

1

C Match these sentence halves.

- | | |
|---|---|
| 1 The fact that some politicians hold shares in big companies | a) but he was never found guilty of fraud. |
| 2 Some vitamins that athletes used to take | b) for her fairness and absolute integrity. |
| 3 His past may not be completely clean | c) have been involved in major cover-ups. |
| 4 Many countries would probably become less corrupt if big businesses | d) have now become illegal. |
| 5 Everybody praises our director | e) raises interesting ethical questions. |
| 6 Most weapons-exporting countries | f) stopped offering bribes. |

Language review

A Past simple, past continuous or past perfect? Fill in the gaps with the correct form of the verbs in brackets.

Sharon Embley started ¹ (start) working as Deputy Marketing Manager for Fleur de Lys Cosmetics three years ago. It was the kind of job she ² (always / want). Competition for the post ³ (be) really tough, and she knew she ⁴ (be) selected because of her experience in marketing, which she ⁵ (gain) in her previous job with a pharmaceuticals company.

Sharon ⁶ (be) young and ambitious. She was also a person of absolute moral integrity. In fact, she ⁷ (apply) for this post with Fleur de Lys mainly because the company ⁸ (pride) itself on its ethical business practices. Its image was built on natural ingredients, environment-friendly packaging, and a ban on animal testing. This image ⁹ (reflect) the values which Sharon ¹⁰ (always / cherish).

Things ¹¹ (go) really well, until one day a file ¹² (land) on her desk. She ¹³ (not / know) the file was not meant for her, or that it ¹⁴ (contain) confidential information. She ¹⁵ (read) it all, and ¹⁶ (discover) to her amazement that Fleur de Lys was not as 'clean' as it claimed to be. It ¹⁷ (be) true that they did not test their products on animals, but only because they did not need to: other laboratories ¹⁸ (already / test) the ingredients on animals!

Ironically, the day before she ¹⁹ (read) the report, the director ²⁰ (call) her to her office. She ²¹ (inform) Sharon that she ²² (plan) to promote her very soon as the current Marketing Manager was due to retire.

Sharon ²³ (not / experience) such confusion for a long time. What should she do? If she ²⁴ (blow) the whistle, she would not get promoted and might even be dismissed. And if she ²⁵ (keep) silent ...

2

- 1 money owed by one person or organisation to another person or organisation
 - 2 a period of time when business activity decreases because the economy is doing badly
 - 3 difference between the selling price of a product and the cost of producing it
 - 4 a place where company shares are bought and sold
 - 5 money which people or organisations put into a business to make a profit
 - 6 equal parts into which the capital or ownership of a company is divided
- a) gross margin
 - b) recession
 - c) shares
 - d) debt
 - e) stock market
 - f) investment

B Match the sentence halves.

- 1 Earnings per share are
 - 2 A forecast is
 - 3 Bankruptcy is
 - 4 A dividend is
 - 5 Pre-tax profits are
 - 6 Revenues are
- a) a part of the profits of a company paid to the owners of shares.
 - b) a company's profits divided by the number of its shares.
 - c) a description of what is likely to happen in the future.
 - d) money which businesses receive from selling goods or services.
 - e) when a person or organisation is unable to pay their debts.
 - f) the money a business makes before payment to the government.

C Complete this report with the terms from Exercises A and B.

In our home markets it has been another excellent year. *Pre-tax profits* ¹ are up by £23 million, and the ² for the next quarter is equally good. Profits from abroad are down because of a ³ in Japan. However, our performance overall has been good, and the ⁴ have increased to 26.4p and the ⁵ will be increased to 4.3p per share, which will please our shareholders*.

We plan to issue new ⁶ in order to finance expansion in Asia. We also plan to increase our ⁷ in plant and equipment before entering the Chinese market. We are particularly pleased with our performance in France and Germany where ⁸ have increased. As a result of using a new distributor, our costs fell giving us a ⁹ of 40 percent on our main product line. We will use any extra cash to reduce the level of our ¹⁰.

Our performance in Italy should improve significantly following the ¹¹ of our biggest competitor. However, we should not become too satisfied with our share price as economic conditions remain uncertain and the ¹² will continue to reflect this. Share prices will not rise in the short term.

*Shareholders: the people who own shares in a business

g of people.

the value of nothing;
rality and business so

⇒ In the description of temporal events and the expression of causal relationships, the journalist's judgement emerges through the use of auxiliary verbs, with past reference and past **modal forms**. In Text 4b the journalist concludes that *15 years ago Enron could not have happened*, and explains in the article *how Enron could have happened*.

⇒ In line with much journalism, the style is colloquial and direct, making use of expressions and idioms, commonly used also in ordinary, spoken language. The headlines of all three articles reveal typical features regarding syntactic form, lexical choice, and cultural reference. This discourse area is described in detail in Appendix III.

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Text 4a

FALL OF THE ARROGANT

by Madeleine Bunting

Enron's demise has discredited a vicious market ideology and given a boost to the anti-corporate cause.

It's hard to overstate the enormity of the impact of Enron's implosion. The biggest corporate collapse in US history has dragged politicians, banks, accounting firms, other corporations, pension funds, investment analysts, the reputations of business experts into an astonishing vortex where they risk losing billions of dollars and some of the most trusted reputations in corporate America.

The vision of a Darwinian dog-eat-dog market, which could be applied to everything from gas supplies and fibre-optic capability to hedging against the weather, drove Enron's political campaign for privatization and deregulation. It's pitch rested on a near fundamentalist faith in the self-regulating efficiency of the market;

true believers claimed that there were simply no limits to its application.

Most intriguingly, Enron fooled the vast majority of its employees. It boasted of hiring the brightest MBAs in America and generated a corporate culture which was intensely competitive. A turbo-charged workaholicism left no room for dissent or doubt. One former executive likened Enron to the Taliban. The most astonishing piece of the puzzle is why Enron 'activists' were believed by everyone even when their balance sheet was no longer understood. In part, it was presumably greed as the share price soared 1,700% in 16 years.

The anti-corporate movement's struggle to assert that the world is not for sale – and certainly not to the casino-gambler types of

TEXT 4

Enron – has had a massive shot in the arm from Enron's demise. With any luck, Enron has finished off a pernicious ideology that markets with minimum regulation are an effective way to organize and deliver the public interest. Instead we have witnessed how market

capitalism can throw up an astonishing charade of greed, ambition, stupidity of even the cleverest, and irrationality.

Source: *The Guardian*, January 28, 2002:
www.guardian.co.uk

Text 4b

WHEN GREED IS FACT AND CONTROL IS FICTION

by Frank Partnoy

Enron's spectacular collapse was not an isolated financial disaster. It was symptomatic of a new culture of concealment in business and a reckless disregard for risk.

When Enron collapsed, after a decade of persistently rising markets and the longest-lived bull market since the second world war, most investors were perplexed. The conventional wisdom was that markets would remain under control, that the few bad apples would be punished and that the financial system overall was not under any serious threat. The conventional wisdom is wrong. Any appearance of control in today's financial markets is only an illusion. The relatively simple markets that financial economists had praised during the 90s as efficient and self-correcting have radically changed.

There have been three major changes in the past 15 years. First financial instruments became increasingly complex and were used to manipulate earnings and avoid regulation. Second, control and ownership of companies moved apart as even sophisticated investors could not monitor senior managers. Third, markets were deregulated.

These changes spread through financial markets like a virus.

In earlier periods, the financial watchdogs made investors feel secure about financial fraud. Yet highly-paid investment bankers were technologically primitive, without e-mail or internet. They used calculators instead of computer spreadsheets and statistical software. Investors placed orders to buy and sell stock by letter or phone, not with the click of a mouse.

Simply put, 15 years ago Enron could not have happened. It was made possible by the spread of financial innovation, derivatives trading in particular and loss of control and deregulation of the markets. Enron's shareholders lost control of the firm's managers, who in turn lost control of employees, particularly financial officers and traders. Enron operated in newly deregulated energy and derivatives markets, where participants were constrained

ACTIVITIES

Activities

○ Activity 1. Causes and effects

Complete the table with information contained in the first two articles about the causes of the Enron debacle and its effects. How much overlap is there between the two descriptions?

	Causes	Effects
Article 1.		
Article 2.		

○ Activity 2. Vocabulary focus

- a) 'Coloured' language. Which words or phrases in the articles express the journalists' judgements about Enron? Find the superlative adjectives, the vocabulary with negative meanings, and the use of strong imagery.
- b) Make a list of the words or expressions in the articles related to these two fields: technology and finance.
- c) Colloquialisms. Find the expressions and phrases in Text 4c which indicate these:

i) fast	ii) investigate	iii) stop at the beginning	iv) progressive	v) isolated
	vi) attitudes	vii) become more important	viii) defeated	

○ Activity 3. Possibility in the past

Complete these sentences with an appropriate construction, using *would*, *should*, *could*, *may*, *might*, in the past forms.

- a) The Enron disaster ... (not happen) in the 1980s because circumstances were very different.
- b) Shareholders ... (demand) an explanation of the balance sheets even though no one understood them.
- c) Enron ... (not happen) if their managers had kept control of their employees.
- d) If Enron had survived, pensioners ... (not lose) their savings.
- e) American politicians ... (not be) so involved in the running of big businesses in the 1990s because of the conflict of interests.

○ Activity 4. Discussion points

- a) What business scandals have hit the newspaper headlines in the last few years? Tell the stories.
- b) What are the dangers of over-close connections between private business, on the one hand, and political interests, on the other? Give examples from past and present events.

Enron trial turns to Lay, Skilling

Ex-officials may take witness stand to fight book-cooking charges

By John R. Emshwiller

HOUSTON—In the next stage of the Enron Corp. trial, the energy company's former top executives, Jeffrey Skilling and Kenneth Lay, are likely to take the witness stand in their own defense to rebut charges they helped cook the company's books and lie to the public.

If they do, the former president and chairman of Enron are likely to answer hard questions, even about events everyone agrees happened. With the trial moving toward this critical showdown, the fate of the executives could boil down to how they answer such questions as:

■ Why did Enron quietly bet about \$120 million against its own stock at a time when the defendants cooked the company's prospects?

■ Why did Mr. Lay bet \$1 million from the company days before it collapsed?

■ Why did the executives Enron's chief financial officer to suspect-looking partnerships?

The U.S. government rested its case last week, and the defense rested its presentation in the two-month old conspiracy and fraud trial yesterday. Mr. Skilling could take the stand by week's end, with Mr. Lay to follow at some point. Their testimony "will dwarf the testimony of the other witnesses" in importance, says Christopher Bebel, a Houston attorney.

Defense attorneys clearly expect that the two men, both smart and articulate, will tell a version of the Enron story that sounds far less dark than the one presented by prosecutors.

Other recent high-profile corporate-crime trials suggest the strategy can backfire. WorldCom Inc.'s former chief executive, Bernard Ebbers, testified in his own defense and was convicted. Former Health-

South Corp. chief Richard Scrushy didn't and was acquitted. Others, like Martha Stewart, have stayed silent and ended up in prison.

In a high-risk move, the defense might also call Enron's former chief accounting officer, Richard Causey, who was a co-defendant in the case until December, when he pleaded guilty to securities fraud. It has been assumed he might be a witness in the government's "rebuttal," following the defense presentation. But defense attorneys could try to "blunt the attack" by calling Mr. Causey themselves, says New York attorney Jonathan Halpern. Yet, while Mr. Causey might say things helpful to the defense, he might also provide damaging information.

Prosecutors have tried to prove the Enron executives tried to hide the company's growing financial problems in the two years before its December 2001 collapse into bankruptcy. Messrs. Lay and Skilling will try to be rebut former Enron executives turned government witnesses, who recounted incriminating conversations with the defendants about company finances and operations.

The government didn't have documents that definitively backed up these claims. As a result, much will ride on the credibility of Messrs. Lay and Skilling.

Some seemingly small issues could play an important role in how the jury views the defendants. Among those is the \$120 million Enron spent in 2000, when the company was still riding high, in what amounted to a series of bets against its own stock.

The government contends the defendants were funneling money to then-Chief Financial Officer Andrew Fastow so his LJM partnership operation would take part in illegally hiding hundreds of millions of dollars of Enron investment losses in structures called Raptors.

Enron paid the \$120 million to buy short-term put options on its own stock from LJM-related entities. This gave Enron the right to receive money from LJM if its stock price fell below a certain level. A report by Enron's court-appointed bankruptcy examiner found that the transactions were set up in a way to essentially guarantee a profit to LJM, even if Enron's stock price fell.

In interviews with internal Enron investigators after the company's late-2001 bankruptcy filing, Messrs. Skilling and Lay indicated they weren't familiar with the transactions and couldn't think of any reason why Enron would buy puts on its own stock, according to memorandums of those interviews.

But Enron records show both men attended

a board-committee meeting where the put payments were presented as part of the Raptor arrangement. And in the trial, Skilling attorney Daniel Petrocelli said the payments were widely known within Enron.

The put deals touch on a broader question almost certain to face the two men on the witness stand: Why did they allow the creation of the conflict-laden LJM partnerships run by Enron's finance chief?

Messrs. Skilling and Lay will likely argue that Mr. Fastow's familiarity with the company's operations allowed LJM to get deals done quickly. The jury's verdict could partly depend on whether it believes that argument or the government's contention that LJM was created as a vehicle to manipulate Enron's finances.

Of the two men, Mr. Lay is widely viewed as the stronger potential witness. He is more affable than the hard-charging Mr. Skilling, who has been the target of the brunt of the government's case. While Mr. Skilling resigned from Enron months before the bankruptcy filing, Mr. Lay, who headed Enron since the mid-1980s, stayed until the bitter end—struggling, his supporters argue, to protect company shareholders and employees.



Jeffrey Skilling



Kenneth Lay

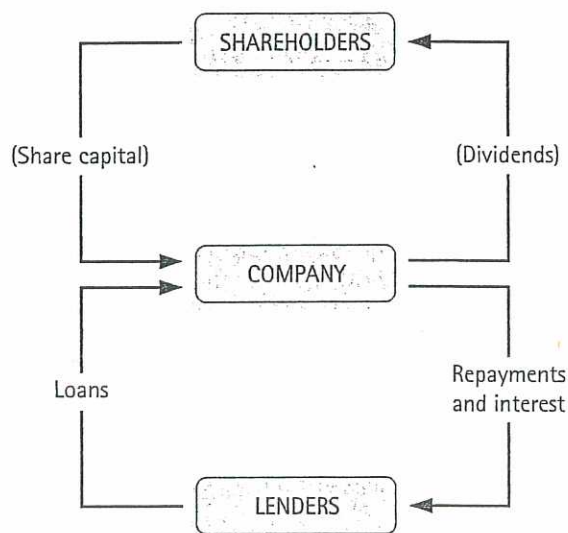
32 Share capital and debt

A

_____ is the money that a company uses to operate and develop. There are two main ways in which a company can raise capital, that is find the money it needs: it can use share capital or loan capital, from investors. These are people or organizations who invest in the company; they put money in hoping to make more money. (See Unit 36)

Leverage 3
Capital 2

share capital 2
loan capital 2
security 2



B

_____ is contributed by shareholders who put up money and hold shares in the company. Each share represents ownership of a small proportion of the company. Shareholders receive periodic payments called dividends, usually based on the company's profit during the relevant period. Capital in the form of shares is also called equity.

A venture capitalist is someone who puts up money for a lot of new companies.

C

Investors can also lend money, but then they do not own a small part of the company. This is _____, and an investor or a financial institution lending money in this way is a lender. The company borrowing it is the borrower and may refer to the money as borrowing or debt. The total amount of debt that a company has is its indebtedness.

The sum of money borrowed is the principal. The company has to pay interest, a percentage of the principal, to the borrower, whether it has made a profit in the relevant period or not.

D

Lending to companies is often in the form of bonds or debentures, loans with special conditions. One condition is that the borrower must have collateral or _____, that is, if the borrower cannot repay the loan, the lender can take equipment or property, and sell it in order to get their money back. This may be an asset which was bought with the loan.

E

Many companies have both loan and share capital. The amount of loan capital that a company has in relation to its share capital is its _____. _____ is also called gearing in BrE. A company with a lot of borrowing in relation to its share capital is highly leveraged or highly geared. A company that has difficulty in making payments on its debt is overleveraged.

6

Preview

The Profit and Loss Account (P&L)

Study the incomplete P&L below. Complete the document with the following headings. Use a dictionary to help you.

Research and development costs Cost of materials Gross profit
Interest receivable Turnover Dividend

Consolidated Profit and Loss

for the year ended Dec 31 in \$m

		Forecast	Actual
Money in _____	1 _____ (sales revenue)	700	704
	Other earnings		
	Gains on fixed assets and operations	250	244
	2 _____ on investments	175	162
Money out _____	Costs of making goods		
	3 _____ and all manufacturing expenses	(100)	a _____
Money in minus cost of making goods _____	Salaries and personnel costs	(200)	b _____
	4 _____	825	c _____
Other money out _____	Other costs and expenses		
	Indirect costs or overheads	(25)	(22)
	5 _____	(50)	d _____
	Loss on fixed assets	(25)	(25)
	Loss on foreign operations	(100)	(88)
	Marketing and distribution costs	(100)	e _____
Gross profit minus other money out _____	Trading/Operating Profit	525	f _____
Money left when shareholders have been paid _____	Profit for shareholders (6 _____)	95	g _____
	Retained profit	430	h _____

Listening 3. Now listen to a presentation of the actual results and complete the missing figures for gaps a-h.

7

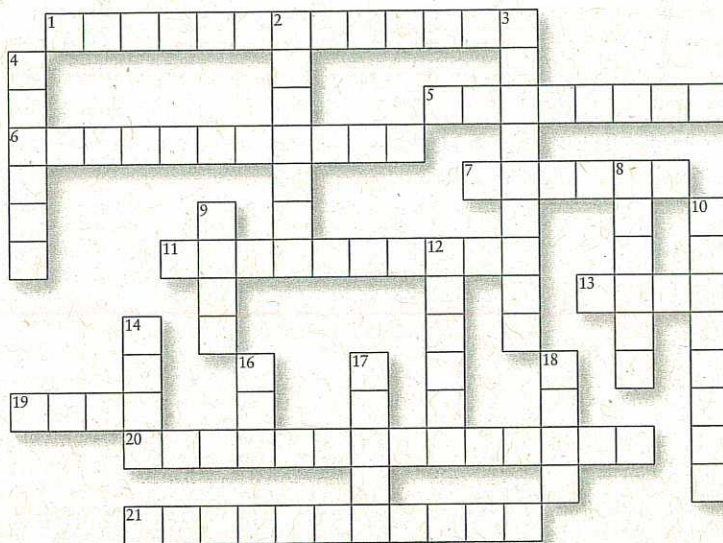
31.1 Look at A and B opposite to find the answers to the crossword.

Across

- 1 and 2 down What the British call the income statement. (6,3,4,7)
- 5 What accounts have to follow. (8)
- 6 Not occurring regularly. (11)
- 7 When companies announce results they them. (6)
- 11 The final figure for profit or loss. (6,4)
- 13 Another name for 'standard'. (4)
- 19 and 16, 18, 14 down What accounts should give. (4,3,4,4)
- 20 When things are made to look better than they really are. (6,8)
- 21 Known as accounting in the US. (11)

Down

- 2 See 1 across.
- 3 See 12 down.
- 4 Before tax is taken away. (3-3)
- 8 You find this in an annual report. (6)
- 9 Not a profit. (4)
- 10 Accounting that presents things in a positive light. (8)
- 12,3 down What Americans call the profit and loss account. (6,9)
- 14,16, 18 See 19 across.
- 17 Noun and verb related to 'auditor'. (5)



Over to you



Obtain a copy of your company's annual report, or the annual report of a company that you are interested in. Look at its profit and loss account (or income statement). What is the bottom line?

You can find this information for companies all over the world at www.carol.co.uk (Company Annual Reports Online).

Liquid Metaphors



EXERCISE 1

Cash flow, source of funds, liquid assets... Financial English uses a lot of metaphors based on liquids. Complete the sentences below using these words in the correct form:

verbs:	channel	dry up	flood	flow
	pour	run out of	swim	trickle down
nouns:	drain	ebb and flow	pool	source
adjective:	awash			

- After the merger, the new company will be able to draw on a huge of resources.
- Because of the new high interest rates, money is into Germany.
- If we don't find a new of funds, we are going to money by Christmas.
- If private funding really does, we will have to turn to the government for help.
- Right-wing governments tend to argue that if you cut high tax rates, the rich will consume more and invest more, and wealth will to the poor.
- The government says that the property market is with laundered money from the drug cartels.
- There is a constant of money in and out of the system.
- We're as much money as we can into this project, millions in fact.
- We've sunk millions of pounds into this factory. It's been a real on our resources.
- We believe that the government should be more cash into education.
- We have a liquidity problem; more money is out of the business than into it; in fact, we're haemorrhaging money.
- When you look round their head offices, you get the impression that they're in cash.

EXERCISE 2

Complete the following. All the phrases have something to do with water. When you have filled in the gaps, underline the complete phrase.

crest	depth	under	fluid	sank	plug
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- You never hear about BNA. They without trace about 3 years ago.
- Nobody knows whether the takeover is going ahead or not. The situation is very at the moment.
- The banks have been riding on the of a wave for longer than anyone expected.
- No wonder some of the smaller merchant banks have gone Some of them had no proper system of control.
- They waited too long before they pulled the on that outfit in Singapore.
- You're the derivatives expert. I'm totally out of my here.