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**Ways of improving financial stability of Valio Group**

Thesis

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## Thesis abstract

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The paper discusses the problem of increasing financial stability of the Valio Group. The main approaches for definition of financial stability were named and described for this purpose. Furthermore, the methodology of the analysis of financial stability was determined. Organizational and economic characteristics of the Valio Company were given. After that, financial stability of the company was examined and evaluated. Also the impact of the Russian embargo on the financial performance of the company was described. Finally, ways of improving financial stability of the Valio Group were proposed.

The study revealed that Valio Group has a normal level of financial stability. For maintenance and improvement of the current level of financial stability and solvency of the Valio Company the following measures were recommended for implementation:

- To Increase equity to assets ratio;
- To Increase share of the working capital financed by owner's equity;
- To strengthen control over the debt collection;
- To decrease cash in hand and at banks share in the current assets of Valio;
- To strengthen control over stocks' share in the assets of the company.

Keywords: embargo, financial performance, financial stability, financial leverage, liquidity, net assets, return on assets, return on equity, solvency.

## TABLE OF CONTENTS

Thesis abstract.....	2
<b>TABLE OF CONTENTS .....</b>	<b>3</b>
Abbreviations .....	5
<b>Tables and figures .....</b>	<b>6</b>
<b>1 INTRODUCTION .....</b>	<b>8</b>
1.1 BACKGROUND AND MOTIVATION .....	8
1.2 RESEARCH QUESTION AND RESEARCH OBJECTIVES.....	9
1.3 RESEARCH METHODOLOGY .....	10
1.4 THESIS LAYOUT .....	11
<b>2 THEORETICAL BACKGROUND.....</b>	<b>12</b>
2.1 THE ESSENCE OF FINANCIAL STABILITY.....	12
2.2 THE SIGNIFICANCE OF FINANCIAL STABILITY OF A COMPANY .....	14
2.3 CLASSIFICATION OF FACTORS THAT AFFECT A COMPANY'S FINANCIAL STABILITY .	15
2.4 METHODS OF ESTIMATION OF FINANCIAL STABILITY .....	17
<b>3 INTRODUCTION TO VALIO GROUP.....</b>	<b>25</b>
3.1 COMPANY DESCRIPTION .....	25
3.2 ANALYSIS OF FINANCIAL REPORTS OF VALIO GROUP .....	31
3.2.1 <i>Analysis of the company's Balance Sheets 2013 - 2015.....</i>	<i>31</i>
3.2.2 <i>Analysis of the company's Income Statements 2013 - 2015.....</i>	<i>36</i>
<b>4 ANALYSIS OF FINANCIAL STABILITY OF VALIO GROUP .....</b>	<b>38</b>
4.1 ESTIMATION OF FINANCIAL STABILITY OF THE COMPANY BASED ON THE ANALYSIS OF CORRELATION OF EQUITY TO DEBT .....	38
4.2 ANALYSIS OF FINANCIAL STABILITY OF THE COMPANY BE MEANS OF LIQUIDITY INDICATORS .....	43
4.3 DEFINING THE DEGREE OF FINANCIAL LEVERAGE.....	46
4.4 ANALYSIS OF FINANCIAL EQUILIBRIUM OF DEBIT TO CREDIT .....	48
4.5 DEFINING THE TYPE OF FINANCIAL STABILITY OF THE COMPANY .....	50
<b>5 RECCOMENDATIONS FOR IMPROVING OF FINANCIAL STABILITY OF VALIO .....</b>	<b>52</b>

5.1	INCREASING OF EQUITY TO ASSETS RATIO .....	52
5.2	INCREASING OF SHARE OF WORKING CAPITAL FINANCED BY OWNER'S EQUITY .....	53
5.3	STRENGTHENING OF CONTROL OVER THE DEBT COLLECTION .....	53
5.4	DECREASING OF CASH SHARE IN THE CURRENT ASSETS OF VALIO GROUP .....	56
5.5	CONTROL OVER STOCKS' SHARE IN THE ASSETS OF THE COMPANY .....	57
5.6	INTERACTION WITH RUSSIAN MARKET IN CONDITIONS OF RESTRICTED TRADE .....	60
<b>6</b>	<b>CONCLUSION .....</b>	<b>63</b>
	<b>BIBLIOGRAPHY.....</b>	<b>65</b>
	<b>APPENDICES.....</b>	<b>68</b>

## Abbreviations

<b>CA</b>	Current assets
<b>CL</b>	Current liabilities
<b>DFL</b>	Degree of financial leverage
<b>Dif</b>	Differential of financial leverage
<b>EBIT</b>	Earning before interest and tax
<b>EOQ</b>	Economic ordering quantity
<b>Oy</b>	Osakeyhtiö, is the Finnish equivalent of a limited company
<b>ROA</b>	Return on assets
<b>ROE</b>	Return on equity
<b>TCC</b>	Total carrying cost
<b>TIC</b>	Total inventory cost
<b>TOC</b>	Total ordering cost
<b>TL</b>	Total liabilities
<b>TA</b>	Total assets

## Tables and figures

FIGURE 1. Parameters for estimation of financial stability (adopted from Pavlenkov [Ref. 11.10.2016], Available at: <a href="http://www.consulting1c.ru">www.consulting1c.ru</a> ) .....	17
FIGURE 2. Components of DFL .....	20
FIGURE 3. Valio assortment structure in dynamics.....	26
FIGURE 4. Valio balance-sheet total in dynamics 2013-2015, thousand EUR .....	31
FIGURE 5. Valio Group assets structure in 2013-2015, % to total assets.....	32
FIGURE 6. Valio Group non-current assets' structure in dynamics, % to non-current assets.....	33
FIGURE 7. Valio Group current assets' structure, % to current assets .....	33
FIGURE 8. Overall structure of Shareholders' equity and total liabilities of the Valio Group for 2013 - 2015, %.....	34
FIGURE 9. Overall structure of Shareholders' equity and total liabilities of the Valio Group for 2013 - 2015, %.....	34
FIGURE 10. Structure of total liabilities of the Valio Group for 2013 - 2015, %.....	35
FIGURE 11. Net sales of Valio Group in 2013 – 2015.....	36
FIGURE 12. Operation profit and Net profit of Valio Group in 2013 – 2015 .....	37
FIGURE 13. The volume of imported cheese supplies to Russia in August 2013 – July 2014, thousand tons .....	60
TABLE 1. The description of the thesis structure.....	11
TABLE 2. The factors of a company's financial stability (adopted from <a href="http://www.afdanalyse.ru">www.afdanalyse.ru</a> [Ref. 11.10.2016]).....	15
TABLE 3. Coefficients used for the company's financial stability estimation .....	18
TABLE 4. The relationship between the assets and liabilities (adopted from Savitskaya 2009, 270).....	23
TABLE 5. Valio Group subsidiaries.....	25
TABLE 6. Calculation of equity to assets ratio .....	38
TABLE 7. Calculation of debt to assets ratio .....	39
TABLE 8. Calculation of ratio of current debt.....	39

TABLE 9. Calculation of financial stability ratio.....	40
TABLE 10. Calculation of solvency ratio .....	40
TABLE 11. Calculation of debt to equity ratio .....	41
TABLE 12. Calculation of net assets by 1 <sup>st</sup> method.....	42
TABLE 13. Calculation of net assets by 2nd method.....	42
TABLE 14. Calculation of current liquidity ratio.....	43
TABLE 15. Calculation of quick ratio.....	44
TABLE 16. Calculation of absolute liquidity ratio .....	45
TABLE 17. Calculation of liquidity at fund-raising ratio .....	45
TABLE 18. Calculation of net working capital of Valio Group .....	46
TABLE 19. Calculation of DFL Valio Group .....	47
TABLE 20. Defining of share of equity and liabilities in forming of Valio's current assets.....	49
TABLE 21. Calculation of accounts receivable to accounts payable ratio of Valio Group .....	50
TABLE 22. Estimation of Valio Group's level of endowment with planned sources of forming stocks .....	51
TABLE 23. Estimation of Valio Group's level of endowment with planned sources of forming stocks .....	52
TABLE 24. Information about share of the working capital financed by owner's equity of Valio Group.....	53
TABLE 25. Information about accounts receivable of Valio Group.....	54
TABLE 26. Information about structure of current assets of Valio Group .....	56
TABLE 27. Information about stocks of Valio Group in 2013 - 2015 .....	57

# 1 INTRODUCTION

## 1.1 Background and motivation

At the present stage of development of the world economy a variety of factors, that affect financial performance of companies exist. Such factors may include economic and political crises, changes and uncertainties in the law. In such volatile conditions, financial stability is the key to survival of the company and its stability on the market.

At the same time, financial stability is influenced not only by external factors, but also by operating results of the company, and its effective response to the fluctuation of both internal and external environment.

Financial stability reflects such state of the financial resources of the company, with which it is possible to use the funds effectively, manoeuvre them freely, and thereby ensure the sustainability of production and sales, while taking into account the cost of maintenance, expansion and renovation of the process.

However, settlement of financial stability boundaries for the companies is a complex issue. When the company has lack of financial stability it results in shortage of working capital and inability to fully and timely meet financial obligations. At the same time, with excessive financial stability inefficiency of resources usage, and therefore surplus of stocks and reserves is observed

The relevance of the given topic is determined by the fact that the assessment of the financial performance and stability of the enterprise is an important tool to identify its place in the market environment.



The question of estimating of financial stability and generating ways for its improvement has particular relevance for Valio Group, as after implying of Russian embargo on imports of dairy products from the European Union, the Finnish company continues to incur losses. Thus, it seems appropriate to analyse the financial stability of the company and try to find ways to increase it.

According to Savitskaya, (2009, 340) if in the unfavourable external environment the company retains its ability to answer for its obligation in time and realize current plans and strategies, the company's financial standing could be considered sustainable.

Moreover, through the study of financial stability it is possible to evaluate the results of the company's operations, identify its weaknesses, and on this basis to make adjustments to the current development strategy or to generate new one.

Therefore, estimation of financial stability and the development of ways to maintain it at an acceptable level are essential and important to the company process.

## **1.2 Research question and research objectives**

Considering economic situation in Russia and goal of Valio Group for today, as outlined in subchapter 1.1, the main general research question can be formulated as:

What recommendations can be given to Valio Group for improving its financial stability?

To achieve the goal that was stated in the thesis and presented in the form of general research question, following research objectives were accomplished:

- To get acknowledged with various approaches to definition of financial stability of the company
- To examine the concept and types of financial stability, as well as the factors that have an influence on it;

- To define methodology of analysis of financial stability
- To estimate financial stability of Valio Group;
- To suggest actions aimed at improving the financial stability of Valio Group.

### **1.3 Research methodology**

Towards reaching the intended goal, several research designs, data collection techniques and analysis procedures were employed.

The following research methods were used to achieve the objectives set out in the given Thesis: calculation, analytical, tabular display of analytical data.

At the beginning the descriptive-exploratory research was conducted in order to gather more detail information about the history of the company, its range of products and services, subsidiaries, competitors and ways of doing business.

The first stage included study of printed media, online articles, and official Website of Valio Group. The second stage focused on analysing of financial reports of the Valio Group.

To estimate financial performance and stability of the Valio Group the following steps were taken:

- Analysis of Balance Sheets 2013-2015,
- Analysis of Income statements 2013-2015.
- Calculating and analysing of equity to assets ratio, capital yearning, debt-to-assets ratio, ratio of current debt, financial stability ratio, solvency ratio, financial leverage ratio.
- Calculating and analysing of net assets of the Valio Group
- Evaluation of the financial performance of the Valio by using liquidity indicators
- Calculating and estimating of Degree of Financial Leverage
- Analysis of the financial balance between assets and liabilities and assessment of financial stability by functional characteristics

- Determination of the type of financial stability Valio
- Recommendations on how to improve financial stability of the Valio Group, made on the basis of analysis of all the above-mentioned indicators.

#### 1.4 Thesis layout

TABLE 1. The description of the thesis structure

	The main idea of the chapter
Chapter 1	Description of the background and research motivation, research goal with research objectives and methodology; presentation of the target thesis structure.
Chapter 2	Study of the theory, which includes definitions of such terms as financial stability, solvency, financial leverage, net working capital, and liquidity; description of their types as well as detailed description of financial ratio analyses methodology.
Chapter 3	Introduction to Valio Group where history of its foundation and development on international markets, and in Russia in particular, is described; main products, services, markets, competitors and main principles of doing business are listed. Additionally, in this section analysis of the company's financial documents, balance sheets and Income statements from the years 2013-2015 in particular, is made as a basis for the further research.
Chapter 4	Analysis and assessment of financial position of Valio Group covering the period 2013 – 2015 by using financial ratios, liquidity ratios, estimating degree of financial leverage, calculating net working capital and net assets of the company.
Chapter 5	Proposal of ways for maintaining and improving of financial position of the Valio Group made on the basis of previous research.
Chapter 6	Conclusion part where summary of all the conducted work and findings is made.

## **2 THEORETICAL BACKGROUND**

### **2.1 The essence of financial stability**

Financial stability is one of the key characteristics of economic entity's financial condition, as it reflects degree of its stability, independence from unexpected changes in market environment and, therefore, the security of investing in the given company.

Stable financial condition of the enterprise - is the ability of the economic entity to finance its activities, continuously maintain its solvency and investment appeal.

Financial condition of the organization can be assessed in both long and short-term perspective. For the short-term prospects mobility and solvency of the company are the key characteristics. In the long-term outlook, financial stability of the enterprise will have greater importance.

An analysis of the company's financial stability on a certain date, gives the opportunity to find out how well the company has managed its financial resources during a period preceding to that date. Thus, evaluation of financial stability is a necessary and important process.

However, this process is complicated by the fact that there is no common approach for the company's financial stability evaluation that could be generally recognized.

Therefore, there are plenty of financial stability analysis techniques, which include different indicators, various by essence and calculation methods. The reason for this is the existence of differing analysts' preferences to certain parameters due to the researcher's attitude to the necessity and feasibility of joint examination of assets and funds' sources of the enterprise.

For research purposes the basic approaches for the analysis of financial stability will be described.

According to Kreynina (2005, 120) financial stability lies in the stable financial position of the enterprise and is ensured by a sufficient degree of equity in the composition of the sources of its financing. This means that the borrowed funding sources are used now only to the extent that can be provided with complete and timely return, and therefore, the amount of short-term liabilities of the company shall not exceed the value of liquid assets.

To analyse the financial stability of the company, Kreynina recommends the use of such factors as: equity ratio, financial ratio, ratio of long term financial independence and ratio of shareholders' equity manoeuvrability.

Another Russian economist Lavrushin (2011, 70) believes that the financial stability of the company can be estimated by using of the liquidity and solvency indicators.

The liquidity balance, in his view, is characterized by the degree and speed of coverage of the liabilities with the company's assets.

According to Lavrushin (2011, 85), solvency is a cover of company's obligation with currency and other liquid assets. In the analysis of the company's solvency from the position of its continuous activity the author proposes to calculate the three main coefficients: the current solvency, quick solvency and absolute solvency.

According to Savitskaya (2009, 280), whose approach to the definition of financial stability was considered to be optimal for this thesis and has been implemented in the research, the financial stability of the enterprise is the ability of a business entity to operate and develop itself, as well as maintain balance of assets and liabilities in the changing internal and external environment, ensuring its continued solvency and investment attractiveness in boundaries of the acceptable level of risk.

Financial stability reflects the balance of cash flow, income and expenses, assets and sources of their formation. To ensure the financial stability, the company must have a flexible capital structure and be able to organize its movement in way that ensures a constant excess of income over expenditure in order to maintain solvency and create conditions for normal functioning.

To determine the financial stability of the company, Savitskaya uses the following indicators: equity ratio, leverage ratio, current debt ratio, ratio of financial stability, solvency ratio, financial leverage ratio.

## **2.2 The significance of financial stability of a company**

The significance of companies' financial stability for economics and society ensues from its significance for every element of this system in particular:

- For the government the role of companies' financial stability consists in the full and timely tax payment to the budget. Due to this the implementation of government's functions is provided, such as pension payments, allowance payments, etc;
- For the employees of a company its financial stability guarantees timely payment of wages, and also provides extra jobs;
- For the suppliers and contractors, the role of financial stability of the companies they cooperate with consists in the ability to meet their commitments in time. As far as the income of suppliers and contractors forms through the revenues from their customers, the withdrawal of financial resources from circulation due to the payment delays undermines their financial condition;
- For the banks a financially stable company means timely fulfilment of obligations according to the terms of a loan agreement. The non-fulfilment of its conditions, defaults on loans might be the reason of failures in the banking system. The bankruptcy of a single bank, as a result of insolvency of the majority of its clients, leads to a chain reaction of non-payments and bankruptcies;

- For the proprietors the importance of a company's financial stability consists in its ability to provide income not only at the moment of time, but also in the long run. The amount of dividends received by the proprietors depends on the profitability of the company;
- For the existing and potential investors the role of financial stability of a company in which they expend money consists in the utility and the extent of risk of this procedure.

Thereby, a conclusion can be made that financial stability of companies plays a significant role in securing the sustainable development of both society and separate organizations.

### 2.3 Classification of factors that affect a company's financial stability

Considering the fact that in a market economy a company is a subject and an object of market relations simultaneously and affects the dynamics of different factors in various ways, it is most important to divide those factors into internal and external ones, as in the table 2.

TABLE 2. The factors of a company's financial stability (adopted from [www.afdanalyse.ru](http://www.afdanalyse.ru) [Ref. 11.10.2016]).

<b>Factors</b>	
<b>Internal</b>	<b>External</b>
The sector where the company is operating	The conditions of economic management
The structure and assortment of a company's products and services	The equipment and technology prevailing in the society
The amount and the structure of costs, their dynamics in comparison with the income	The effective demand of consumers Economic and monetary policy of the government
The amount of contributed capital	Statutory laws considering the control of a company's activity

<p>The condition of property and financial resources including stocks and reserves, their structure and distribution</p> <p>Technology and forms of organization of production, management, etc.</p>	<p>Tax and credit policy</p> <p>The general political and economic stability</p> <p>Competition</p> <p>The development degree of the financial market</p> <p>The development degree of the insurance business and foreign economic relations</p> <p>The dynamics of currency exchange rates</p> <p>The establishment of economic relations with partners and etc.</p>
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Since the external factors do not depend on the company, it has not got the possibility to manipulate them and has to adjust.

The group of external factors of direct effect includes the following: suppliers, consumers, competitors, resources, government departments, local administration, social media.

The group of factors of indirect effect includes the following: economic situation, social, political, demographic, cultural, historical, legal, ecological and other factors.

The internal factors affecting the financial stability are considered adjective, therefore the company is able to adjust its financial stability by the means of changing them.

The internal factors which have a destabilizing effect on the company's finances include the imbalance of the functional and managerial configuration, the competitive disability of the products, non-intensive marketing, business unprofitability,



depreciation of fixed assets, suboptimal debts and reserves, the disunity of authorized capital.

Thereby the influence of the listed factors might weaken the financial stability and solvency of the company, especially with two groups of factors combined.

## 2.4 Methods of estimation of financial stability

Financial stability of the company is traditionally estimated by analysing absolute values and relative indicators that presented in Figure 1.

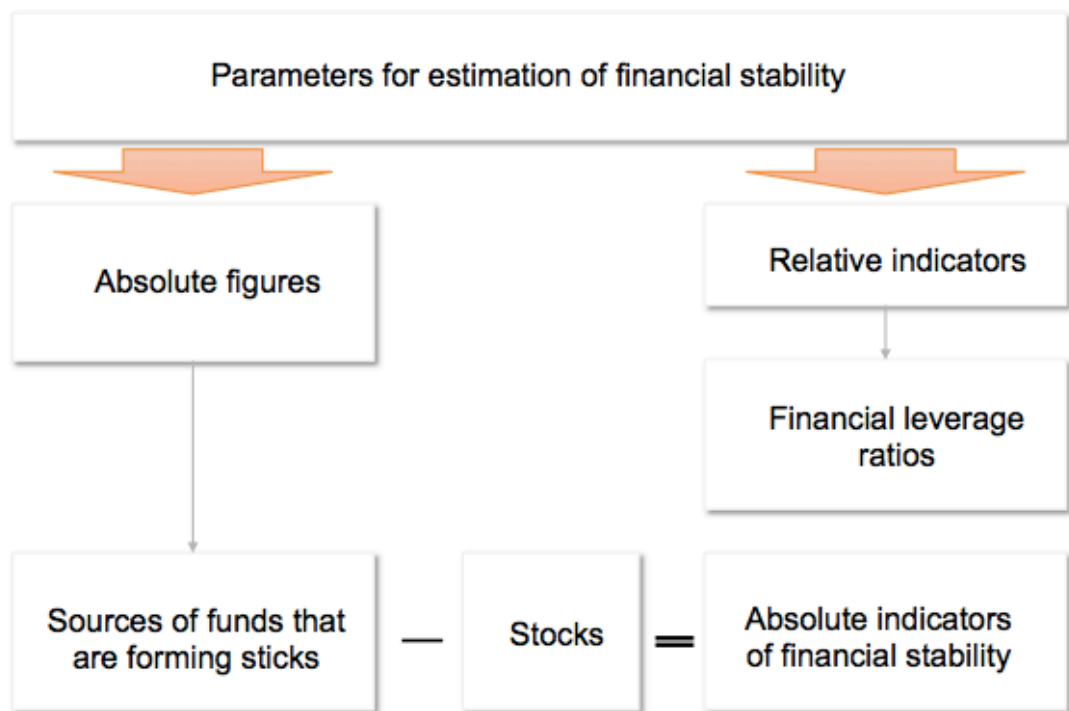


FIGURE 1. Parameters for estimation of financial stability (adopted from Pavlenkov [Ref. 11.10.2016], Available at: [www.consulting1c.ru](http://www.consulting1c.ru))

Absolute figures reflect the state of the financial reserves of the company and provide the researcher with an opportunity to identify the sources of funds that are covering these reserves.

During the company's operation process its stocks are constantly replenished on account of working capital and borrowed funds. To find out the sources that are

forming these reserves, it is necessary to have information about the availability of company's monetary funds, as well as the existence of sources for borrowings.

However, usage of absolute values for characteristics of the company's financial stability in the long run provides only an overall assessment.

For determining the degree of economic subject's dependence on external investors and creditors, relative indicators of financial stability are recommended for usage. For this purpose an analytical method is used.

The main indicators that provide material for analysis are: financial leverage ratio and financial independence ratio. Moreover, equity ratio, manoeuvrability ratio, investment coverage ratio and rate of short-term debt are also considered to be important indicators.

For the analysis of financial stability of the company the following methods exist:

**1. Estimation of enterprise's financial stability based on the analysis of correlation of equity to debt**

An optimal structure of the sources of capital as well as an optimal structure of assets has a significant impact on the financial stability of the enterprise.

In this regard, the sources of the capital structure of the company, the degree of financial stability and the financial risk need to be analysed.

For this purpose, the indicators presented in Table 3 should to be calculated. (Savitskaya 2009, 250)

TABLE 3. Coefficients used for the company's financial stability estimation

<b>Coefficient</b>	<b>Formula</b>	<b>Recommended value</b>
Equity to assets ratio	Equity/total assets	$\geq 0,5$
Debt-to-assets ratio	Total liabilities/ total assets	0,5
Ratio of current debt	Current liabilities/ total assets	0,1 - 0,2

<b>Coefficient</b>	<b>Formula</b>	<b>Recommended value</b>
Financial stability index	(Equity + Long-term Debt)/total assets	0,8 - 0,9
Solvency ratio	Equity - total liabilities	1
Financial leverage ratio	Total liabilities/ equity	0,5 - 1

Moreover, according to such economists as Lavrushin (2011, 90), in addition to the factors mentioned in Table 3, for estimation of company's financial stability net assets should be also analysed.

Net assets of the company show what will remain for shareholders after covering of all its obligations or in case of liquidation.

## **2. The definition of the leverage effect**

It is preferable for any company that both own and borrowed funds provide a return in the form of profit.

The company can increase the return on equity by means of bank loans. In the theory of financial management this is called the effect of financial leverage.

Degree of financial leverage (DFL) is an indicator of the change in the profitability of company's funds, obtained through the use of borrowed funds.

DFL can be calculated by using of the formula 1.

$$DFL = (1 - t) \times (ROA - r) \times \left(\frac{D}{E}\right), \quad (1)$$

where: DFL – Degree of financial leverage, %;

t – income tax, in relative amount;

ROA – return on assets, %;

r – rate of interest on debt capital, %;

D – debt capital;

E – shareholders' equity.

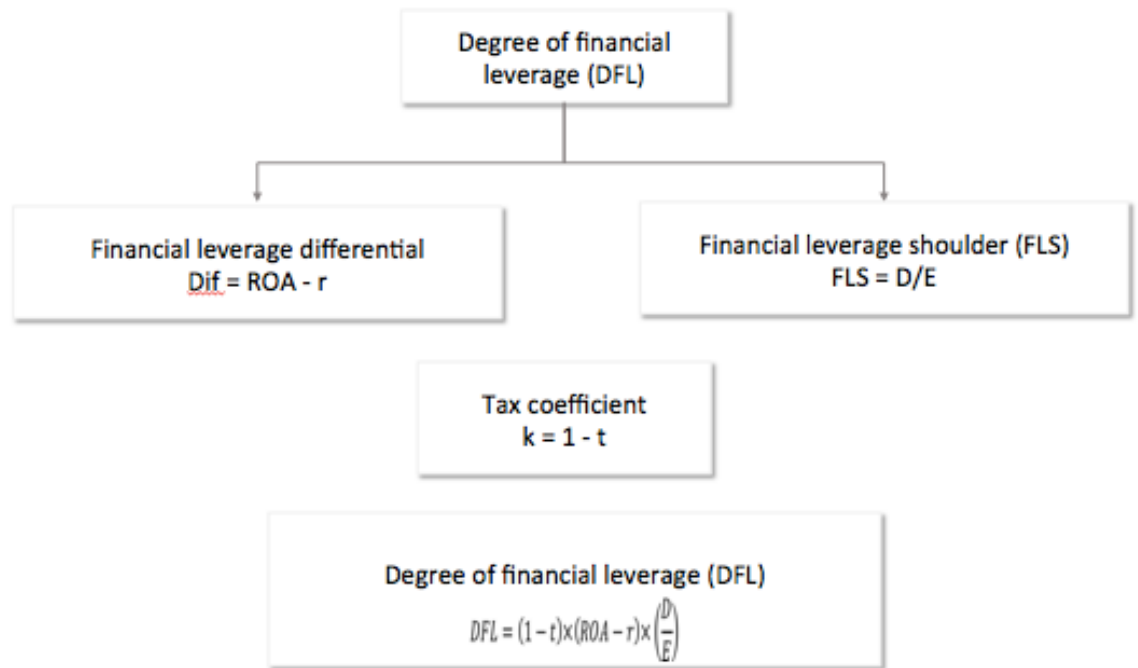


FIGURE 2. Components of DFL (adopted from Verevka T.V 2015, lecture notes)

As it can be seen from the Figure 2, Degree of financial leverage is the product of two components, adjusted for the tax rate  $(1 - t)$ . The tax rate shows to what extent the effect of financial leverage is manifested due to the different levels of profits taxation.

One of the main components of the formula is the differential of financial leverage (Dif), which represents the difference between the organization's return on assets (economic profitability) calculated according to EBIT, and the rate of interest on borrowed capital.

The differential of financial leverage can be calculated with the following formula:

$$\text{Dif} = \text{ROA} - r, \quad (2)$$

Where: Dif – differential of financial leverage, %;

r – rate of interest on borrowed capital, %.

ROA – return on assets.

Return on assets can be calculated with the following formula:

$$ROA = \frac{EBIT}{\overline{TA}} \times 100\% = \frac{NI+I+T}{\overline{TA}} \times 100, \quad (3)$$

Where: EBIT – earnings before income tax, or in other words - operational profit.

NI - net income of the company;

I - interest rate;

T - tax rate;

$\overline{TA}$  - average total assets.

Differential of financial leverage is essential for forming the growth of return on equity (ROE). For this purpose economic profitability of the company must exceed the interest rate payments for the use of borrowed sources of financing. In other words differential of financial leverage must be positive. In the presence of a negative differential, effect of financial leverage will only be on detriment of the company.

The second component of the DFL formula is a coefficient of financial leverage, also called financial leverage shoulder (FLS). It characterizes the power of influence of the financial leverage, and can be calculated as ratio of debt capital (D) to equity (E):

$$FLS = \frac{D}{E},$$

Thus, the Degree of financial leverage consists of two components: the differential and the financial leverage shoulder, which are closely linked. As long as the differential is positive, return on equity will increase. Moreover, the higher the ratio of borrowed and own funds will be, the faster will ROA grow. However, with increase in borrowings amount their price increases as well, and, therefore, profit of the company decreases, which leads to the threat of negative differential appearing.

In the estimation of specialists, the optimum degree of financial leverage is in the range of 30 - 50% of the return on assets (ROA), while the indicator of financial leverage shoulder is 0.54 - 0.67. In this case, return on equity (ROE) growth will not be lower than the growth in the profitability of investments in assets.

The degree of financial leverage contributes to the formation of a rational structure of sources of funds for the purposes of investment financing and obtaining the desired level of return on equity, while financial stability is not affected.

### 3. Analysis of financial condition of the company with liquidity indicators

Liquidity indicators characterize the company's ability to satisfy the claims of holders of short-term debt. The following liquidity indicators exist:

- Current liquidity ratio;

$$\text{Current liquidity ratio} = \frac{\text{Current assets}}{\text{Current liabilities}},$$

- Quick ratio;

The quick ratio (quick assets ratio, the acid-test ratio) - is a liquidity indicator that further refines the current ratio by measuring the amount of the most liquid current assets there are to cover current liabilities. The quick ratio is considered to be more conservative than the current liquidity ratio as it excludes inventory and other current assets, which are more difficult to turn into cash. Therefore, a higher ratio means a more liquid current position.

$$\text{Quick ratio} = \frac{\text{Cash \& Equivalents} + \text{Short-term investments} + \text{Accounts Receivable}}{CL},$$

- Absolute liquidity ratio;

The absolute liquidity ratio (cash ratio) is an indicator of a company's liquidity that further refines both the current ratio and the quick ratio by measuring the amount of cash, cash equivalents or invested funds in current assets, which are there to cover current liabilities.

$$\text{Absolute liquidity ratio} = \frac{\text{Cash \& Cash Equivalents} + \text{Invested Funds}}{\text{Current Liabilities}},$$

- Liquidity ratio at fund-raising

Another liquidity ratio, which needs to be calculated for the better analysis, is the liquidity at fund raising ratio, which characterizes the degree of solvency of the company from provided by stocks.

$$\text{Liquidity ratio at fund-raising} = \frac{\text{Stocks}}{\text{Current liabilities}},$$

- Net working capital.

$$\text{Net working capital} = \text{current assets} - \text{current liabilities}$$

The given formula, along with others, is referred to liquidity ratios as they provide opportunity to measure company's ability to meet its short-term obligations.

#### **4. Analysis of the financial equilibrium of debit and credit and assessment of financial stability on a functional basis.**

Financial stability of the company can be revealed through the study of equilibrium of debit and credit in the balance sheet. For these purposes the following correlations are examined:

- Correlation between non-current assets and sources of its forming;
- Correlation between currents assets and sources of its forming;
- Correlation between stocks and sources of its forming;
- Correlation between accounts receivable and accounts payable.

Analysis of equilibrium of debit and credit is the basis of the assessment of financial stability and solvency of the company. This equilibrium is provided at the expense of the balance of inflow and outflow of funds, which, in its turn, is achieved through the balance of assets and liabilities (in terms of use and by cycles).

Schematically, the relationship between the assets and liabilities of the company may be presented as following:

TABLE 4. The relationship between the assets and liabilities (adopted from Savitskaya 2009, 270)

Non-current assets	Long-term liabilities, leasing
	Shareholders' equity
Current assets	Short-term liabilities

Thus, according to the table 4, as a rule, permanent capital (equity + long-term borrowings) is the main source of fixed assets' financing.

Current assets can be formed at the expense of equity and short-term borrowings.

The preferred ratio is 50% at the expense of equity, and the remaining 50% - borrowed capital. Such ratio would provide a guarantee of repayment of external debt, as well as the optimal value of the liquidity ratio, which equals to 2 (Verevka T.V. 2008, 102).

## **5. Defining the type of financial stability of the company**

There are four types of financial stability of a company exist.

### *1. Absolute short-term financial stability*

Stocks < Working capital financed by owner's equity;

### *2. Normal short-term financial stability*

Working capital financed by owner's equity < Stocks < Planned sources of financing;

### *3. Not stable (pre-crisis) condition*

Stocks < Planned sources of financing < permanently free sources of financing;

### *4. Crisis condition. Company is close to bankruptcy.*

Equilibrium of balance of payments is provided by overdue payments (wages, bank loans, payments to suppliers and government budget).

Stocks < (Planned sources of financing + permanently free sources of financing).



### 3 INTRODUCTION TO VALIO GROUP

#### 3.1 Company description

Valio Group is a Finnish Concern, engaged in the production and processing of milk, and development and implementation of innovation technologies in food manufacturing.

The Concern includes the parent company Valio Oy, which is based in Finland and headquartered in Helsinki, as well as subsidiaries in Russia, Sweden, the Baltic countries, China and the United States. These subsidiaries are listed in Table 5.

TABLE 5. Valio Group subsidiaries

Division's name	Net sales, mln. EUR	Number of employees by the end of 2014
Valio Oy	1,714	3,570
Valio Russia	258	354
Valio Baltics	92	371
Valio Sweden	97	50
Valio USA	58	23
Valio China	48	7
Total	1,950	4,375

The parent company Valio Oy was founded by private partnerships in 1905, in Finland, for the production of milk and with a view to exporting the Finnish butter abroad. Company name in Finnish means "quality, the best, elite."

Nowadays, Valio Oy is a private stock company, which possesses 13 factories in Finland.

The owners of the company are 17 cooperatives, which are made up of 7300 farmers engaged in milk production.

## Production

The company produces about 1.9 billion tonnes of milk annually.

Valio's product range includes more than 1.5 thousand titles, over 400 of which are exported to 67 countries around the world [28].

Major brands of Valio Group products are: Valio Viola, Valio Oltermanni, Valio Eila, Alma, Finlandia Swiss, Valio Demi.

Main goods produced by Valio include: yoghurt, cream, milk, juice, oil, lactose-free products, functional foods, fermented dairy products, pasteurized milk, fresh and ripened cheeses, dairy and non-dairy beverages, food additives.

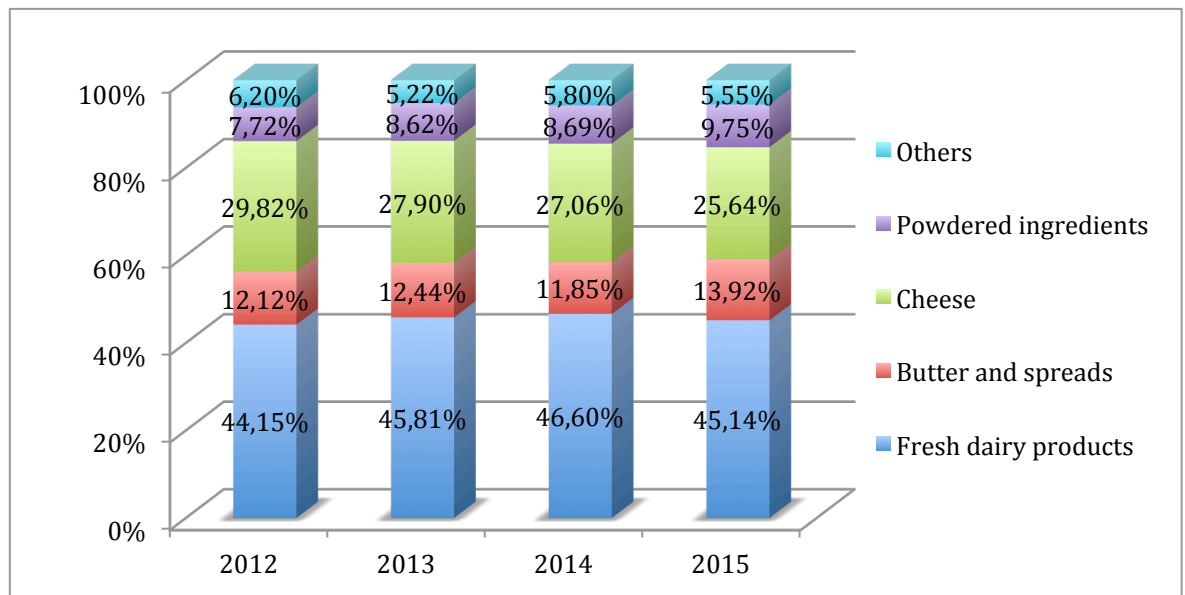


FIGURE 3. Valio assortment structure in dynamics

Since 2014 the range of Valio production was expanded by products manufactured in Russia, such as: milk, cream, cottage cheese and curd desserts, Valio Clean Label butter and yoghurt with berries, and yoghurt drinks with a high content of fruit produced at partner factories. [28]

Valio also supplies products of the Finnish origin to Russia: unique lactose free dairy products and non-dairy Valio Eila assortment of juices, water, fruit drinks and jellies.

Another focus of Valio Group operations, including its Russian subsidiary, is the development and promotion of modern concepts of healthy lifestyle and food for a balanced diet.

Along with the production and sales of food products, Valio specializes in the development and implementation of innovative technologies in food manufacturing. In this regard, the company's activities include the licensing business - selling the rights to use the company's unique technologies, such as LGG bacterium, which has beneficial effects on the human immune system, and Valio Eila – lactose free milk production technology (adopted from Valio.com [Ref. 11.10.2016])

### **Competitors**

The main competitors of Valio are the following companies: Arla Foods, Danone, Centrale del Latte di Torino & Co. SpA, Pieno Zvaigzdes AB and Ornuu. (DairyNews.ru, [Ref. 11.10.2016])

### **Russian subsidiary**

As it was pointed out earlier in this paper, Finland is not the only important market for Valio. The key markets for the company are also Sweden, to which the company exports its milk products; Estonia, where the company has two production plants and manufactures dairy products under the brands: Valio Gefilus, Alma and Atleet cheeses; and finally the Russian Federation market.

Russia is one of the most important markets for the Valio Group. For over a hundred years, the company cooperates with this country. In 2014, before embargo, sales in Russia accounted for 34% of the company's export.

In its turn, Valio is an important supplier of dairy products to Russia. For instance, in 2013-2014 Valio Group was the biggest foreign supplier of cheese to Russia, and accounted for 11.3% of Russian cheese import.

In Russia, the concern is represented by its subsidiary «ООО Valio» - non-public joint-stock company, which was founded in 1994 in St. Petersburg. The activity areas of the company are: production and sales of products that are manufactured on a single own factory "Ershovo" in Russia; production and sales of products that are manufactured with the help of partner companies; import of non-dairy lactose-free products from Finland.

The main object for Valio Group's investment and development in Russia is the production plant "Ershovo", in which 4 bln. roubles has already been invested [28].

Valio's environmental system is certified in accordance with the ISO 14001, and thus company uses the uniform requirements to the quality of raw materials, production process and consumer properties of finished products and packaging in its worldwide production.

The company has implemented a quality management system in accordance with the recommendations of the ISO9001 standard, and "Ershovo" meets all the quality standards of the Group and moreover, has a certificate of compliance with the NASSR system [27].

## **Personnel**

The average number of employees in Valio Group in 2015 decreased by 9.1% to 4 272 in comparison with previous year when it stood at 4 662.

On average, 3 437 employees (2014: 3 734) worked in Finland and 835 (2014: 928) in foreign subsidiaries. Of the foreign subsidiaries, the highest number of staff was found in Estonia, on average 391 employees (2014: 367), and Russia, on average 360 employees (2014: 475). At the end of the financial year, the number of

employees in Estonia stood at 396 (2014: 367), and in Russia at 386 (2014: 354).

Personnel distribution by gender in 2015 was 56% male and 44% female (2014: 53% and 47%).

The average age of employees of Valio Group remained stable over the last two years and in 2015 was 42 years.

### **Financial performance of the company**

In 2015, Consolidated net sales of Valio Group totalled EUR 1 718 million. In the previous year consolidated net sales of the company were 13.5% higher and amounted to 1 950 million euros, which is 3.9% less than in 2013, when it stood at EUR 2.029 million.

Domestic net sales of Valio Group stood at EUR 1 116 million (EUR 1 264 million). Net sales from international operations totalled EUR 602 million (EUR 686 million). Valio Ltd net sales totalled EUR 1 498 million (EUR 1 714 million).

Consolidated profit before taxes was EUR 15 million in 2015, which is a positive indicator, as in 2014 the company had a consolidated loss of EUR -27 million.

Valio Group's net profit for the financial year 2015 stood at EUR 13 million, and EUR -36 million in 2014.

In August 2014 favourable conditions for export in Russia were damaged with Russian Embargo on food products. Due to this circumstance Valio had to sell its products that were prepared for Russian market on other markets. Millions liters of milk had to be processed to butter and milk powder, and then forwarded to the world market where the prices were at a record low.

The situation that prevailed in Valio Group's business operations in late 2014 and 2015 continued in 2016. The generally weak economic conditions in Finland, glob-

al oversupply of milk and Russia's import embargo, affected the profitability the company's business operations.

Moreover, in spring 2015 the EU's milk quota system is abolished. That may increase milk production in Europe, impact industrial product prices, and further increase pressure on the importation of dairy products into Finland.

Despite the weak economic situation and challenging market conditions, Valio is building a platform for growth in the financial year 2016, especially with consumer products on international markets. The goal for growth is based above all on high-quality ingredients, a competitive product range, strong brand, extraordinary know-how, and Valio's overall efficiency.

In addition to the volatility in the global economy, geopolitical uncertainty makes it difficult to anticipate development in the latter half of the year. (Valio Group Board of Directors' Report and Financial Statements 2015, 5 - 7)

### **Legal procedures**

26.06.2014 the Market Court took a decision regarding the charge presented by the Finnish Competition and Consumer Authority and the related demand for a sanction for abuse of market position in the manufacture and wholesale of basic milks in Finland from 1 March 2010 to 31 August 2012. The decision was handed down to Valio Ltd. The decision of the Market Court involves a sanction of 70 000 000 €, which Valio Ltd has recorded under provisions in the financial statements for 2014.

Furthermore, Osuuskunta Satamaito, Osuuskunta Maitomaa, Osuuskunta Maitokolmio, Juustoportti ILO Oy and Ilmajoen Osuusmeijeri (hereinafter collectively "the small dairies"), announced to Valio Ltd on 18 December 2014 that due to Valio's alleged competition violation the small dairies have incurred damages totaling EUR 43 660 09, plus any interest and costs that might result from the handling of the claim, for which if found culpable Valio Ltd would be obliged to compensate

them in full.

As Valio Ltd considers both the proposition submitted by the Finnish Competition and Consumer Authority to the Market Court and the decision of the Market Court to be unfounded, and the case regarding the abuse of market position is pending in the Supreme Administrative Court, Valio sees no grounds for the claims for damages presented by Arla Oy and the small dairies. Thus, these claims have not been included under company's provisions in the financial statements. (Valio Group Board of Directors' Report and Financial Statements 2015, 2)

### 3.2 Analysis of financial reports of Valio Group

#### 3.2.1 Analysis of the company's Balance Sheets 2013 - 2015

For a more representative analysis of Valio's balance sheets the balance sheet was prepared. (Appendix 2)

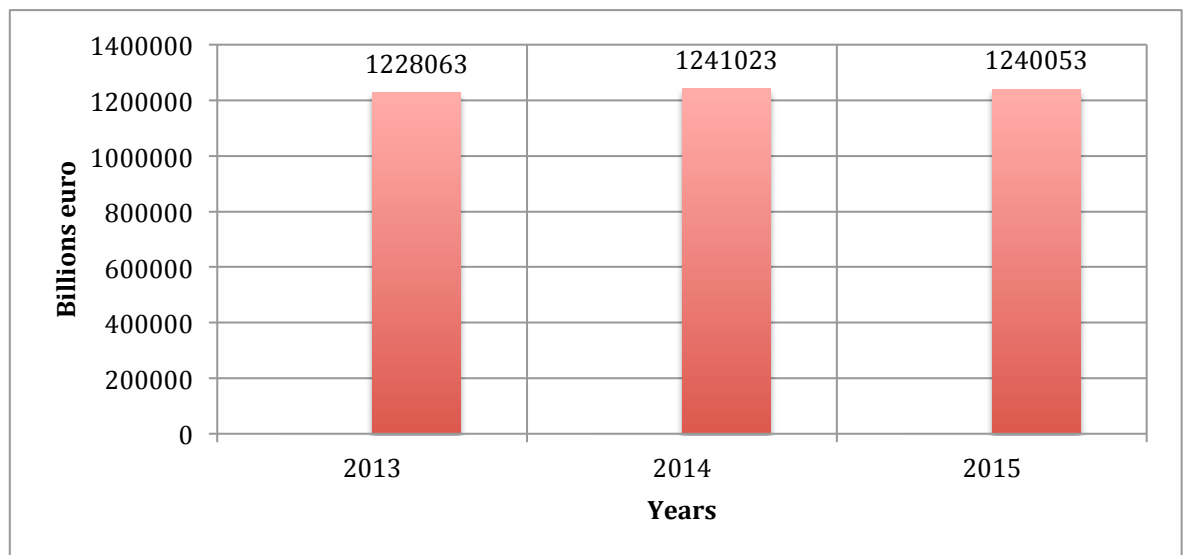


FIGURE 4. Valio balance-sheet total in dynamics 2013-2015, thousand EUR

According to Figure 4, from 2013 to 2014 balance of Valio Group has been growing slowly. However, in 2015 balance of the Valio slightly decreased by 0,08%,

which can be explained by influence of Russian embargo imposed in August 2014

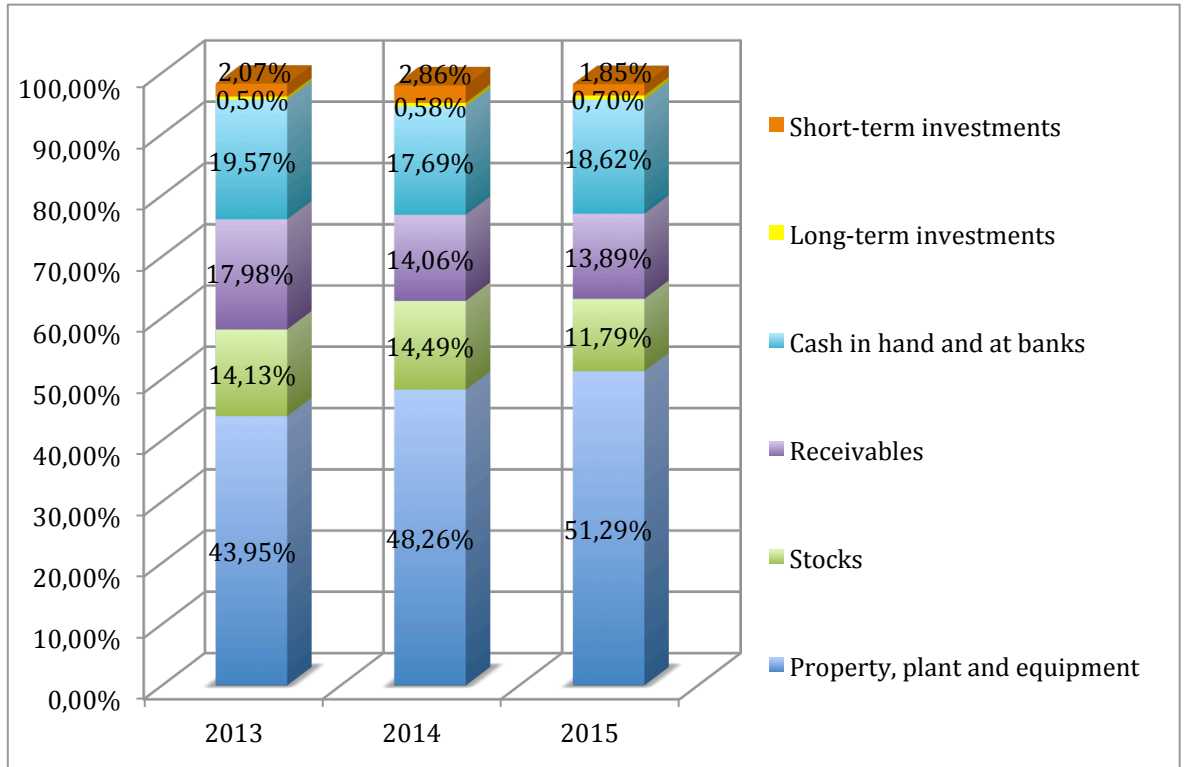


FIGURE 5. Valio Group assets structure in 2013-2015, % to total assets

As can be seen from the Figure 5, assets structure of the company has been relatively stable over the past three years. It can be noticed, that in 2015, Valio's stocks has been decreased by 2.7%. Moreover, there was a slight increase of 3.03% in share of fixed assets of the company.

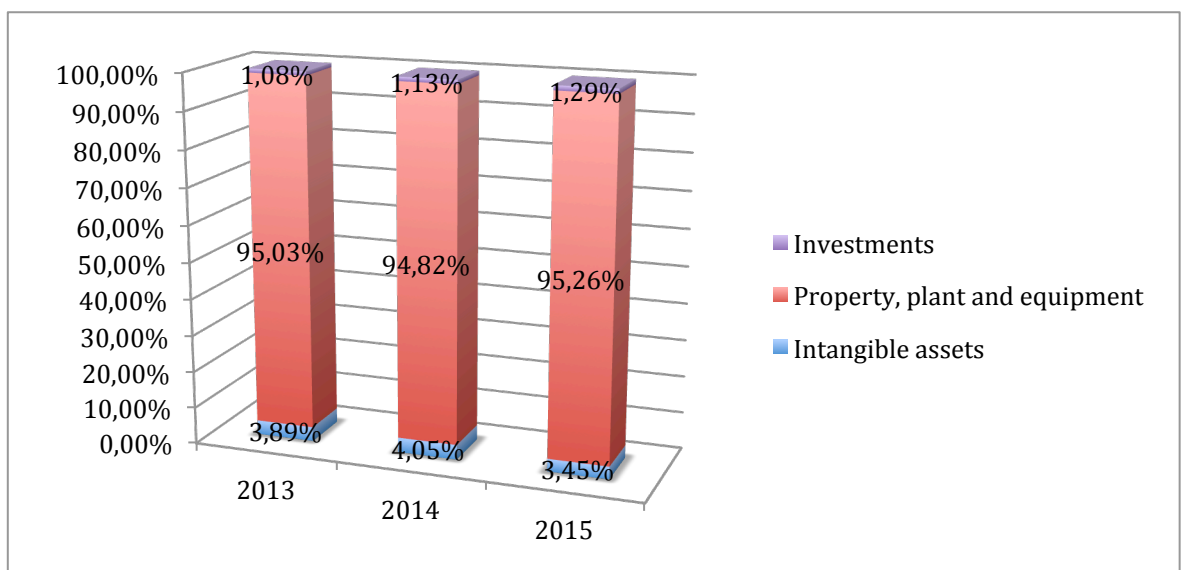




FIGURE 6. Valio Group non-current assets' structure in dynamics, % to non-current assets

From Figure 6, it can be allocated that structure of the company's non-current assets has not had significant changes over the last 3 years. Property, plant and equipment occupied the primary share among company's non-current assets, and accounted for 95.26% in the end of 2015.

Furthermore, Valio Group's dynamics of the structure of current assets for the years 2012-2014 is shown in Figure 7.

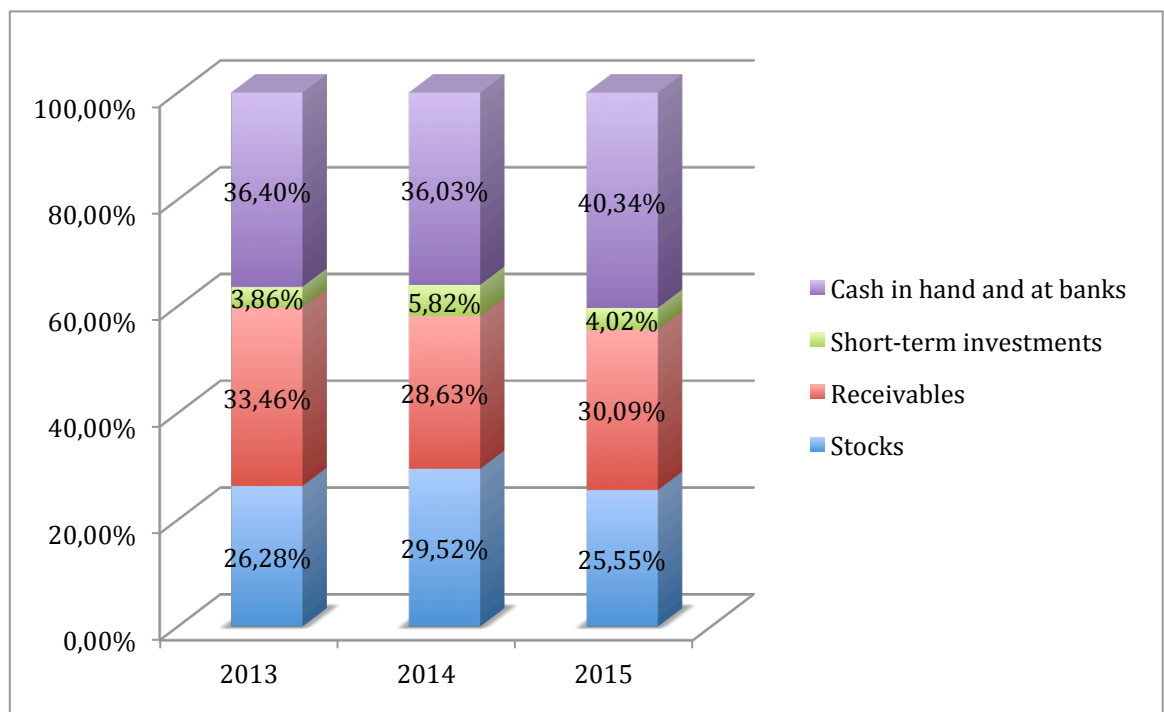


FIGURE 7. Valio Group current assets' structure in dynamics, % to current assets

As it can be seen from the Figure 7, current assets' structure of the company has been relatively stable over the past three years. It can be noticed, that cash occupied the primary share among company's current assets, and even exceeds stocks.

In 2015, Valio's cash in hand and at banks position has been increased by 4.31%, which resulted in higher liquidity indicator than in the previous years.

## Analysis of the sources of Valio assets

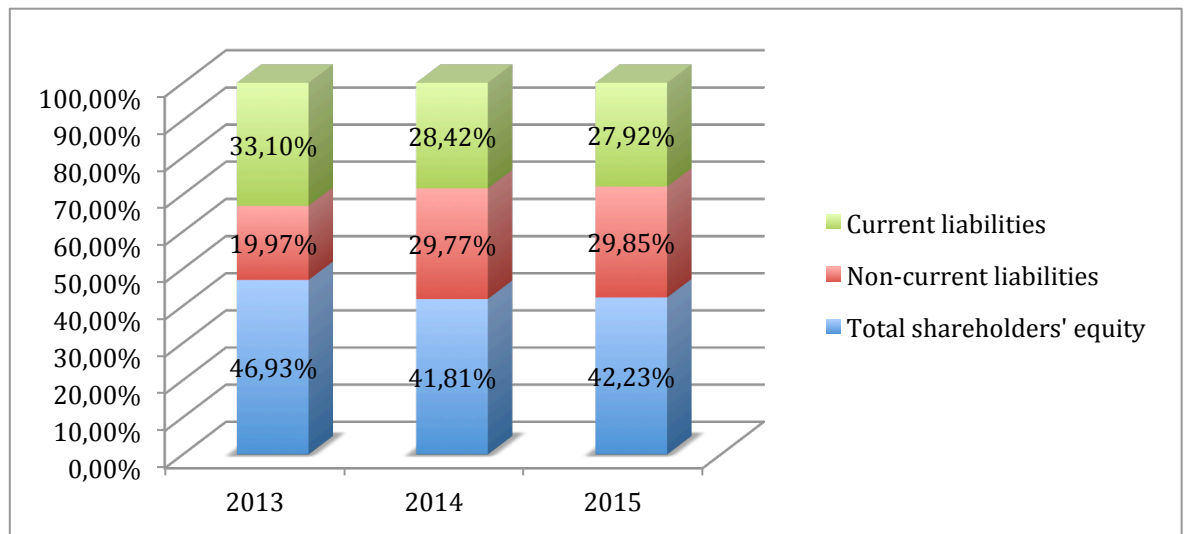


FIGURE 8. Overall structure of Shareholders' equity and total liabilities of the Valio Group for 2013 - 2015, %

According to Figure 8, it can be seen that overall structure of company's liabilities and equity has been relatively stable over the analysed years. Total liabilities exceed shareholder's equity and in 2015 accounted for 57.77% of the total number.

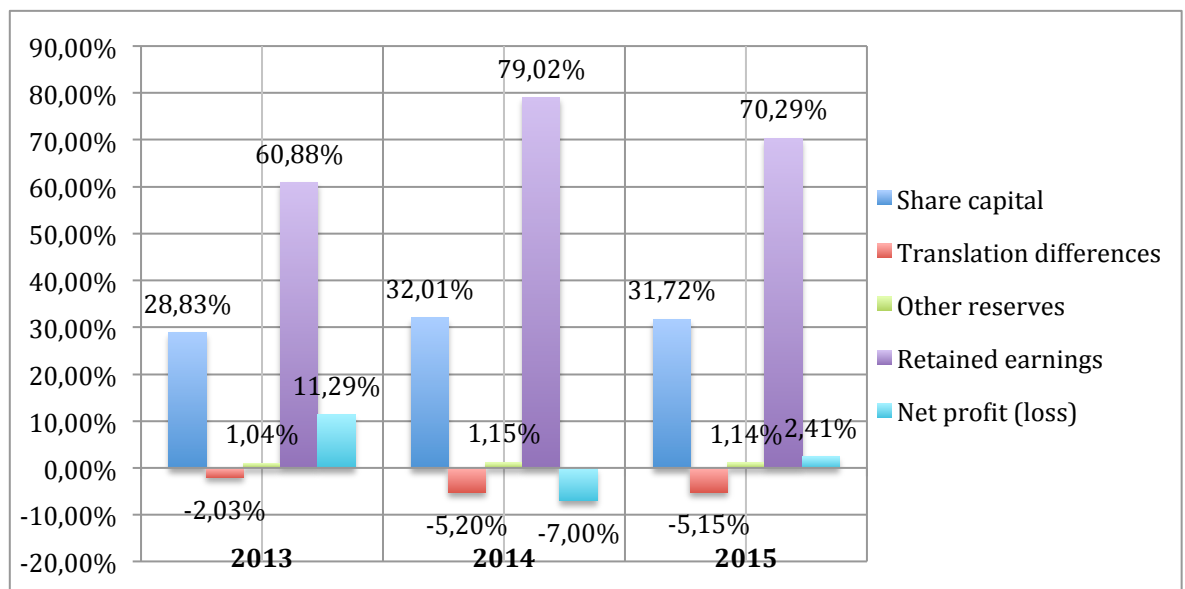


FIGURE 9. Overall structure of Shareholders' equity and total liabilities of the Valio Group for 2013 - 2015, %

As can be seen from the Figure 9, equity structure of the company has been relatively stable over the past three years. Retained earnings occupied the primary share of the Shareholders' equity.

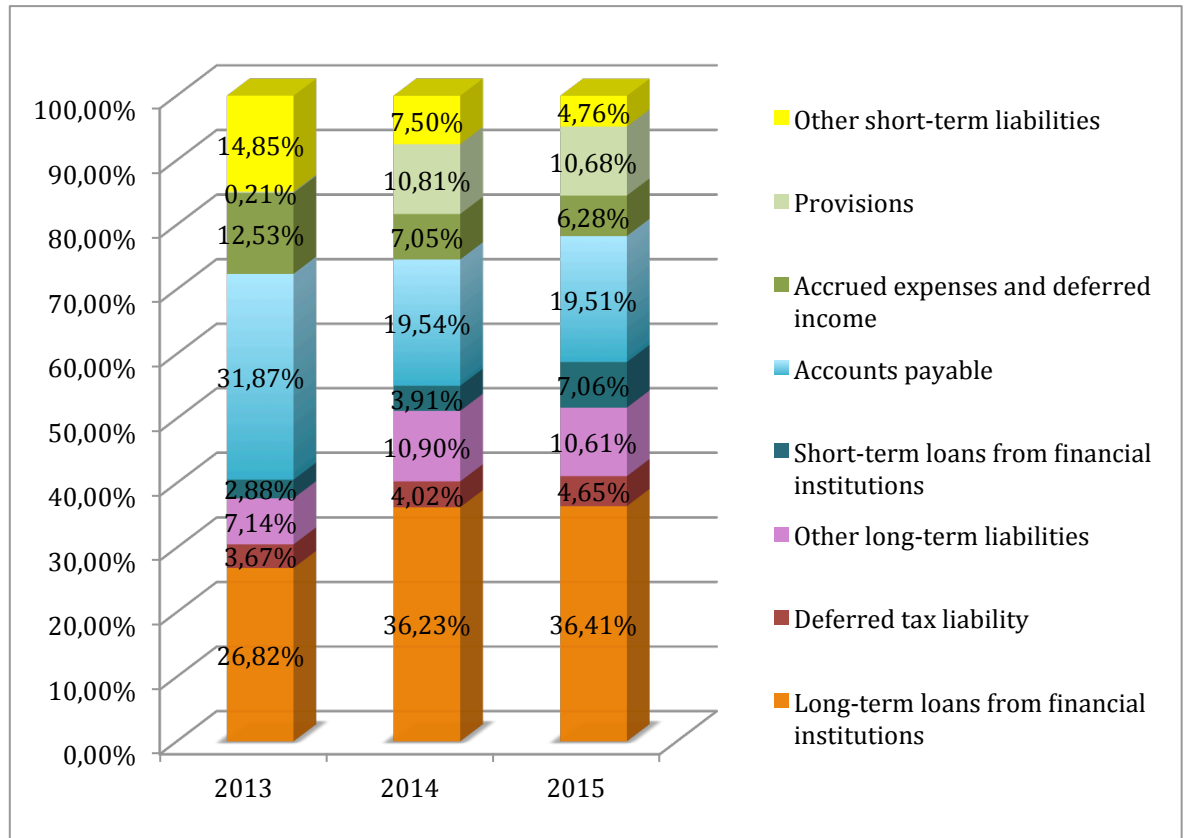


FIGURE 10. Structure of total liabilities of the Valio Group for 2013 - 2015, %

According to Figure 10, share of long-term loans from financial institutions has grown from 26.82% in 2013 to 36.41%. Short-term loans also have been increased from 2.88% in 2013 to 7.06% in 2015.

At the same time, it can be noticed, that share of accounts payable has been decreased by 61.22% in comparison with the same indicator in 2013, and by the end of 2015 accounted for 19.51% of total liabilities of the Valio Group. This means that company increased its control over accounts payable.

Moreover, in 2014 and 2015 new position in liabilities appeared – Provisions. Provisions were created to pay the fine of EUR 70 million, imposed by Market Court. The fine came in response to an inquiry requested by Finland's second-biggest

dairy company, Arla. The Market Court found Valio guilty of abusing its dominant market position to dump milk prices below its production costs in 2010-2012.

### 3.2.2 Analysis of the company's Income Statements 2013 - 2015

For more representative analysis the comparative Income was prepared, where percentage and absolute changes in amounts were calculated. (Appendix 1)

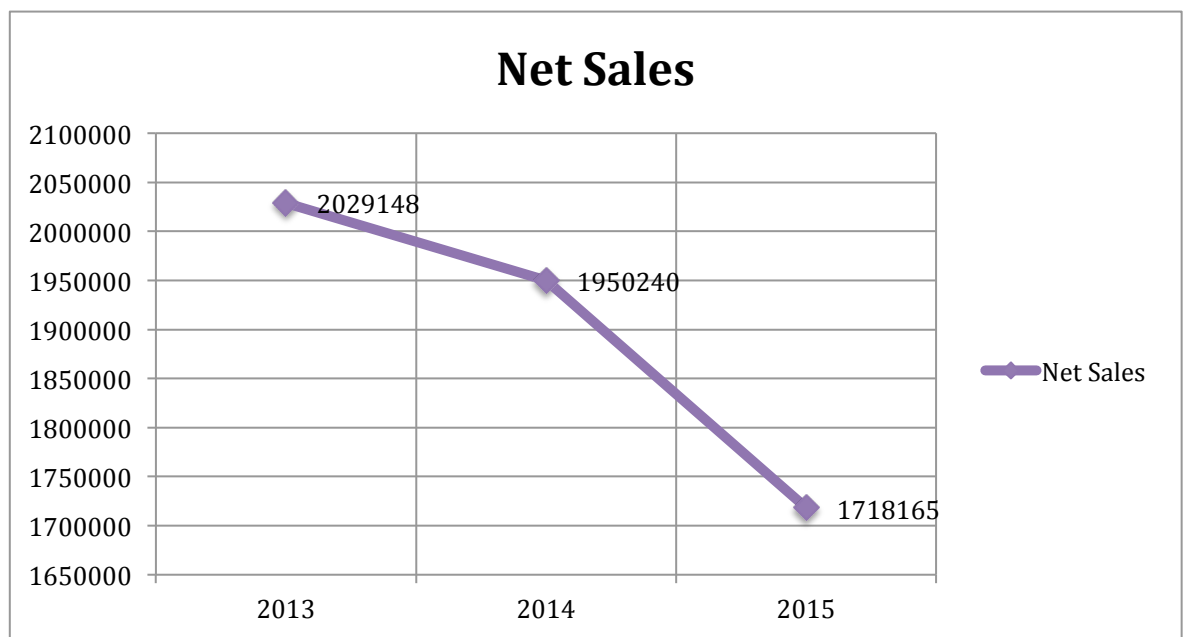


FIGURE 11. Net sales of Valio Group in 2013 – 2015

According to Figure 11, Net sales of the company have been decreasing over the analysed period. In 2015 net sales accounted for EUR 1,718,165,000 which is 11.90% less than in 2014. The reasons behind this decrease in sales are Russian embargo, strong competition on dairy market and declined EU milk quotas that already were described on the page 30 of the given thesis.

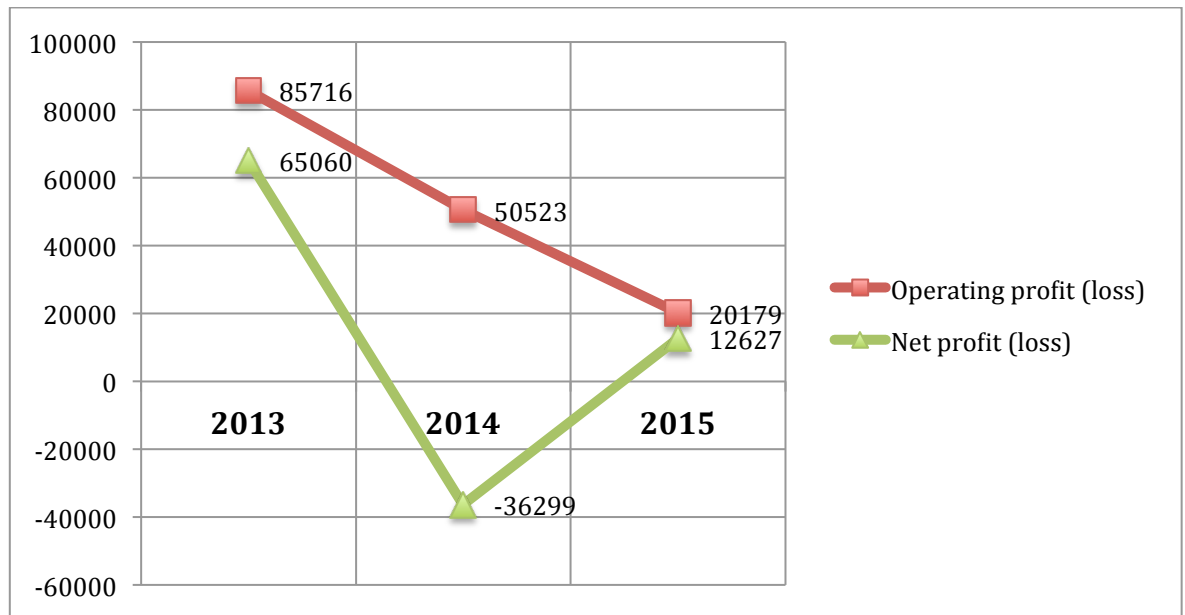


FIGURE 12. Operation profit and Net profit of Valio Group in 2013 – 2015

As it can be seen from the Figure 12, over the past three years operation profit and net profit of the company have been decreasing significantly.

Operation profit of the company in 2015 accounted for EUR 20179000, which is 60.06%, less than in the previous year. In pre-crisis 2013 operation profit of the company was EUR 85716000, which is 76.46% bigger than in 2015.

However, as it can be noticed from Figure 12, the Net profit of the company has increased in 2015 by 134% in comparison to 2014. The reason for this paradox is the sanction of EUR 70000000 imposed by Market Court and recorded in 2014, which was described previously in this document.

Thus, the Net profit of Valio Group increased while Operating profit kept decreasing.

## 4 ANALYSIS OF FINANCIAL STABILITY OF VALIO GROUP

### 4.1 Estimation of financial stability of the company based on the analysis of correlation of equity to debt

As an optimal structure of the sources of capital and structure of assets have a significant impact on the financial stability of the enterprise, first of all, the sources of the capital structure of the company, the degree of financial stability and the financial risk need to be analysed.

#### 1. Equity to assets ratio

$$\text{Equity to assets ratio} = \frac{\text{Equity}}{\text{Total assets}}$$

TABLE 6. Calculation of equity to assets ratio

2013	2014	2015
576278/1228063 = 0.47	518919/1241023 = 0.42	523722/1240053 = 0.42

Financial position of the company is considered to be stable when Equity to assets ratio is not less than 0,5. In this case the half of the company's assets is formed from its own funds, and therefore, the company is able to cover all its liabilities.

For banks and creditors, the higher equity to assets ratio is, the more stable the company is for investing in it.

According to calculations in Table 6, In Valio company the equity to assets ratio has been decreasing over the analysed period. Therefore, the company becomes more dependent on financial investments from third parties and, thus, it is less stable.

## 2. Debt-to-assets ratio

$$\text{Debt-to-assets ratio} = \frac{\text{Total liabilities}}{\text{Total assets}},$$

TABLE 7. Calculation of debt to assets ratio

<b>2013</b>	<b>2014</b>	<b>2015</b>
651785/1228063=0.53	722104/1241023 =0.58	716331/1240053 =0.58

Debt-to-assets ratio is considered to be the most optimal when it equals to 0,5. In this case equity and liabilities are balanced, and thus the company is not dependent on creditors, but at the same time does not lose an opportunity to increase its return on equity.

## 3. Ratio of current debt

$$\text{Ratio of current debt} = \frac{\text{Current liabilities}}{\text{Total assets}},$$

TABLE 8. Calculation of ratio of current debt

<b>2013</b>	<b>2014</b>	<b>2015</b>
406507/1228063=0.33	352691/1241023=0.28	346192/1240053=0.28

Ratio of current debt is considered to be the most optimal when it equals to 0,1 - 0,2. As it can be seen in the Table 8, in Valio Group ratio of current debt has been exceeding recommended value over the analysed period.

## 4. Financial stability ratio

The given ratio compares company's equity and long-term liabilities to total assets.

$$\text{Financial stability ratio} = \frac{\text{Equity} + \text{Long-term Debt}}{\text{Total assets}},$$

TABLE 9. Calculation of financial stability ratio

2013	2014	2015
$(576278+245278)/$ 1228063=0.67	$(518919+369413)/$ 1241023=0.72	$(523722+370139)/$ 1240053=0.72

Financial stability ratio is considered to be the most optimal when it equals to 0,8 - 0,9.

According to calculations in Table 9, financial stability index of Valio Group has been less than recommended value. However, it can be noticed that the index has been growing over the analysed period, which is a positive tendency.

#### 5. Solvency ratio

In some sources the given ratio is also called a coefficient of covering debt with equity (Savitskaya 2009, 290) or coefficient of financing (Lavryshin 2011, 90).

The given ratio shows which part of the enterprise's activities is financed by its own funds and which one by borrowed capital.

$$\text{Solvency ratio} = \frac{\text{Equity}}{\text{Liabilities}}$$

If the ratio's value is less than 1, this means that the majority of the company's property is formed by means of borrowed funds. In this case, the ratio may indicate the danger of insolvency and make it more difficult to access to credit.

TABLE 10. Calculation of solvency ratio

2013	2014	2015
576278/651785=0.88	518919/722104=0.72	523722/716331=0.73

As it can be seen from the Table 10, over the analysed period Valio Group has had a solvency ratio lower than recommended value, which is, in its turn, a negative factor.



## 6. Debt to equity ratio

The debt to equity ratio is a financial, liquidity ratio that compares a company's total debt to total equity.

$$\text{Debt to equity ratio} = \frac{\text{Total liabilities}}{\text{Equity}},$$

TABLE 11. Calculation of debt to equity ratio

<b>2013</b>	<b>2014</b>	<b>2015</b>
651785/576278=1.13	722104/518919=1.39	716331/523722=1.37

Each industry has different debt to equity ratio benchmarks, as some industries tend to use more debt financing than others. A debt ratio of 0.5 means that there are half as many liabilities than there is equity. A debt to equity ratio of 1 would mean that investors and creditors have an equal stake in the business assets. A lower debt to equity ratio usually implies a more financially stable business. Companies with a higher debt to equity ratio are considered more risky to creditors and investors than companies with a lower ratio.

## 7. Net assets of the company

According to many researchers, for estimation of company's financial stability it is necessary to analyse net assets of the company and their share in total assets.

Net assets of the company reflect what will remain for shareholders after covering of all obligations of the enterprise or in case of its liquidation.

There are two methods for calculating net assets exist.

1<sup>st</sup> method:

$$\text{Net assets} = \text{Total assets} - \text{total liabilities} = \text{Equity}$$

TABLE 12. Calculation of net assets by 1<sup>st</sup> method

Particulars	2013	2014	2015
Net assets (NA), thousand EUR	1228063 -651785 =576278	1241023 -722104 = 518919	1240053 -716331 = 523722
Share of NA in total assets	46,93%	41,81%	42,23%

2<sup>nd</sup> method:

The given method of net assets' calculation is used for analysis of indicators of financial stability.

Net assets = Current assets + non-current assets – current liabilities = Equity + long-term assets = Permanent capital;

or Net assets = total assets – current liabilities.

TABLE 13. Calculation of net assets by 2nd method

Particulars	Years			Changes 2013/2014		Changes 2014/2015	
	2013	2014	2015	Absolute, thousand euro	Increase/decrease, %	Absolute, thousand euro	Increase/decrease, %
Net assets (NA), thousand EUR	1228063-406507 =821556	1241023-352691 =888332	1240053-346192 =893861	66776	8,13	5529	0,62
Share of NA in total assets	67%	72%	72%				

As it can be seen from the Table 13, the share of net assets in total assets of the Valio Group has been increasing over the analysed period.

## 4.2 Analysis of financial stability of the company by means of liquidity indicators

Liquidity indicators characterize the company's ability to satisfy the claims of holders of short-term debt. The following liquidity indicators exist:

- Current liquidity ratio;
- Quick ratio;
- Absolute liquidity ratio;
- Liquidity ratio at fund-raising
- Net working capital.

### Current liquidity ratio;

The given ratio compares company's current assets and current liabilities, and shows which part of the current liabilities can be covered when all current assets are mobilized.

$$\text{Current liquidity ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

TABLE 14. Calculation of current liquidity ratio

2013	2014	2015
660128/406507=1.62	609372/352691=1.73	572386/346192=1.65

According to table 14, Valio Group has normal current liquidity ratio. Normal current liquidity ratio equals to 1 – 2.

Neither high nor low current ratio is considered to be favourable. Indicator that is below 1 means that company cannot cover its external liabilities and, thus, it is insolvent. If the indicator exceeds 2 then the company has the capital that is not working. If current assets of the company are equal to current liabilities, and indicator is equal to 1, then the company does not have freedom in making decisions.

### Quick ratio;

The quick ratio (quick assets ratio, the acid-test ratio) - is a liquidity indicator that

further refines the current ratio by measuring the amount of the most liquid current assets there are to cover current liabilities.

The quick ratio is considered to be more conservative than the current liquidity ratio as it excludes inventory and other current assets, which are more difficult to turn into cash. Therefore, a higher ratio means a more liquid current position.

$$\text{Quick ratio} = \frac{\text{Cash \& Equivalents} + \text{Short-term investments} + \text{Accounts Receivable}}{CL}$$

TABLE 15. Calculation of quick ratio

2013	2014	2015
(240293+220857)/ 406507=1.13	(219573+174444)/ 352691=1.12	(230893+172253)/ 346192 =1.16

Quick ratio is considered to be the most optimal when it equals to 0,6 - 1,0. The given indicator shows which part of the current liabilities of the company can be immediately covered at the expense of funds in various accounts, short-term securities, as well as income from settlements with debtors.

As it can be seen in the Table 15, in Valio Group quick ratio slightly exceeds the optimal value. Therefore, the company has not too many stocks, which is a positive factor.

### **Absolute liquidity ratio;**

The absolute liquidity ratio (cash ratio) is an indicator of a company's liquidity that further refines both the current ratio and the quick ratio by measuring the amount of cash, cash equivalents or invested funds in current assets, which are there to cover current liabilities.

Absolute liquidity ratio is important because there are many factors exist that affect liquidity of funds that were invested in receivables, such as for instance: the rate of payment documents in the banks, the timely execution of bank documents, the terms of commercial credit to customers and their ability to pay. In this regard, a

litmus test of the current solvency of the company can be absolute liquidity ratio, which value must be between 0.2 - 0.5.

$$\text{Absolute liquidity ratio} = \frac{\text{Cash \& Cash Equivalents} + \text{Invesed Funds}}{\text{Current Liabilities}},$$

TABLE 16. Calculation of absolute liquidity ratio

2013	2014	2015
(240293+25473)/ 406507=0.65	(219573+35481)/ 352691=0.72	(230893+22994)/ 346192=0.73

According to calculations in Table 16, Valio Company has increased value of absolute liquidity ratio. This is a positive factor, as it means that the company has not big share of receivables.

### Liquidity ratio at fund-raising

Another liquidity ratio, which needs to be calculated for the better analysis, is the liquidity at fund raising ratio, which characterizes the degree of solvency of the company provided by stocks.

$$\text{Liquidity ratio at fund-raising} = \frac{\text{Stocks}}{\text{Current liabilities}},$$

TABLE 17. Calculation of liquidity at fund-raising ratio

2013	2014	2015
(240293+25473)/ 406507=0.65	(219573+35481)/ 352691=0.72	(230893+22994)/ 346192=0.73

Liquidity ratio at fund-raising is considered to be the most optimal when it equals to 0,5 - 1.

According to calculations from Table 17, Valio Group's liquidity ratio at fund-raising is slightly less than recommended value.

### Net working capital (NWC)

Net working capital = current assets – current liabilities

TABLE 18. Calculation of net working capital of Valio Group

2013	2014	2015
660128-406507= 253621	609372-352691= 256681	572386-346192= 226194

As follows from Table 18, Valio Group has positive NWC. Obviously, a positive net working capital is better than a negative one. A positive calculation shows creditors and investors that the company is able to generate enough from operations to pay for its current obligations with current assets. Moreover, a large positive measurement could also mean that the company has available capital to expand rapidly without taking on new, additional debt or investors. Therefore, the company can fund its own expansion through its current growing operations.

A negative net working capital, on the contrary, would show creditors and investors that the operations of the company are not producing enough to support the business' current debts.

### 4.3 Defining the degree of financial leverage

It is preferable for any company that both own and borrowed funds provide a return in the form of profit. Therefore, Valio Group can increase the return on equity by means of bank loans. In the theory of financial management this is called the effect of financial leverage.

Degree of financial leverage (DFL) is an indicator of the change in the profitability of company's funds, obtained through the use of borrowed funds (FORMULA 1).

$$DFL = (1 - t) \times (ROA - r) \times \left(\frac{D}{E}\right),$$

Where: DFL – Degree of financial leverage, %;

t – income tax, in relative amount;

ROA – return on assets, %;

r – rate of interest on debt capital, %;

D – debt capital;

E – shareholders' equity.

TABLE 19. Calculation of DFL Valio Group

Particulars	2013	2014	2015
Equity, thousand EUR	576278	518919	523722
Total liabilities, thousand EUR	651785	722104	716331
Total shareholders' equity and liabilities, thousand EUR	1228063	1241023	1240053
Operational profit, thousand EUR	85716	50523	20179
Other income	2816	5712	3796
Extraordinary expenses	-	70100	-
Interest and other financial expenses, %	1.63%	1.87%	1.24%
Interest and other financial expenses, thousand EUR	10598	13520	8899
Tax rate, %	22%	18%	7%
Profit (loss) before appropriations and taxes, thousand EUR	77934	-27385	15076
Income tax, thousand EUR	16874	4826	1108
Net income, thousand EUR	65060	-36299	12627
ROA, %	85716/122808 3=6.98%	50523/1241023 =4.07%	20179/1240053 = 1.63%
ROE, %	65060/576278 =11.29%	-36299/ 518919 =-7.00%	12627/523722 =2.41%
DFL, %	$(1 - 0.22)$ $\times \left( \frac{85716}{1228063} - 0,0163 \right)$ $\times \left( \frac{651785}{576278} \right)$ =4.74%	$(1 - 0.18)$ $\times \left( \frac{50523}{1241023} - 0,0187 \right)$ $\times \left( \frac{722104}{518919} \right)$ =3.60%	$(1 - 0.07)$ $\times \left( \frac{20179}{1240053} - 0,0124 \right)$ $\times \left( \frac{716331}{523722} \right)$ =0.49%

According to the calculations from Table 19, in 2013 Valio Group increased the profitability of its funds by 4.74% through the use of borrowed funds. In 2014 DFL effect was less and accounted for 3.60%. In 2015 DFL effect was minimal and accounted for 0.49%.

#### **4.4 Analysis of financial equilibrium of debit to credit**

Financial stability of the company can be revealed through the study of equilibrium of debit and credit in the balance sheet.

Analysis of equilibrium of debit and credit is the basis of the assessment of financial stability and solvency of the company. This equilibrium is provided at the expense of the balance of inflow and outflow of funds, which, in its turn, is achieved through the balance of assets and liabilities (in terms of use and by cycles).

##### **- Correlation between current assets and sources of its forming.**

As a rule, permanent capital (equity + long-term borrowings) is the main source of fixed assets' financing.

Current assets can be formed at the expense of equity and short-term borrowings. The preferred ratio is 50% at the expense of equity, and the remaining 50% - borrowed capital. Such ratio would provide a guarantee of repayment of external debt, as well as the optimal value of the liquidity ratio, which equals to 2 [7].

To find the value of net working capital of the company current liabilities should be subtracted from current assets.

Shares own and borrowed capital in the forming of current assets can be defined by means of the following formulas:

$$\text{Share of equity} = \frac{\text{Working capital financed by owner's equity}}{\text{Current assets}},$$



Working capital financed by owner's equity = Equity – Non-current assets,

$$\text{Share of liabilities} = \frac{\text{Current liabilities}}{\text{Current assets}} .$$

TABLE 20. Defining of share of equity and liabilities in forming of Valio's current assets

Particulars	2012	2013	2014
Current assets, thousand EUR	660128	609372	572386
Current liabilities, thousand EUR	406507	352691	346192
Net working capital, thousand EUR	253621	256681	226194
Share in forming of current assets:			
Equity	0.38	0.42	0.35
Liabilities	0.62	0.58	0.65

According to the Table 20, it can be seen that share of equity in forming of current assets has been decreasing over the analysed period. By the end of 2015 the share of equity accounted for 35% of the total sources that are forming the current assets.

The increase of liabilities' share in forming of current assets indicates that Valio Company has become more dependent on investors, and thus its financial stability has decreased.

- **Analysis of correlation between accounts receivable and accounts payable.**

For estimation of financial stability of the Valio Group it is vital to analyse the correlation between accounts receivable and accounts payable.

It is preferable for the company that its accounts receivable and accounts payable are balanced by values and payback periods.

Ratio of accounts receivable to accounts payable characterizes correlation between diverted funds and funds that have been attracted to the company.

$$\text{Accounts receivable to accounts payable ratio} = \frac{\text{Accounts receivable}}{\text{Accounts payable}}$$

TABLE 21. Calculation of accounts receivable to accounts payable ratio of Valio Group

Particulars	2013	2014	2015
Accounts receivable, thousand EUR	220857	174444	172253
Accounts payable, thousand EUR	207722	141134	139737
Accounts receivable to accounts payable ratio	1.06	1.24	1.23

According to the calculations from Table 21, accounts receivable have been exceeding accounts payable over the analysed period. In other words, there have been more diverted funds than funds that have been attracted to the company. Thus, the company should strengthen control over the debt collection.

#### 4.5 Defining the type of financial stability of the company

The type of financial stability of the company can be defined by estimating its surplus or lack of planned sources for forming stocks. [19]

There are four types of financial stability exist.

1. Absolute short-term financial stability  
Stocks < Working capital financed by owner's equity
2. Normal short-term financial stability  
Working capital financed by owner's equity < Stocks < Planned sources of financing
3. Not stable (pre-crisis) condition  
Stocks < Planned sources of financing < permanently free sources of financing
4. Crisis condition. Company is close to bankruptcy.  
Equilibrium of balance of payments is provided by overdue payments (wages, bank loans, payments to suppliers and government budget).

Stocks < (Planned sources of financing + permanently free sources of financing)

Calculation and defining of level of endowment with planned sources for forming stocks is provide in Table 21.

TABLE 22. Estimation of Valio Group's level of endowment with planned sources of forming stocks

<b>Particulars</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Stocks, thousand EUR	173505	179874	146246
Normal sources of stocks' forming, including:	660128	609372	572386
Working capital financed by owner's equity, thousand EUR (Equity – Non-current assets)	576278- 567935= 8343	518919- 631651= -112732	523722 - 667667= -143945
Short-term liabilities, thousand EUR	406507	352691	346192
Long-term liabilities, thousand EUR	245278	369413	370139

According to Table 22, after estimating company's surplus or lack of planned sources for forming stocks the following inequality has been discovered for Valio Group: Working capital financed by Valio owner's equity < Stocks < Planned sources of financing.

The given inequality indicates that the company has lack of working capital financed by owner's equity. At the same time, Valio's planned sources of stocks' financing exceed stocks due to long-term and short-term liabilities.

Therefore, it can be concluded that Valio Group has 2<sup>nd</sup> type of financial stability - normal financial stability.

## 5 RECCOMENDATIONS FOR IMPROVING OF FINANCIAL STABILITY OF VALIO GROUP

According to the calculations from the Chapter 4 of this Thesis, Valio Company has normal level of financial stability.

Therefore, for maintaining and improving of the current level of financial stability and solvency the following measures may be recommended:

### 5.1 Increasing of equity to assets ratio

As has already been pointed out earlier in this paper, financial condition of the company can be considered stable if its equity to assets ratio exceeds 0.5. In other words, the half of the company's assets is formed from its own funds, and therefore, the company is able to cover all its liabilities.

Moreover, the given ratio is used by banks and investors as an indicator of company's financial stability, and, therefore, the higher equity to assets ratio is, the more stable the company is considered for investing in it.

TABLE 23. Estimation of Valio Group's level of endowment with planned sources of forming stocks

2013	2014	2015
0.47	0.42	0.42

According to the data provided in Table 23, equity to assets ratio of the company has been decreasing over the analysed period. Therefore, Valio Group is considered to be more dependent on financial investments from third parties and, thus, the company is less financially stable.

## 5.2 Increasing of share of working capital financed by owner's equity

Working capital financed by owner's equity defines the current assets of the company that will be left for the enterprise in case if it will have to cover its current liabilities.

Working capital financed by owner's equity = Equity – Non-current assets.

TABLE 24. Information about the share of the working capital financed by owner's equity of Valio Group

Years			Changes 2013/2014		Changes 2014/2015	
2013	2014	2015	Absolute, thousands euro	Increase/decrease, %	Absolute, thousands euro.	Increase/decrease, %
8343	-112732	-143945	-121075	-1451.22	-31213	27.69

As the data from Table 24 indicates, in 2014 and 2015 Valio had shortage of working capital financed by equity. This means that the company financed its current assets by the means of debt capital.

Therefore, in order to improve financial stability of the company, it can be recommended to increase the share of working capital financed by equity in forming of Valio's current assets. This can be achieved through strengthening of Valio's control over its debt collection.

## 5.3 Strengthening of control over the debt collection

The given measure can contribute to increasing of cash and its equivalents' share in the assets of the company; acceleration of the turnover of working capital; and, the most important in case of Valio Group – endowment with working capital financed by equity's share in forming of current assets.

Furthermore, systematic work with the debtors gives Valio an opportunity to avoid

occurrence of irrecoverable debt.

As a result, the counterparts of the company will not see Valio Group as a source of potential illicit gain, and moreover, will be assured that the company's solvency will not be damaged due to delays in payments for products and services. Information concerning the company's accounts receivable is provided in Table 25.

TABLE 25. Information about accounts receivable of Valio Group

Years			Changes 2013/2014		Changes 2014/2015	
2013	2014	2015	Absolute, thousands euro	Increase/ decrease, %	Absolute, thousands euro.	Increase/ decrease, %
220857	174444	172253	-46413	-21.01	-2191	-1.26

As it follows from Table 25, accounts receivable of the Valio Group Company have been decreasing over the analysed period.

Nevertheless, according to the calculations provided in the Table 21 (Page 50), accounts receivable have been exceeding accounts payable over the last three years. By the end of 2015 accounts receivable to accounts payable ratio has been equal to 1.23, while recommended value is 1. Therefore, the company should strengthen its control over the debt collection in order to become more financially stable.

The main measures of accounts receivable's control that can be recommended to Valio Group are:

- Critical examination of counterparts of the company during the contract documents phase;
- Monitoring of counterparts' financial position within the period of validity of the contract;
- Timely notifications of the legal and the economic security services of the enterprise about the necessity of debt collection.

Besides the abovementioned measures, keeping track of the limitation period and

the period for making a claim to the counterparty is also vital to the company. This task can be delegated to the manager responsible for interaction with these counterparties.

If the company already has overdue receivables, it is necessary to choose the proper method of debt collection.

First of all the company may choose voluntary debt settlement, in order to avoid trial. Voluntary debt settlement includes:

- Fixation of debt size approval of its repayment schedule.  
This method can be used if the debtor has temporary financial difficulties, and there is no likelihood of his bankruptcy. For this purpose, an agreement is made on providing a deferral of payment with the indication of obligation from which the debt arose.
- Compensation for release from obligation agreement  
This method is recommended when the debtor doesn't have the opportunity to repay the debt on the terms of the original contract.  
The companies should rely on agreement on compensation when:
  1. It is expected that the financial position of the debtor will not improve in the near future, or is close to bankruptcy;
  2. Total expenditure on forced debt recovery will exceed value of the debt;
  3. Property, received as compensation, can be implemented quickly without any additional costs.
- Cession of debt to a third party  
This method may be used if the terms of the main contract do not contain a prohibition on the transfer of rights and obligations.
- Measures of operational impact on the debtor  
Fulfillment of obligations may be provided by the penalty, pledge, retention of debtor's property, surety, bank guarantee and other ways provided for by law.

If pre-trial settlements of debt repayment are exhausted, the company should apply to the court. However, it is necessary to evaluate possible results of the trial by

making clear understanding of financial position of the debtor.

If by results of the court proceedings the company does not receive the debt, it is possible to initiate bankruptcy procedure against the debtor (Financial Director. Journal № 12, 2005, 50).

#### 5.4 Decreasing of cash share in the current assets of Valio Group

TABLE 26. Information about structure of current assets of Valio Group

Particulars	2013		2014		2015	
	Amounts, thousand euro	% of total CA	Amounts, thousand euro	% of total CA	Amounts, thousand euro	% of total CA
Current assets (CA), including:	660128	100	609372	100	572386	100
Stocks	173505	26.28	179874	29,52	146246	25.55
Receivables	220857	33.46	174444	28,63	172253	30.09
Short-term in- vestmnets	25473	3.86	35481	5,82	22994	4.02
Cash in hand and at banks	240293	36.40	219573	36,03	230893	40.34

According to Table 26, Cash in hand and at banks has been taking the biggest share in the current assets of the company over the analysed period. Moreover, it demonstrably clear that share cash in hand and at banks has grown from 36.05% to 40.34 during 2015.

Furthermore, the data presented in Table 26 that the share of short-term investments in the current assets of the company has been relatively small over the analysed period. It has been decreased by 1.80% by the end of 2015.

Therefore, it can be recommended to Valio Group to decrease the share of cash in



hand and at banks by means of making short-term investments. The proposed measure can provide additional profit to the company.

### 5.5 Control over stocks' share in the assets of the company

It is a common knowledge that both excess and lack of stocks are equally unfavourable for the enterprise. Data related to stocks of Valio Group is presented in Table 27.

TABLE 27. Information about stocks of Valio Group in 2013 - 2015

Years			Changes 2013/2014		Changes 2014/2015	
2013	2014	2015	Absolute, thousands euro	Increase/decrease, %	Absolute, thousands euro.	Increase/decrease, %
173505	179874	146246	6369	3.67	33628	-18.70

As it is evident from the Table 27, in 2015 Valio Group decreased its stocks share by 18.7% in comparison with the previous year.

Nevertheless, the company should not give up the control over stocks, because due to this measure it is possible to achieve lower production costs, as well as to protect the company from the problems caused by such unexpected situations such as product embargo.

As is well known, in 2014 Russia implied embargo on food imports. Valio Group was not ready to this circumstance. According to Table 27, in 2014 Valio had the biggest amount of stocks. Thus, the company had to sell the surplus of goods that were produced for the Russian market at low prices on other markets.

In order to avoid similar situations in the future, it is necessary to monitor the political and economic situation in the markets where the company operates, as well as select the optimal model of stocks' volume management.

There are various models of optimization of stocks' size exist, among which the most widespread model is the Economic Ordering Quantity model of Wilson. (Investopedia [Ref. 12.11.2016])

Economic Ordering Quantity (EOQ) model can be used to optimize the size of inventories and stocks of finished products.

The optimum size of the order means the volume of a regular supply, which provides the company with necessary amount of reserves and minimizes the total cost of their purchase and storage.

The basis of calculation is the division of costs associated with inventory into two groups:

1. The costs associated with the order batch reserves, which do not depend on the size of the batch.
2. The cost of storage of goods in a warehouse for a certain time, depending on the volume of stocks.

From the standpoint of minimizing the first group of costs it is more profitable for the company to import raw materials or goods in the batches as large as possible.

At the same time, from the standpoint of reducing the second group of costs it is advantageous to minimize the amount of inventory, as the large size of reserves entails high costs for their storage.

Thus, with the increase of the order size, operating costs connected with order placement are reducing while transaction costs for the storage of inventory are increasing and vice versa. EOQ model optimizes batch order size by minimizing the total costs. (Brigham and Besley 2011, 270 – 275).

Total Carrying Cost (TCC) – total costs related the storage of inventory during a

year are calculated by the following formula:

$$TCC = \frac{C \times Q}{2},$$

Where C - carrying cost per unit;

Q/2 - average units in inventory

Total Ordering Cost (TOC) – total yearly costs related to order placement are calculated by the following formula:

$$TOC = \frac{O \times T}{Q},$$

Where O - cost per order;

T/Q – number of orders.

Total Inventory Cost (TIC) is calculated by the following formula:

$$TIC = TCC + TOC$$

It has to be underlined that the EOQ model is implemented for one defined product type. Therefore, it has to be calculated for each product type separately.

Another method of control over stocks that can be recommended to Valio Group is perpetual inventory.

Perpetual inventory is a method of accounting for inventory, which records its sale or purchase immediately through the use of computerized point-of-sale systems and enterprise asset management software. Perpetual inventory provides a highly detailed view of changes in inventory with immediate reporting of the amount of inventory in stock, and accurately reflects the level of goods on hand.

A perpetual inventory system is superior to the older periodic inventory systems because it allows for immediate tracking of sales and inventory levels for individual items, which helps to prevent stock-outs. A perpetual inventory does not need to

be adjusted manually by the company's accountants, except to the extent it disagrees with the physical inventory count due to loss, breakage or theft. (Investopedia [Ref. 12.11.2016])

## 5.6 Interaction with Russian market in conditions of restricted trade

In 2013 and 2014 Valio was the largest foreign supplier-manufacturer of cheese on the Russian market.

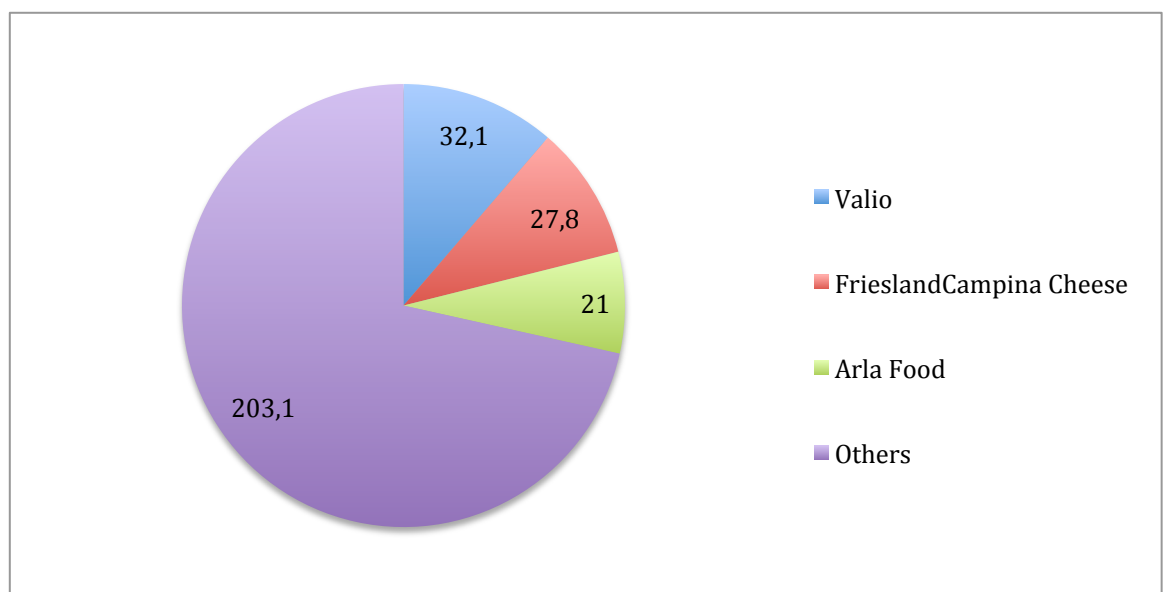


FIGURE 13. The volume of imported cheese supplies to Russia in August 2013 – July 2014, thousand tons

According to the Figure 13, the volume of imported cheese in Russia during the period August 2013 – July 2014 was equal to 32.1 thousand tons, which accounted for 11.3% of total Russian import of cheese.

The second biggest cheese supplier was Friesland Campina Cheese, which accounted for 9.8% of total Russian cheese import with 27.8 thousand tons of finished goods. Arla Food Company took the 3<sup>rd</sup> place in the top foreign suppliers of cheese to the Russian market during 2013 – 2014, with 21000 tons of cheese export to Russia.

Moreover, it also has to be pointed out that before implement of Russian food embargo about 90% of Valio production that was sold in Russia had Finnish origin. Russia accounted for 37% of the company's export.

In order to soften the embargo's consequences Valio Group is trying to compensate the reduction in sales volume by production in Russia. Thus, the company increased the producing goods on its factory "Ershovo" in Moscow region by two times. Due to the launch of a new production line the company managed to increase its production from 4 thousand to 10 thousand tons of cheese per year. Moreover, Valio butter production was established in Russia. In total, 4 billion Roubles have been invested in the plant by now.

Besides production on "Ershovo" plant, the company also markets its products under contract on the lines of Galaxy Company near St. Petersburg, which produces yoghurt Valio Clean Label, bio-product Valio Kefir, milk and cream. Production in cooperation with Galaxy was increased by three times due to embargo.

Nevertheless, its own capacities and contract manufacturing in the "Galaxy" was not enough for the company to cover the damage to exports. In order to establish the production of yogurt, cheese and cottage cheese mousse in Russia, in January 2015 the company signed a contract with the German brand Ehrmann, the facilities of which are placed in Ramenskoye district, Moscow region.

Therefore, due to influence of Russian embargo, from August 2014 the assortment of Valio's products imported to Russia includes non-dairy products of Finnish origin such as spring water, jelly and juices. The company also aims to establish a supply of lactose free products, excluded by Russian government from the list of goods falling under the restrictions. The rest of Valio products, that are marketed in Russian nowadays are produced locally.

The company has not disclosed the data about how it managed to replace exports to Russia with localized production. However, it can be noticed that in 2014 Valio net sales in Russia have decreased by 35%, and accounted for € 258 million. In-

formation connected to sales volume in Russia in 2015 has not been provided by the company in the public domain.

According to the general director of Russian division of Valio Group - Raul Lännsträma (presentation, 2015), in 2015 the company's sales in Russia fell from 8,000 to 2,000 tons per month. Raul Lännsträma considers that this reduction of sales' volume can be explained by the fact that since the introduction of the embargo the prices of dairy products in Russia have increased by 25 - 30%, while cheese consumption has reduced by 25%, and dairy products consumption has decreased by 10 - 15%.

At the same time, with lifting of Russian embargo Valio Group will have to review the correlation between the production of goods for the Russian market in the EU and in Russia. Before the embargo, 90% of Valio's production for Russian market was manufactured in Europe and only 10% in Russia. At the moment, this ratio changed mirrorwise - 90% of products have been manufactured in the Russian Federation, and the rest 10% are imported from the EU. After the abolition of the embargo the company will have to decide how the new ratio will look like. For this it can be recommended to Valio Group to compare the cost of production in Russia and abroad, as well as transportation costs and investments in Russian plant Ershovo.

## 6 CONCLUSION

Under the volatile conditions of the world's economy development, financial stability of the company is the key to its survival and stable position on the market.

Through the study of financial stability of the company it is possible to evaluate the results of its operations, identify strengths and weaknesses, and based on them to make adjustments to the current strategy of development of the enterprise or to develop a new strategy.

Therefore, estimation of financial stability of the company and development of ways for its maintenance and improvement is important and necessary process.

Estimation of financial stability of the company was conducted by means of financial stability indicators, liquidity ratios, calculation of degree of financial leverage, analysis of correlation of accounts receivable and accounts payable analysis of financial equilibrium of debit and credit, estimating of surplus or lack of planned sources for forming stocks etc.

After examination of financial stability of Valio Group it was discovered that even despite the presence of negative conditions, such as the generally weak economic conditions in Finland, global oversupply of milk and Russia's import embargo, the company has normal financial stability.

The company is provided with planned sources of stocks' forming, has permissible values of financial stability and liquidity ratios, and also uses financial leverage effect.

Moreover, due to the analysis of Valio Group's financial statements it was found out that the reason for company's net loss in the year 2014 was a fine of EUR 70 millions implied by Market Court for abuse of dominant position, and not the Rus-

sian embargo.

Furthermore, after conducting the research, the following measures can be recommended for maintenance and improvement of the current level of financial stability and solvency of the Valio Company:

1. To Increase equity to assets ratio;
2. To Increase share of the working capital financed by owner's equity;
3. To strengthen control over the debt collection;
4. To decrease cash in hand and at banks share in the current assets of Valio;
5. To strengthen control over stocks' share in the assets of the company.

Furthermore, it should be also pointed out, that the company should pay more attention to legislation of the countries in which it operates, to avoid legal proceedings in future.

Finally, as Russian embargo will not last forever, it can be recommended to Valio Group to compare the cost of production in Russia and abroad, as well as transportation costs. This procedure is necessary for definition of the new ratio of correlation between the production of goods for the Russian market in the EU and within Russia. Before implying of the embargo Valio has produced 90% of its products for Russian market in EU, while nowadays only 10% of such products are produced there. Therefore the new ratio of production has to be developed, and for its development the company also should consider the investments that were made to the Russian plant during the embargo.



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## APPENDICES

### Appendix 1. Comparative income statement for Valio Group 2013 – 2015

Particulars	2013	2014	2015	Changes 2013/2014		Changes 2014/2015	
				Absolute, thousands euro	Increase/decrease, %	Absolute, thousands euro	Increase/decrease, %
<b>Net Sales</b>	<b>2029148</b>	<b>1950240</b>	<b>1718165</b>	<b>-78908</b>	<b>-3,89%</b>	<b>-232075</b>	<b>-11,90%</b>
Other operating income	36522	40354	35980	3832	10,49%	-4374	-10,84%
Increase/decrease in stocks of finished goods and in work in progress	-13	6834	-34268	6847	-52669,23%	-41102	-601,43%
Production for own use	1069	1177	899	108	10,10%	-278	-23,62%
Raw materials and services	-1293203	-1259358	-1080271	33845	-2,62%	179087	-14,22%
Staff expenses	-222209	-223652	-209458	-1443	0,65%	14194	-6,35%
Depreciation and amortisation	-73339	-80228	-79643	-6889	9,39%	585	-0,73%
other operating expenses	-392259	-384844	-331225	7415	-1,89%	53619	-13,93%
<b>Operating profit (loss)</b>	<b>85716</b>	<b>50523</b>	<b>20179</b>	<b>-35193</b>	<b>-41,06%</b>	<b>-30344</b>	<b>-60,06%</b>
Financial income and expenses	-7782	-7808	-5103	-26	0,33%	2705	-34,64%
Extraordinary items	0	-70100	0	-70100	-	70100	-
<b>Profit (loss) before appropriations and taxes</b>	<b>77934</b>	<b>-27385</b>	<b>15076</b>	<b>-105319</b>	<b>-135,14%</b>	<b>42461</b>	<b>-155,05%</b>
Deferred tax	4000	-4088	-1341	-8088	-202,20%	2747	-67,20%
Income tax	-16874	-4826	-1108	12048	-71,40%	3718	-77,04%
<b>Net profit (loss)</b>	<b>65060</b>	<b>-36299</b>	<b>12627</b>	<b>-101359</b>	<b>-155,79%</b>	<b>48926</b>	<b>-134,79%</b>
Dividends	6645	5814	5482,2	-831	-12,51%	-331,8	-5,71%

## Appendix 2. Comparative Balance sheet for Valio Group 2013 - 2015

Particulars	2013		2014		2015		Changes 2013/2014		Changes 2014/2015	
	Amounts, thousand euro	% of total	Amounts, thousand euro	% of total	Amounts, thousands euro	% of total	Absolute, thousand euro	Increase/decrease, %	Absolute, thousand euro	Increase/decrease, %
1	5	6	7	8	9	10	13 =7-5	14=7:5x100%	15=9-7	16=9:7x100%
<b>Assets</b>										
<b>Total non current as-sets</b>	<b>567935</b>	<b>46,25</b>	<b>631651</b>	<b>50,90</b>	<b>667667</b>	<b>53,84</b>	<b>63716</b>	<b>11,22%</b>	<b>36016</b>	<b>5,70%</b>
Intangible assets	22121	1,80	25565	2,06	23035	1,86	3444	15,57%	-2530	-9,90%
Property, plant and equipment	539692	43,95	598933	48,26	635990	51,29	59241	10,98%	37057	6,19%
Investments	6122	0,50	7153	0,58	8642	0,70	1031	16,84%	1489	20,82%
<b>Total current assets</b>	<b>660128</b>	<b>53,75</b>	<b>609372</b>	<b>49,10</b>	<b>572386</b>	<b>46,16</b>	<b>-50756</b>	<b>-7,69%</b>	<b>-36986</b>	<b>-6,07%</b>
Stocks	173505	14,13	179874	14,49	146246	11,79	6369	3,67%	-33628	-18,70%
Receivables	220857	17,98	174444	14,06	172253	13,89	-46413	-21,01%	-2191	-1,26%
Investments	25473	2,07	35481	2,86	22994	1,85	10008	39,29%	-12487	-35,19%
Cash in hand and at banks	240293	19,57	219573	17,69	230893	18,62	-20720	-8,62%	11320	5,16%
<b>Total assets</b>	<b>1228063</b>	<b>100</b>	<b>1241023</b>	<b>100</b>	<b>1240053</b>	<b>100</b>	<b>12960</b>	<b>1,06%</b>	<b>-970</b>	<b>-0,08%</b>
<b>Shareholders' equity</b>										
<b>Total shareholders' equity</b>	<b>576278</b>	<b>46,93</b>	<b>518919</b>	<b>41,81</b>	<b>523722</b>	<b>42,23</b>	<b>-57359</b>	<b>-9,95%</b>	<b>4803</b>	<b>0,93%</b>
Share capital	166128	13,53	166128	13,39	166128	13,40	0	0,00%	0	0,00%
Translation differences	-11723	-0,95	-26969	-2,17	-29145	-2,35	-15246	130,05%	-2176	8,07%
Other reserves	5984	0,49	5984	0,48	5984	0,48	0	0,00%	0	0,00%
Retained earnings	350829	28,57	410075	33,04	368128	29,69	59246	16,89%	-41947	-10,23%
Net profit (loss)	65060	5,30	-36299	-2,92	12627	1,02	-101359	-155,79%	48926	-134,79%
<b>Liabilities</b>										
<b>Non current liabilities</b>	<b>245278</b>	<b>19,97</b>	<b>369413</b>	<b>29,77</b>	<b>370139</b>	<b>29,85</b>	<b>124135</b>	<b>50,61%</b>	<b>726</b>	<b>0,20%</b>
Loans from financial institutions	174832	14,24	261637	21,08	260830	21,03	86805	49,65%	-807	-0,31%
Deferred tax liability	23900	1,95	29040	2,34	33291	2,68	5140	21,51%	4251	14,64%
Other liabilities	46546	3,79	78736	6,34	76018	6,13	32190	69,16%	-2718	-3,45%
<b>Total sources for long term financing</b>	<b>821556</b>	<b>66,90</b>	<b>888332</b>	<b>71,58</b>	<b>893861</b>	<b>72,08</b>	<b>66776</b>	<b>8,13%</b>	<b>5529</b>	<b>0,62%</b>
<b>Current liabilities</b>	<b>406507</b>	<b>33,10</b>	<b>352691</b>	<b>28,42</b>	<b>346192</b>	<b>27,92</b>	<b>-53816</b>	<b>-13,24%</b>	<b>-6499</b>	<b>-1,84%</b>
Loans from financial institutions	18800	1,53	28200	2,27	50568	4,08	9400	50,00%	22368	79,32%
Accounts payable	207722	16,91	141134	11,37	139737	11,27	-66588	-32,06%	-1397	-0,99%
Accrued expenses and deferred income	81694	6,65	50936	4,10	44950	3,62	-30758	-37,65%	-5986	-11,75%
Provisions	1352	0,11	78086	6,29	76532	6,17	76734	5675,59%	-1554	-1,99%
Deferred tax assets	137	0,01	173	0,01	341	0,03	36	26,28%	168	97,11%
Other liabilities	96802	7,88	54162	4,36	34064	2,75	-42640	-44,05%	-20098	-37,11%
<b>Total liabilities</b>	<b>651785</b>	<b>53,07</b>	<b>722104</b>	<b>58,19</b>	<b>716331</b>	<b>57,77</b>	<b>70319</b>	<b>10,79%</b>	<b>-5773</b>	<b>-0,80%</b>
<b>Total equity and liabilities</b>	<b>1228063</b>	<b>100</b>	<b>1241023</b>	<b>100</b>	<b>1240053</b>	<b>100</b>	<b>12960</b>	<b>1,06%</b>	<b>-970</b>	<b>-0,08%</b>

## Appendix 3. Income statement of the Valio Group 2013 – 2014

### Consolidated Income Statement

	2014	2013
<b>Net sales</b>	1 950 240	2 029 148
Increase (+) / decrease (-) in stocks of finished goods and in work in progress	6 834	-13
Production for own use	1 177	1 069
Other operating income	40 354	36 522
<b>Raw materials and services</b>		
Raw materials and consumables		
Purchases during the financial year	1 231 402	1 277 321
Increase (-) / decrease (+) in stocks	3 604	-7 923
External services	24 352	23 805
	-1 259 358	-1 293 203
<b>Staff expenses</b>		
Wages and salaries	198 098	195 214
Social security expenses		
Pension expenses	12 275	12 394
Other social security expenses	13 279	14 601
	-223 652	-222 209
<b>Depreciation and amortisation</b>		
Depreciation according to plan	76 280	73 339
Amortisation from assets held as non-current assets	3 948	-
	-80 228	-73 339
<b>Other operating expenses</b>	-384 844	-392 259
<b>Operating profit (loss)</b>	50 523	85 716
<b>Financial income and expenses</b>		
Income from other investments held as non-current assets		
From others	14	10
Other interest and financial income		
From others	5 242	2 475
Share of profit of associated companies	456	331
Interest and other financial expenses		
To others	-13 520	-10 596
	-7 808	-7 782
<b>Profit (loss) before extraordinary items</b>	42 715	77 934
Extraordinary expenses	-70 100	-
<b>Profit (loss) before appropriations and taxes</b>	-27 385	77 934
<b>Income taxes</b>		
Income taxes	-4 826	-16 874
Deferred taxes	-4 088	4 000
	-8 914	-12 874
<b>Net profit (loss) for the financial year</b>	-36 299	65 060

All figures in EUR '000s.

## Appendix 4. Income statement of the Valio Group 2014 – 2015

### Consolidated Income Statement

	2015	2014
<b>Net sales</b>	<b>1 718 165</b>	1 950 240
Increase (+) / decrease (-) in stocks of finished goods and in work in progress	-34 268	6 834
Production for own use	899	1 177
Other operating income	35 980	40 354
<b>Raw materials and services</b>		
Raw materials and consumables		
Purchases during the financial year	1 063 556	1 231 402
Increase (-) / decrease (+) in stocks	-3 239	3 604
External services	19 954	24 352
	<b>-1 080 271</b>	<b>-1 259 358</b>
<b>Staff expenses</b>		
Wages and salaries	180 829	198 098
Social security expenses		
Pension expenses	15 782	12 275
Other social security expenses	12 847	13 279
	<b>-209 458</b>	<b>-223 652</b>
<b>Depreciation and amortisation</b>		
Depreciation according to plan	79 335	76 280
Amortisation from assets held as non-current assets	308	3 948
	<b>-79 643</b>	<b>-80 228</b>
<b>Other operating expenses</b>	<b>-331 225</b>	<b>-384 844</b>
<b>Operating profit (loss)</b>	<b>20 179</b>	<b>50 523</b>
<b>Financial income and expenses</b>		
Income from other investments held as non-current assets		
From others	10	14
Other interest and financial income		
From others	3 436	5 242
Share of profit of associated companies	350	456
Interest and other financial expenses		
To others	-8 899	-13 520
	<b>-5 103</b>	<b>-7 808</b>
<b>Profit (loss) before extraordinary items</b>	<b>15 076</b>	<b>42 715</b>
Extraordinary expenses	-	-70 100
<b>Profit (loss) before appropriations and taxes</b>	<b>15 076</b>	<b>-27 385</b>
<b>Income taxes</b>		
Income taxes	-1 108	-4 826
Deferred taxes	-1 341	-4 088
	<b>-2 449</b>	<b>-8 914</b>
<b>Net profit (loss) for the financial year</b>	<b>12 627</b>	<b>-36 299</b>

All figures in EUR '000s.

## Appendix 5. Balance sheet of the Valio Group 2013 – 2014

### Consolidated Balance Sheet

ASSETS	31 Dec. 2014	31 Dec. 2013
<b>Non-current assets</b>		
Intangible assets		
Intangible rights	7 026	5 557
Other capitalised long-term expenditure	18 539	16 564
	<u>25 565</u>	<u>22 121</u>
Property, plant and equipment		
Land	24 946	22 998
Buildings and constructions	251 469	204 733
Machinery and equipment	246 379	218 210
Other tangible assets	997	1 566
Advance payments and construction in progress	75 142	92 185
	<u>598 933</u>	<u>539 692</u>
Investments		
Shares in Group companies	9	302
Shares in associated companies	2 563	2 107
Other shares and interests	4 581	3 713
	<u>7 153</u>	<u>6 122</u>
<b>Current assets</b>		
Stocks		
Raw materials and supplies	37 995	36 525
Work in progress	18 396	14 587
Finished goods	117 626	119 186
Other stocks	2 719	3 207
Advance payments	3 138	-
	<u>179 874</u>	<u>173 505</u>
Receivables		
Non-current receivables		
Loan receivables	-	20
Other receivables	41	60
Deferred tax receivable	191	-
	<u>232</u>	<u>80</u>
Current receivables		
Trade receivables	127 085	150 807
Deferred tax receivable	3 398	2 411
Other current receivables	11 216	24 418
Accrued income and prepaid expenses	32 513	43 141
	<u>174 212</u>	<u>220 777</u>
Investments		
Other current investments	35 481	25 473
Cash in hand and at banks	219 573	240 293
<b>Total assets</b>	<u>1 241 023</u>	<u>1 228 063</u>

All figures in EUR '000s.



## Consolidated Balance Sheet

SHAREHOLDERS' EQUITY AND LIABILITIES	31 Dec. 2014	31 Dec. 2013
<b>Shareholders' equity</b>		
Share capital	166 128	166 128
Other reserves		
Other reserves	5 984	5 984
Translation differences	-26 969	-11 723
Retained earnings (losses)	410 075	350 829
Net profit (loss) for the financial year	-36 299	65 060
	518 919	576 278
<b>Provisions</b>		
Other provisions	78 086	1 352
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Loans from financial institutions	261 637	174 832
Deferred tax liability	29 040	23 900
Other liabilities	78 736	46 546
	369 413	245 278
<b>Current liabilities</b>		
Loans from financial institutions	28 200	18 800
Advances received	519	705
Trade payable	140 517	206 793
Current liabilities to participating interests	98	224
Deferred tax assets	173	137
Other liabilities	54 162	96 802
Accrued expenses and deferred income	50 936	81 694
	274 605	405 155
<b>Total shareholders' equity and liabilities</b>	<b>1 241 023</b>	<b>1 228 063</b>

All figures in EUR '000s.

## Appendix 6. Balance sheet of the Valio Group 2014 – 2015

### Consolidated Balance Sheet

ASSETS	31 Dec. 2015	31 Dec. 2014
<b>Non-current assets</b>		
Intangible assets		
Intangible rights	6 529	7 026
Other capitalised long-term expenditure	16 506	18 539
	<b>23 035</b>	<b>25 565</b>
Property, plant and equipment		
Land	24 849	24 946
Buildings and constructions	262 928	251 469
Machinery and equipment	252 502	246 379
Other tangible assets	731	997
Advance payments and construction in progress	94 980	75 142
	<b>635 990</b>	<b>598 933</b>
Investments		
Shares in Group companies	2	9
Shares in associated companies	2 913	2 563
Other shares and interests	5 727	4 581
	<b>8 642</b>	<b>7 153</b>
<b>Current assets</b>		
Stocks		
Raw materials and supplies	36 265	37 995
Work in progress	14 280	18 396
Finished goods	92 299	117 626
Other stocks	3 211	2 719
Advance payments	191	3 138
	<b>146 246</b>	<b>179 874</b>
Receivables		
Non-current receivables		
Other receivables	169	41
Deferred tax receivable	206	191
	<b>375</b>	<b>232</b>
Current receivables		
Trade receivables	125 082	127 085
Deferred tax receivable	6 596	3 398
Other current receivables	10 332	11 216
Accrued income and prepaid expenses	29 868	32 513
	<b>171 878</b>	<b>174 212</b>
Investments		
Other current investments	22 994	35 481
	<b>230 893</b>	<b>219 573</b>
<b>Total assets</b>	<b>1 240 053</b>	<b>1 241 023</b>

All figures in EUR '000s.

## Consolidated Balance Sheet

SHAREHOLDERS' EQUITY AND LIABILITIES	31 Dec. 2015	31 Dec. 2014
<b>Shareholders' equity</b>		
Share capital	166 128	166 128
Other reserves		
Other reserves	5 984	5 984
Translation differences	-29 145	-26 969
Retained earnings (losses)	368 128	410 075
Net profit (loss) for the financial year	12 627	-36 299
	<b>523 722</b>	<b>518 919</b>
<b>Provisions</b>		
Other provisions	76 532	78 086
<b>Liabilities</b>		
Non-current liabilities		
Loans from financial institutions	260 830	261 637
Deferred tax liability	33 291	29 040
Other liabilities	76 018	78 736
	<b>370 139</b>	<b>369 413</b>
Current liabilities		
Loans from financial institutions	50 568	28 200
Advances received	67	519
Trade payable	139 563	140 517
Current liabilities to participating interests	107	98
Deferred tax assets	341	173
Other liabilities	34 064	54 162
Accrued expenses and deferred income	44 950	50 936
	<b>269 660</b>	<b>274 605</b>
<b>Total shareholders' equity and liabilities</b>	<b>1 240 053</b>	<b>1 241 023</b>

All figures in EUR '000s.