

2.1 EBIT

Formula	Sample calculation
Net income	882
± Extraordinary items	0
+ Minority interest	21
+ Taxes	594
± Financial result	(45)
= EBIT	= 1,452

Explanation

EBIT stands for “earnings before interest and taxes”. In the US the ratio is also known as operating income/operating profit. It is generally used to assess the company’s earnings position, in particular in international comparisons. However, EBIT is not only pure earnings before interest and taxes as it is referred to by many people, but in more precise terms it is the operating result before the financial and thus investment result, which may have a major impact on the pre-tax earnings depending on the respective company. EBIT can also be calculated by subtracting total operating expenses from sales (incl. other operating income).

Advantages

- Allows assumptions to be made about pure operating activities
- Industry-wide comparisons of operating income are possible, in particular when other ratios are also considered (e.g., revenues)
- Distortions from tax effects are not included
- Used internationally

Disadvantages

- Only meaningful when considered together with other indicators (e.g., revenues)
- Interest income, which may not be included in EBIT, can be part of operating income (income from financing activities, e.g., financing installments)
- Income which may not stem from the operating activities may also be included in this figure (rental income)