(3,084)
		<b>(625,729)</b>	<b>(286,281)</b>
<b>Net cash from financing activities(3)</b>		<b>(484,168)</b>	<b>36,167</b>
Variation of cash & cash equivalents (4)=(1)+(2)+(3)		(43,549)	1,717
Variations due to changes in the consolidation perimeter		(391)	44,766
Exchange rate effect		(17,020)	6,807
Cash & cash equivalents at the beginning of the year		443,896	390,606
Cash & cash equivalents at the end of the year	23	<b>382,937</b>	<b>443,896</b>

To be read with the Notes to the Consolidated Financial Statements

Excerpt from Note 23: "As at December 31, 2016, there were 13,122 thousand Euros recorded under the heading "Cash and cash equivalents" not immediately available, since they are being used as a guarantee or being blocked, pursuant to contracts assumed with financial institutions".

## Questions

### 5. *The Cash Flow Statement's structure and the reported information*

- a) Identify the item that contributes more to the variation of cash and cash equivalents in 2016.
- b) Comment on the change of cash flows from operating, investing and financing activities from 2015 to 2016.
- c) In 2016, does the amount of cash and cash equivalents on the Balance Sheet have to be identical to the amount of cash and cash equivalents at the end of the year shown in the Cash Flow Statement?
- d) Identify the method used by Mota-Engil to present cash flows from operating activities. Could the company have used a different method?
- e) Comment on the following statement: "Mota-Engil's consolidated net profit was 67,507 thousands of euros in 2016, therefore it is clear that the variation of cash and cash equivalents of the year was positive".
- f) Comment on the following statement: "Mota-Engil's cash flow paid in respect of tangible assets in 2016 reflects the amount of investment the company made in tangible assets in 2016".

### 6. *The effect of transactions in the Cash Flow Statement*

Regarding 2017, suppose that the following transactions that occurred (the amounts are expressed in thousands of euros):



Transactions
Early in 2017, the company purchased tangible assets in the amount of 100,000. Only, 10% of the amount was paid for in cash. The company obtained a bank loan for the remainder, payable in three years.
In 2017, the company recognized a depreciation of 5,000 in relation to the purchase mentioned above.
In 2017, the company paid 2,000 in loan interests in relation to the purchase mentioned above.
In 2017, the company rendered services in the amount of 900,000. Only 30% was received in 2017.
In 2017, the company received from its customers 500,000. This amount was recognized as a receivable in 2016.

Explain the impact of each transaction in Mota-Engil's Cash Flow Statement.