# GLOSSARY OF FINANCIAL TERMS

in support of trainings for the IAEA tool FINPLAN

**Assets** is a resource with economic value that an individual, corporation or country owns or controls with the expectation that it will provide future benefit. For example, a power plant, cash, shares or patents can be assets.

**Balance sheet** is a financial statement that summarizes: a company's assets; liabilities; and shareholders' equity at a specific point in time (typically on the last day of the financial year). It gives investors an idea what the company owns and owes, as well as the amount invested.

**Bond** is a debt/loan. Bonds are issued by an entity (typically corporations or the government), which borrows the funds at a variable or fixed interest rate for a defined period of time until its maturity date. Unlike a commercial loan with its yearly repayments of the principal, a bond is only repaid at its maturity date. Once issued, many bonds are traded on exchanges. Any investor can buy a bond. Thus, for example, through a government bond a private person can lend money to the government.

**BOO (Build-Own-Operate)** or **BOOT (Build-Own-Operate-Transfer)** is a form of project financing, where an entity is granted the right by the government to build, own and operate a facility for a specified period, during which the entity retains the revenues and associated risks. In a BOOT structure the facility is transferred to the government at the end of the agreed period.

**Break-even analysis** calculates a margin of safety, i.e., the amount that revenues can fall while still staying above the break-even point. The break-even point refers to the point at which revenues received equal the costs associated with receiving the revenues.

**Capital expenditure**, or CAPEX, are expenses by a company to acquire, upgrade, and maintain physical assets such as property, industrial buildings, or equipment. CAPEX need to be capitalised.

**Capitalise** refers to recording an expense on the balance sheet for writing off (depreciating) the asset over its life.

**Cash inflows and outflows** / **Cash flow statement** is a financial statement that provides an aggregated overview of all cash inflows and outflows of a business from its ongoing operations, investments and financing activities during a given accounting period (typically a financial year).

**Cash flow available for debt service (CFADS)** measures the amount of cash a company has on hand to repay its debt obligations due within one year. It is basically calculated as the revenues minus capital and operating expenditures and minus tax payments.

**Consumer contribution** refers to a financial contribution to the asset (i.e., the project) by consumers (e.g., industrial players), e.g., for preferential treatment regarding electricity sales.

**Consumer deposit** is a deposit paid by consumers, e.g., for receiving the meter.

**Corporate financing** or **balance sheet financing**. As opposed to -> *project financing*, under the corporate model the investment is undertaken by a public or private corporation with full -> *recourse*.

**Cost of capital** includes the cost of debt and equity, see -> *weighted average cost of capital (WACC)*

**Current assets** can be turned into cash within one year.

**Current liabilities** are debts or obligations that are due within one year.

**Current maturity** is an interval between the present date and the maturity date of a bond, i.e., the date when the bond needs to be repaid.

**Debt** (or loan) is an amount of money owed by one party (the debtor or borrower) to another one (the creditor or lender).

**Debt service cover ratio (DSCR)** is a liquidity ratio. It refers to the ability of a project to generate sufficient cashflow over a given period to service the full debt requirements in that period (e.g. payment of interest plus repayment of the principal) after operating expenses and taxes have been paid.

**Debt to equity (DER) ratio.** The relationship between a company's debt and the equity, obtained by dividing the debt by the shareholders' equity.

**Depreciation** is an accounting method of allocating the cost of assets over their useful life. Businesses depreciate assets for both tax and accounting purposes.

**Discounted cash flow (DCF)** is a valuation method used to estimate the attractiveness of an investment opportunity by analysing future cash flows and discounts them to a present value.

**Discounting** is the process of determining the present value of a (stream of) future payment(s). Given the time value of money, a dollar is worth more today than it would be worth tomorrow.

**Discount rate** is the interest rate applied for discounting, usually equal to the -> *cost of capital.*

**Dividend** is a payment made by a corporation to its shareholders, usually as a distribution of profits.

**EBITDA (Earnings before interest, tax, depreciation and amortisation)** is essentially net income with interest, taxes, depreciation and amortization added back to it. EBITDA can be used to compare the profitability among companies and industries as it eliminates the effects of financing and accounting.

**Equity** is the degree of ownership, after debt is subtracted from the total value of the asset (e.g., the power plant). Shareholders invest equity into a project.

**Exchange rate** is the rate at which one currency will be exchanged for another.

**Exchange rate risk**, also currency risk, is the financial risk due to the changes in currency exchange rates, e.g., because the income is in the local, but the loan in a foreign currency.

**Expenditures (expenses)** consist of the economic costs a business incurs through its operations to earn revenue (-> *capital expenditures*).

**Export credit agency (ECA)** is a private or quasi-governmental institution that acts as an intermediary between national governments and exporters to issue export financing (credits, credit insurances and guarantees).

**Fixed assets**, or **capital assets**, are physical assets that cannot easily be converted to cash, also known as property, plant, and equipment (PP&E).

**Fixed income** refers to any type of investment under which the borrower or issuer is obliged to make payments of a fixed amount on a fixed schedule.

**Future value (FV)** is the value of invested money at a specific future date, assuming a certain interest rate, or more generally, rate of return.

**Gross fixed assets** refers to the total price that was originally paid for all fixed assets, without taking a decrease in value (e.g., through depreciation) into account.

**Income** refers to the net profit that remains from the revenues after all expenses have been accounted for.

**Independent power producer** (IPP) is an entity which is not a public utility, but which owns facilities to generate electric power for sale to utilities and end users. Introduction of IPPs to the market is the initial stage of market liberalisation (after disintegration of vertically integrated utilities).

**Income statement (profit & loss statement)** is a financial statement that reports a company's performance over a specific accounting period (typically a financial year) by giving a summary of how revenues and expenses were incurred through both operating and non-operating (e.g. investing and financing) activities. Unlike the cash flow statement, it lists depreciation and serves as the basis for income tax calculations.

**Inflation** refers to the change in purchasing power of a currency over time.

**Interest rate** is the rate paid by a borrower for borrowing money from a lender.

**Internal rate of return (IRR)** is the discount rate at which the net present value of all (e.g. positive and negative) cashflows from a particular investment or project equals zero.

**Investors** take a stake in a business. They are not entitled to a guaranteed return on the investment, and suffers a loss if the business incurs a loss in its operations.

**LCOE** or the **Levelised Cost of Electricity** represents the average revenue per unit of energy production that would be required by a project owner to recover all investment and operating costs.

**Lender** refers to a financial institution that makes funds available to another with the expectation that the funds will be repaid, in addition to any interest and/or fees.

**Leverage** refers to using borrowed capital for an investment, but also to the ratio of debt to equity.

**Liability** is a company's financial debt or obligations that arise during the course of its business operations and are reflected in the balance sheet.

**Liquidity** refers to the ability to satisfy immediate debt or obligations that are due within one year.

**Loan** see debt.

**Maturity** is the date on which the life of a transaction ends, after which it must either be renewed or it will cease to exist.

**Net present value (NPV)** is the difference between the present value of cash inflows and the present value of cash outflows over a period of time. NPV is used to analyze the profitability of an investment.

**Operating account** see income statement.

**Preferred share** is a share which entitles the holder to a fixed dividend and whose payment takes priority over that of ordinary share dividends. It combines features of debt (paying a fixed dividend) and equity.

**Profit & loss statement** see income statement.

**Project financing** is a structure where debt and equity are paid back only from the project's cash flow. Unlike for -> *corporate financing*, lenders have -> *recourse* only to the revenues and assets of the project itself and not to any other revenues and assets of the owner. It is thus off-balance-sheet financing, as assets and liabilities don't appear on the company's balance sheet. It has been widely used in the oil and gas sector.

**Present value (PV)** is the current value of a future stream of cash flows, discounted at the discount rate.

**Principal** refers to the original sum of money borrowed in a loan, or put into an investment.

**Receivables** are debts owed to a company for goods or services that have been delivered or used but not yet paid for. In FINPLAN, this refers to VAT that was paid and will be recovered once the plant goes into operation.

**Recourse** allows a lender to seize a debtor's assets if he defaults on his debt, including assets other than the financed project. **Non-recourse** finance is a loan where the lender is only entitled to repayment from the profits of the project the loan is funding, not from any other assets.

**Revenue (gross income**) refers to the amount of money received by a company during a given period.

**Retained earnings** refer to cumulative net earnings not paid out as dividends, but retained by the company to be reinvested in its core business, or to pay debt. If negative, retained earnings refer to a deficit.

**Return on equity (ROE)** is the amount of net income (sales less expenses, including interest, depreciation and taxes) divided by the total equity (excluding preferred shares). Return on equity measures a corporation's profitability.

**Return on revenue (ROR)** is a measure of company profitability that is calculated by dividing net income by revenue.

**Revenue** is simply the total amount of income (cash generated by) from the sale of products or services associated with the company's primary operations, less any returns or discounts.

**Royalty** is a payment to an owner for the use of property, especially patents, copyrighted works, franchises or natural resources (e.g., hydropower royalties for the right to use water resources).

**Sensitivity analysis** is used to determine how different values of an independent variable impact a particular dependent variable under a given set of assumptions.

**Shareholder** or **stockholder** is any person, company, or institution that owns a share of a company. Shareholders are the owners of a company, but are not personally liable for any financial obligations.

**Short term deposit** is money deposited in a bank or financial institution for no longer than one year.

**Solvency** refers to the ability to pay financial obligation in the long-term.

**Special purpose vehicle (SPV)** is a subsidiary company established for a temporary project, used for -> *project financing*.

**Standby credit facility** or **standby line of credit** refers to money that can be borrowed in case the borrower needs it at short notice and for a short time period.

**Weighted average cost of capital (WACC)** refers to a company's -> *cost of capital*, or the rate a company is expected to pay on average to finance an investment, including both debt and equity.

**Working capital** is a measure of both a company's efficiency and its short-term viability. It is the difference between -> *current assets* and -> *current liabilities*.

**Work in progress** refers to the value of products that are only partly completed. It refers to raw materials, labor and overhead costs incurred for products that are at various stages of the production process.