Kyiv National University of Trade and Economics

Economics and Finance of Enterprise Department

FINAL QUALIFYING PAPER

on the topic:

«Management of the enterprise's equity»

(Based on the materials of Republia Group LTD)

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Шуляєв Д.Б. «Політика управління власним капіталом підприємства» (за матеріалами ТОВ “Republia Group). - Рукопис

Випускна кваліфікаційна робота за спеціальністю 051 «Економіка», спеціалізація «Фінансовий менеджмент» - Київський національний торговельно-економічний університет – Київ, 2019.

Випускну кваліфікаційну роботу присвячено теоретичним, методичним і практичним аспектам дослідження політики управління власним капіталом на підприємстві. Дана робота дозволяє визначити можливі напрями покращення якості оцінки ефективності використання власного капіталу та здійснити розробку заходів щодо оптимальної політики управління ним.

Ключові слова: капітал, власний капітал, управління власним капіталом, структура капіталу, оптимізація структури капіталу.

ABSTRACT

Shuliaev D.B. “Equity management policy of an enterprise” (based on materials of “Republia Group” LTD). – Manuscript

Final qualifying paper on the specialty 051 “Economics”, specialization “Financial Management. – Kyiv National University of Trade and Economics. – Kyiv, 2019.

The final qualification work is devoted to theoretical, methodological and practical aspects of research of the policy of managing own capital in the

enterprise. This work identifies possible ways to improve the quality of equity assessment and develop measures for optimal equity management policies.

Key words: capital, equity capital, equity management, capital structure, capital structure optimization.

CONTENT

INTRODUCTION

Relevance of theme. Market transformations in the Ukrainian economy are under the influence of many factors that cause uncertainty in the characteristics of the future state of the external and internal environment for an individual enterprise. In this regard, enterprises of all forms of ownership and management can provide the prospect of their own profitable functioning on the basis of perfect and effective methods of financial management, one of the most important components of which are the processes of forming the optimal capital structure. The importance of management capital structure is due to the essential nature of the relationship between owners, managers, creditors, investors of the enterprise and state bodies, as well as the difficult conditions of the external economic environment, which is in our country in a state of permanent crisis.

The managerial innovations of recent years have made it possible to create a new concept of corporate financial management, which is focused on the value (market value) of the enterprise. The existence of various theories of capital structure, which confirm or deny the existence of an optimal structure and the existence of a link between market value and capital structure, have been reflected in many works of foreign scientists and domestic economists, which sufficiently considers the methodology of capital structure optimization.

These financial problems have been studied in the works of many domestic and foreign authors, including G. Miller, A. Modigliani, W. Sharp, I. Jenkins, A. Rappaport, and I.A. Blanca, I.L. Sazonets, O. Tereshchenko, V.I. Pavlova, S.Ya. Saligi, LS Selivestrova, V.G. Surzhik, G.Yu. Stern et al. They have made a significant contribution to the theory and practice of capital formation and optimization.

The purpose of the master's thesis is to substantiate the methodological foundations of the equity management at the enterprise and to develop ways of their improvement.

In order to achieve this goal, the **following tasks** were solved in the work:

- to follow the evolution of the formation and development of theories of capital structure;

- consider theoretical and methodological approaches to equity capital management;

- analyze the financial position of “Republia Group” LTD;

- analyze the property and financial condition of the enterprise;

- analyze the formation of capital and profit formation of the enterprise;

- to explore directions of improvement of capital formation and its optimization;

- to formulate proposals for improving the equity capital formation of “Republia Group” LTD in the planning period.

The subject of the research of the master's work is a complex of theoretical, methodical and practical aspects that provide equity management of an enterprise.

The object of the master's thesis is the process of equity capital management of the enterprise. Company "Republia Group" is a limited responsibility company, created in year 2015 according to the jurisdiction of Virgin Islands which belongs to IT sphere and make activity all over the world. The hearquarters is situated in Kyiv. “Republia Group” is rapidly growing company which started close collaboration with South Korean partners.

The research methods used in the master's work include: comparison, systematization and generalization (for the study of theoretical aspects of capital structure optimization), monographic historical, inductions and deductions, calculation of average and relative indicators, calculation of series of dynamics, economic and statistical grouping of information), analysis and synthesis.

The information base of the research is the provisions of modern economic theory, scientific works of leading domestic and foreign specialists and economists, the statute of the economic entity, the financial statements of “Republia Group”, as well as periodicals.

The practical significance of the results obtained is that the optimization of the capital structure and the development of financial plans can be used in the planning of the future activity of the enterprise.

Approbation. The main thesis of this research were published in the article "Equity Management policy of an Enterprise" whish were published in journal "Economics and finance of an enterprise", KNUTE, 2019. – pp.290-296

Structure of the work. Master thesis research consists of 55 pages and carries out 17 tables, 6 figures. Literature review consists of the 52 sources.

CHAPTER 1
THE THEORETICAL AND METHODICAL ASPECTS OF THE EQUITY MANAGEMENT POLICY OF AN ENTERPRISE

Market economy development and aspirations enterprises to increase welfare in the conditions of complete economic independence is increasing the focus on governance issues sources of formation of capital of enterprises, including such important component as equity [30, p.181].

Capital management is traditionally regarded as an integral part of financial management and, in turn, is divided into two global parts – capital formation management and capital using management.

Most Ukrainian scientists believe that capital management is the management of the structure and value of sources of financing (liabilities) in order to increase the return on equity and the ability of the enterprise to pay income to creditors and co-owners of the enterprise [6; 32 p.46; 13, p. 58; 24 etc].

Principles of capital management described in many papers of Ukrainian authors. Most of them highlighted these:

1) the optimal allocation of capital of the company at the stages of circulation;

2) planning of capital volume and structure;

3) the presence of a system of sources of formation capital;

4) control over the state and use of capital of the enterprise [29]

Total capital consists from equity capital and dept capital. Equity is the sum of the money that the owners make, free of charge from others and accumulated in the course of profitable activity. Equity management issues have gained considerable relevance in the research of both foreign and Ukrainian scientists.

As E. Mischuk noted, Equity management is a system of coordination of elements, tasks, principles, which regulate the process of development and implementation of management decisions regarding the movement of equity in the given parameters.

A. Mykytenko consider that Management of own capital is considered as an integral part of the financial management of the enterprise, which involves: justification of its adequacy in accordance with the volume, structure and content of production activity; choosing the best way to raise capital (share issue, profit, etc.) in the current circumstances; cost and risk considerations. Formation and implementation of the system of management of own capital involves consideration and justification of the relevant principles, which compliance will minimize costs. Principles of logical organization of the system it is advisable to group them into general principles and specific principles [33, p.95].

The basis of managing an enterprise's own capital is managing the formation of its own financial resources in order to ensure the efficiency of managing this process at the enterprise is developing a special financial policy (fig 1). [6, p.463; 9, p.1706].

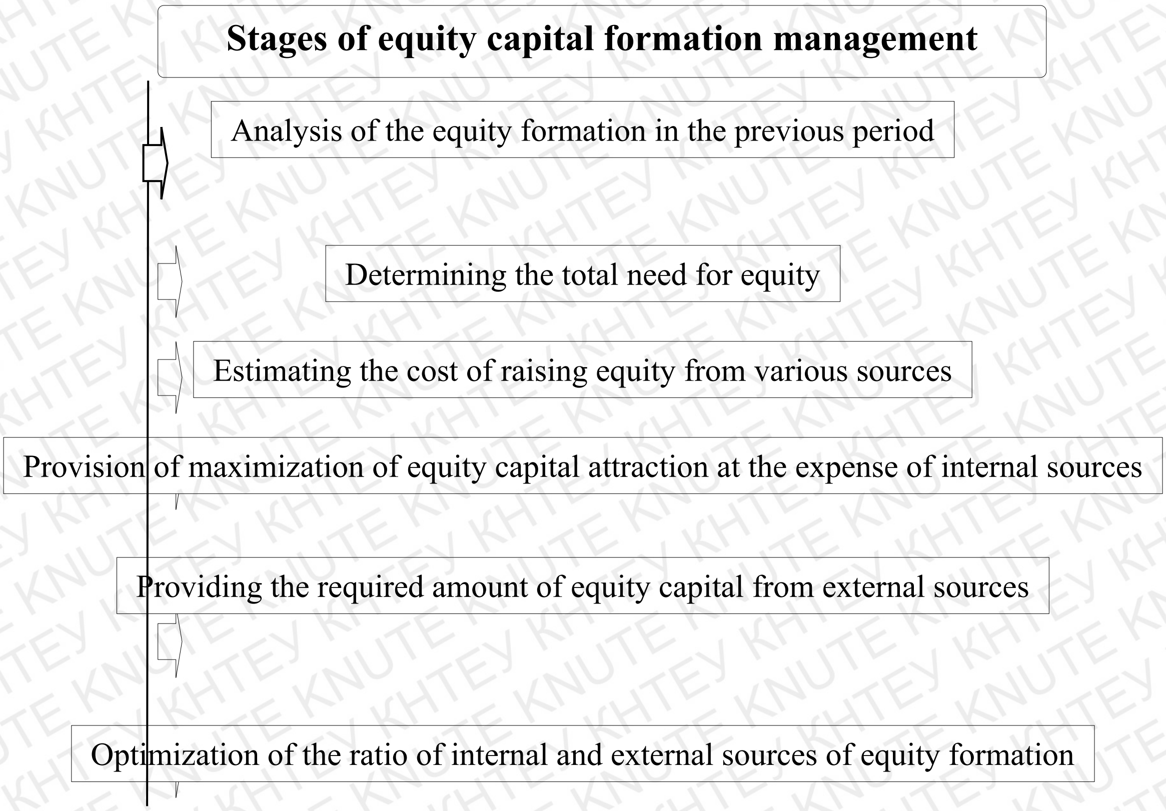

Fig1.1. The basic stages of managing an equity formation

Ukrainian scientists also highlight the organizational and economic mechanism of managing equity capital. Under the organizational and economic mechanism of enterprise capital management should be understood the system of interdependent organizational and economic elements (principles, management methods, forms of organization, norms and standards), and also special management functions aimed at achieving the goals associated with ensuring the constant reproduction of capital through the establishment of optimal parameters of the volume and structure of capital, its effective use and organization of turnover [43, p. 4].

Depending on the chosen version of the financial strategy, the enterprise is faced with different levels of significance specific tasks for managing the formation of capital, among which are:

- identifying and generating sufficient capital required to ensure a certain pace of development;

- selection and provision of conditions for realization of the optimal ratio profitability and stability regarding the formation of capital in accordance with the chosen option of the financial strategy;

- ensuring the lowest possible cost of capital with other defined indicators;

- choice of optimal forms and structure of capital;

- ensuring sufficient financial flexibility of the enterprise [9, c.1705].

Summarizing the above, under the management of capital formation understand the totality of processes of preparation and implementation of managerial influences, which are aimed at achieving the optimal structure of capital 'and the volume of optimal ratio of different forms of capital.

Capital using management refers to a set of processes for preparing and executing managerial influences that aim to maximize cycle efficiency and to use different forms of capital in different activities and projects at an acceptable level of risk. For both stages of capital management, it is advisable to rank the importance of tasks based on the strategic objectives of the enterprise [9 c.1706].

E. Mischuk [32] proposed to add a concept of saving equity to the components of capital management. Considering the dynamics of the environment and enhancement competition in the market, often for the primary purpose businesses are staging an increase of their own capital, but that is not the main purpose of it saving and multiplying that will lead to financial stability of the enterprise in the market. Need to provide equity at a certain level is reflected in international accounting standards as a concept of maintaining equity, which is focused on ensuring the continuity of business activity of the enterprise. One of the indicators of maintaining equity the net is an indicator of "net assets" [44].

Monitoring of equity management system capital is the process of systematically or continuously collecting parameter information managing your own equity, which can be used to improve the decision-making process as well as the reverse tool in order to effectively manage equity.

It performs the following functions:

- identifies the state of critical or in a state of change of environmental phenomena in relation to which a course of action will be developed for the future;
- provides feedback regarding previous successes and failures of a particular capital management system;
- establishes compliance with the selected performance criterion [10].

In the process of monitoring establish: efficiency of the system of management of own capital; "Bottlenecks" and sources of their origin; factors, risks affecting equity management; expediency of making changes to the system of management of own capital; whether all the subsystems, elements included in the equity management system have fulfilled their role in the protection against adverse events; expediency of replacement of separate subsystems, elements more efficient; flexibility of decision-making system on managing own capital; the degree of protection of the enterprise against the risks of the decision-making system on managing its capital [33, p.99].

In recent decades, Western economic science has concentrated its attention on capital structure optimization. We emphasize that the most famous foreign theories do not consider separately the management of equity capital, but describe this problem in combination with debt capital. In addition, foreign theories, in my opinion, explore deeper issues of capital management, because they take into account the influence of markets, intermediaries, behavioral factors, as well as widely use mathematical apparatus. The development of the basic theories of capital structure in relation is shown in Fig. 1.2.

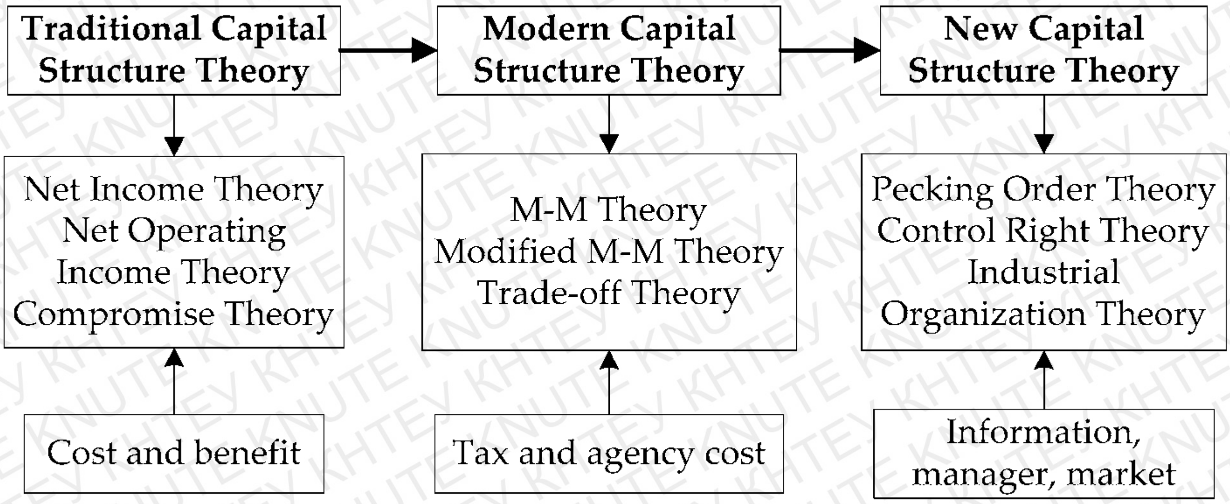

Fig.1.2. The development of capital structure theory [47]

Since the publication of the Modigliani and Miller's "irrelevance theory of capital structure", the theory of corporate capital structure has been a study of interest to finance economists. Over the years three major theories of capital structure emerged which diverge from the assumption of perfect capital markets under which the "irrelevance model" is working. The first is the trade-off theory which assumes that firms trade off the benefits and costs of debt and equity financing and find an "optimal" capital structure after accounting for market imperfections such as taxes, bankruptcy costs and agency costs. The second is the pecking order theory [48, p.188] hat argues that firms follow a financing hierarchy to minimize the problem of information asymmetry between the firm's managers-insiders and the outsiders shareholders. Recently, Baker and Wurgler have suggested a new theory of capital structure: the "market timing theory of capital structure". This theory states that the current capital structure is the cumulative outcome of past attempts to time the equity market. Market timing implies that firms issue new shares when they perceive they are overvalued and that firms repurchase own shares when they consider these to be undervalued. Market timing issuing behavior has been well established empirically by others already, but Baker and Wurgler show that the influence of market timing on capital structure is highly persistent [49, p.315].

The concept of capital structure received much attention after Modigliani and Miller demonstrated in their paper that the choice between debt and equity does not have any material effects on the value of the firm. This proposition indeed holds assuming perfect capital markets. A perfect market is one in which there are no frictions such as transaction and bankruptcy costs. However, in the real world, one may ask whether all capital markets are perfect. When market imperfections such as transaction and bankruptcy costs are considered, capital structure may well be relevant.

One of the basic theory that have dominated the capital structure theory which recommends that optimal level of the debt is where the marginal benefit of debt finance is equal to its marginal cost. Firm can achieve an optimal capital structure through adjusting the debt and equity level thereby balancing the tax shield and financial distress cost. There is no consensus among researchers on what consist the benefit and costs. Eliminating the constraints of the capital structure irrelevance proposition of MM Myers 48] use the trade of theory as a theoretical foundation to explain the "Capital Structure Puzzle". Myers [49] suggest that the use of debt up to a certain level offset the cost of financial distress and interest tax shield. According to Fama and French the optimal capital structure can be identified through the benefits of debt tax deductibility of interest and cost of bankruptcy and agency cost.

Arnold explains how is the increase in debt capital in the capital structure effect the value of the firm. As debt capital increase WACC of the firm declines until the firm reaches the optimal gearing level and cost of financial distress increases along with the debt level. This is confirmed by Miller that the optimal debt to equity ratio shows the highest possible tax shield that the company can enjoy. Further consistent with Modigliani and Miller, Miller confirmed the fact that firms increase the risk of bankruptcy due to the debt capital in their capital structure. In the trade off theory cost of debt are linked with direct as well as indirect cost of bankruptcy. Bradley et. al., explained that cost of bankruptcy include legal and administrative cost, other indirect cost resulting from loosing of customers and trust between staff and suppliers due to the uncertainties. Apart from the bankruptcy cost, agency cost of Jenson and Meckling is also considered in the trade off model. Jenson and Meckling explains that separation of ownership and control is the reason to rise the agency cost. According to Arnold agency costs are direct and indirect costs result from principles and agents act in their best interest and, failure to make agents to act this way. Jenson states that debt can reduce the agency cost and argue that higher the debt capital grater the commitment to pay out more cash. Though, Frank and Goyal contend that it is not been totally explained the impact of agency conflicts on capital structure. Harris and Raviv suggest that debt capital in the capital structure produce valuable information in monitoring the agency behavior and for self-interest reasons managers are reluctant to liquidate the firm or provide such information which could lead to bankruptcy. Debt holders also concerned only on their benefit and would prefer firms to undertake safe investments nut do not bother about the profitability of those investments. This further explains Fama and French [52] that due to the cost of debt agency conflicts arise between shareholders and bondholders. Brounen et. al., states that the presence of optimal capital structure or target capital structure increase the shareholder wealth. Further this study explains that even the value maximizing firm use debt capital to full capacity they face low probability of going bankrupt. Hovakimian et. al. claims that high profitability of gearing proposes that the firms' tax shield higher and lower the possibility of bankruptcy. This is consistent with the key prediction of the trade-off model that there is a positive correlation between profitability and gearing. But none of these theoretical and empirical studies fully substitute the traditional version and therefore researchers still test the trade-off theory based on the original assumptions. In the literature contradictory evidence can be found in favor and against the trade-off model and optimal capital structure. Titman and Wessels found that non-debt tax shield and use of debt capital in the capital structure is positively correlated. Contradictory to this results. Consistent with Modigliani and Miller Mackie-Mason found that firms which incur a tax loss are rarely issue debt capital. Gearing level of the firms are steady even the tax rates vary to great extent . Contrary to this Graham and Harvey revealed that capital structure choice depend on tax rates. Optimal capital structure choice of the firm would be to issue debt capital and/or equity capital. Trade off theory postulate that all firms have an optimal debt ratio at which the tax shield equal the financial distress cost. This theory eliminate the impact of information asymmetry and incorporating the different information on conflicts between insiders and outsiders Pecking Order Theory proposed [51, p.135-136].

The pecking order theory takes the signaling theory one step further by suggesting that the information costs are substantial enough to warrant managers to issue the security with the least information costs. This theory was originated by Myers and Majluf who demonstrate that a share issue is generally perceived negatively by the investors. This is because managers tend to issue shares when they are overpriced. Stated in simple terms, the pecking order theory suggests that in order to avoid the information effects of new share issues, a firm is more likely to issue debt than equity. This prediction is conditional on the managers‟ belief that their firm’s securities are underpriced. The pecking order theory implies that managers will follow the path of least resistance, and that they will work down a pecking order by opting to issue the cheapest form of financing. In this case, firms will opt for retained earnings as it has no adverse selection problems. When retained earnings are exhausted, the firm can then issue debt. When it does not make any more sense to issue more debt, equity can be issued as a financing source of last resort [50, p.34].

Table1.1 shows a summary of the origins and evidence of the main formal theories of capital structure [50, p.39-40].

Table 1.1

Summary of the origins and evidence of the main theories of capital

Theory	Origin of theory	Evidence for	Evidence against
Trade-off theory	Kraus and Litzenberger (1973: 121)	MacKie-Mason (1990: 1471), Graham (1996: 41) and Graham and Harvey (2001: 187) Qiu & La (2010: 283)	Fama and French (1998: 819), Wald (1999: 161)
Contracting Cost theories	Myers (1977: 147)	Bradley, Jarrell and Kim (1984: 857), Barclay and Smith (1995:14), Frank and Goyal (2009: 15)	Abor and Biekpe (2005: 44) and Mutenheri and Green (2003: 166)
Signalling theory	Ross(1977: 23)	Myers and Majluf (1984), Smith (1986: 12), Brennan and Kraus (1987), and Baker and Wurgler (2002: 1)	Barclay and Smith (1996: 17), Barclay and Smith (2005, 15) and Brounen et al. (2006)
Pecking order theory	Myers and Majluf (1984: 188)	Kester (1986: 5), Titman and Wessels (1988: 1) & Rajan and Zingales (1995: 1421), De Miguel and Pindado (2001: 91), Flannery and Rangan (2006: 478) Leary & Roberts (2010: 351)	Helwege and Liang (1996: 429) and Frank and Goyal (2003: 218)
Agency cost theory	Jensen and Meckling (1976: 305) and Myers (1977: 149)	Kim and Sorensen (1986: 131) Vilasuso and Minkler (2001: 65), Harvey et al, (2004: 3) and Berger and Bonaccorsi di Patti (2006: 1069)	Brounen, DeJong and Koedijk (2006: 1409)

As for capital structures in the developing economies, we can conclude that data on corporate finance for firms in developing economies is scarce. However, the International Finance Corporation (IFC) embarked on a program to compile a database on balance sheet data for 50 of the largest publicly traded manufacturing firms in 9 developing economies for the period 1980 to 1988. This has made it possible for further analysis of financing patterns on the part of firms in developing economies. Atkin and Glen utilize this database and find notably, that firms in developing economies operate in capital markets that are less developed and therefore access to finance is restricted to a few financing options. There has been a strong consensus among most researchers that firms in developing economies rely less on retentions and more on external finance. For example, Singh and Hamid examine 50 largest manufacturing firms in nine developing countries by utilizing balance sheet data, and they find more reliance on external finance than on retentions. Singh perform a more robust analysis by including a larger sample, and where possible, a longer period. [3, p.57].

Thus, the economic essence of the capital of the enterprise is distinguished in its characteristics:

1) the capital of the enterprise is the main factor of production;

2) capital characterizes the financial resources of an income-generating enterprise;

3) capital is the main source of formation of the welfare of its owners;

4) capital of the enterprise is the main measurement of its market value;

5) dynamics of the capital of the enterprise is an important barometer of the level of efficiency of its economic activity.

Capital structure is the ratio of own and borrowed funds used by an enterprise in the course of business. Gain in the 50's of XX century. competition among large corporations, led to the emergence and development of theories of capital structure, which established the relationship between capital structure, its weighted average cost and market value of the entire enterprise.

The traditional approach to determining the optimal capital structure, which has largely been confirmed in the practice of financial management, was that the cost of capital of the enterprise depends on its structure. There is an optimal capital structure for the enterprise, which minimizes a WACC and at the same time maximizes the market value of the enterprise. Neoclassical theories denied the existence of an optimal capital structure [24].

CHAPTER 2
ANALYSIS OF FINANCIAL PERFORMANCE AND CAPITAL OF "REPUBLIA GROUP" LTD

2.1. Analysis of the financial condition of the enterprise

In a market environment, the functioning of enterprises is increasingly complicated by the dynamic changes of various environmental factors. The system-wide crisis affecting most Ukrainian enterprises has led to a decline in their financial and economic potential and a disruption to their financial condition. The impairment of the financial position is a consequence of the imbalance of assets and liabilities on time, lack of net working capital and the existence of contradictions between liquidity - profitability and financial stability - liquidity. The choice of financial strategy parameters at a certain stage of economic development of an enterprise depends on the state of financial equilibrium. It follows that the financial position is an important indicator of the potential of financial activity of the enterprise.

Hence the need to diagnose sustainable development of the enterprise on two aspects: first, the assessment of the adequacy of financial resources to the actual financial needs; second, the assessment of the compliance of the financial condition with the target parameters, which were formed as strategic priorities for the development of the enterprise. To explain this statement, it should be recalled that an increase in economic benefits in the form of an inflow of assets or a decrease in liabilities result in an increase in equity (excluding capital growth through contributions from owners). This is due to the fact that the moment of recognition of income does not coincide with the moment of realization. Hence, there is a time interval between investing and generating income. This reassures that the problem of finding ways to ensure financial equilibrium in any short-term period is one of the important areas of research in the field of diagnostics of the potential of financial and economic stability [26].

One of the most important characteristics of allocation financial resources of the enterprise efficiency is the analysis of the financial condition from the position of perspective development. For the short term, the criterion for valuation is liquidity (solvency), that is, the ability to fully and timely make payments with creditors. From a long-term perspective, the financial position of the enterprise is characterized by the level of dependence of the enterprise on external borrowings

Table 2.1

Liquidity ratio dynamics of "Republia Group" LTD for 2015-2018 yy

Ratio	**2015**	**2016**	**2017**	**2018**	**Absolute deviation 2016 to 2015**	**Absolute deviation 2017 to 2016**	**Absolute deviation 2018 to 2017**
Current ratio	2,82	3,62	2,64	3,04	0,80	-0,99	0,41
Short ratio	2,68	3,52	2,50	2,92	0,84	-1,02	0,42
Cash ratio	0,66	1,47	1,01	0,92	0,81	-0,46	-0,08
Working capital	12,60	19,34	17,78	23,07	6,75	-1,56	5,29
Net working capital	10,67	17,43	12,60	20,97	6,77	-4,83	8,37

Liquidity ratios of the company showed that the "Republia Group" LTD has surplus of liquidity during the whole period of activity 2016-2018 years, the current liquidity index exceeded 2 during all the years of company activity. In the 2016 and 2018 years the absolute liquidity ratio exceeded 1 when the normative meaning is 0,2-0,35. So, the enterprise has a state of excess cash, so the issue of their effective financing is very actual. The company has significant amounts of working capital, which decreased only in 2017. Working capital increased in 2016, the same as the net working capital. Over 4 years, working capital has almost doubled to 23.07 million at the end of 2018. Total increase of the working capital was more than 11 mln. uah, maximum growth happened in 2018.

Financial stability of an enterprise is a state of financial resources, their distribution and use, which ensures the development of the enterprise on the basis of growth of profit and capital, while maintaining solvency and credit worthiness under conditions of acceptable level of risk. The most important form of sustainability of the enterprise is its ability to develop in the environment of internal and external environment. To do this, the company must have a flexible structure of financial resources and, if necessary, be able to borrow,

Consequently, "financial stability" is achieved by taking concrete steps aimed at the efficient formation, allocation and use of financial resources, while maintaining solvency, which is an external manifestation of the enterprise's sustainability [2].

Type of financial stability analyzed in the table 2.2.

Table 2.2

Financial stability type dynamics of "Republia Group" LTD for 2015-2018 yy

Statement	**Years**			
	2015	**2016**	**2017**	**2018**
Equity	21,81	30,17	38,68	46,99
Non-current assets	11,14	12,74	26,07	26,02
Net working capital	10,67	17,43	12,60	20,97
Long-term liabilities	5,13	5,11	8,37	5,29
Working capital	15,79	22,54	20,98	26,27
Short-term debts	0	0	0	0
Total sum of inventory financing	15,79	22,54	20,98	26,27
Inventories	0,95	0,73	1,48	1,36
Surplus/lack of sources of NWC financing	14,85	21,80	19,50	24,90
Type of financing stability	absolute	absolute	absolute	absolute

Analysis of table 2.2 showed that during 4 years the company had absolute type of financial stability. This means that the operating activities were fully financed by long-term sources of financing (equity and long-term liabilities. Company "Republia Group" doesn't use short-term bank loans. Over the whole period, there is an excess of net working capital, which indicates the existence of financial potential.

It is advisable to make an assessment of the financial stability of an enterprise by relative indicators.

Table 2.3

Financial stability ratio dynamics of "Republia Group" LTD for 2015-2018 yy

Ratio	Years				Absolute deviation		
	2015	2016	2017	2018	2016 to 2015	2017 to 2016	2018 to 2017
Independence ratio	0,71	0,76	0,71	0,78	0,05	-0,06	0,07
Debt ratio	0,29	0,24	0,29	0,22	-0,05	0,06	-0,07
Financial leverage ratio	0,41	0,31	0,41	0,28	-0,10	0,11	-0,13
Financial stability ratio	2,47	3,25	2,41	3,51	0,78	-0,84	1,10
Long term financing ratio	0,88	0,89	0,86	0,87	0,02	-0,03	0,01
Maneurability of net working capital	0,49	0,58	0,23	0,35	0,09	-0,35	0,12
Maneurability of working capital	0,47	0,55	0,38	0,44	0,08	-0,17	0,06

Financial stability ratios reflect the high level of financial stability. So, independence ratio in dynamics decreased from 0.71 in 2015 to 0.78 in 2018, which is a positive trend for the studied enterprise and requires measures aimed at managing the company's equity. Consequently, debt ratio decreased from 0,29 to 0,22 for 4 years. Financial leverage ratio shows correspondence between liabilities and equity. The company had a low level of leverage that did not exceed 0.5 throughout the period, that is, this company is called low-leveraged.

Long-term financial ratio was high during all the period of company activity and stayed stable during 4 years. It is explained by the changes in liability structure. Besides, company has high maneurability of equity.

Equally important indicators in assessing the financial condition of an enterprise is an analysis of its business activity. Business activity of an enterprise can be defined as motivated on the macro- and micro-level process of managing the efficiency of economic activity of the subjects of economic relations. This process is aimed at ensuring the development of the enterprise, increasing employment and efficient use of all types of resources in order to achieve market competitiveness and the formation of modern innovation and investment potential of the subjects of market relations and the national economy as a whole [8].

The statement of scientist that from the point of view of the need to improve the management of business activity in the current crisis conditions of operation of business activity of an industrial enterprise can be defined as a process to ensure the achievement of the goals of enterprise development in the sphere of production and sale of products, which includes such basic stages as:

1) study of changes in the external environment of the enterprise and timely response to them by effective measures;

2) ensuring the efficiency of the main activity on the basis of reducing operating costs and improving the profitability of production;

3) creation of competitive advantages of industrial enterprise in the markets of goods on the basis of introduction of new technologies, satisfaction of consumer demand according to their needs at different intervals of time [4, p. 107].

In modern conditions, business activity of enterprises in the mobilization of internal resources of economic growth and activity in the external economic environment are distinguished. Internal activity is expressed in the growth of economic potential of enterprises (Table 2.4).

From Table 2.4 we can see that the inversion ratio of total assets at “Republia Group” LTD has a slight stable upward trend (2016 - 1.48, 2017 – 1,67, 2018 – 1,58). It should be noted that this ratio is one of the most important indicators of the efficiency of capital use and indicates the speed of its transition from the stage of production to finished products and the speed of conversion of products into a direct monetary form.

The same trend demonstrate the current assets turnover ratio – slight growth for the 3 years of company activity. Given this, it can be argued that such dynamics testify to the efficiency of the assets used in the enterprise under study. Inventory turnover and account receivables turnover grew in 2017 and slightly decrease in 2018 year.

Table 2.4

Business activity ratio dynamics of "Republia Group" LTD for 2015-2018 yy

Position	2016	2017	2018	Absolute deviation		
				2016 to 2015	2017 to 2016	2018 to 2017
Asset turnover	1,48	1,67	1,58	1,48	0,18	-0,09
Current assets turnover	2,25	2,84	2,88	2,25	0,59	0,04
Inventory turnover	34,98	42,97	40,00	34,98	7,98	-2,96
Accounts receivables turnover	3,57	5,01	4,68	3,57	1,44	-0,34
Accounts payables turnover	4,11	5,21	5,13	4,11	1,09	-0,08
Period of Assets turnover	245,80	218,79	231,66	245,80	-27,02	12,88
Period of current assets turnover	162,07	128,62	126,82	162,07	-33,46	-1,80
Period of inventory turnover	10,43	8,50	9,12	10,43	-1,94	0,63
Period of receivebles turnover	102,14	72,81	78,05	102,14	-29,33	5,24
Period of payables turnover	88,73	70,08	71,21	88,73	-18,64	1,13
Operating cycle	112,58	81,31	87,17	112,58	-31,27	5,87
Financing cycle	23,85	11,22	15,96	23,85	-12,63	4,74

According to the table 2.4 data it can be concluded that 2017 was the year of the highest business activity of "Republic Group" LTD.

Company has long operating cycle that was 112,58 days in 2016 and decreased to 87 days in year 2018. This indicates a positive trend and improved business activity of the company. The financial cycle of the company also decreased, which is a positive trend, but its value exceeds zero, which indicates that there is a cash gap between the received bills and the paid ones.

However, since payables are less than receivables, the positive value of the financial cycle does not have a significant negative effect.

2.2. Analysis of revenue, cost, profit and profitability metrics

The main purpose of the creation and further activity of any business entity, regardless of its type of activity or form of ownership, is to obtain the ultimate financial result, ie profit. Thus, the financial result is one of the most important economic indicators, which summarizes all the results of economic activity and makes it possible to make a comprehensive assessment of the effectiveness of the enterprise.

In analyzing the formation and use of financial results of the enterprise, the following main tasks are set: to study the size and structure of profit by types and objects of activity; to carry out systematic control over the process of formation of profit and change of its dynamics to reveal reserves of increase of profit; evaluate work to maximize profitability and profitability, and more [8].

One of the important stages of profit analysis is to study the dynamics and structure of income and expenses of the enterprise. Investigating the company's income, we will analyze the dynamics of its formation. Let's define the dynamics and amount of income, expenses and profits for 2016 - 2018, using the following tables.

According to the table 2.5 we can conclude that first years were rather successful for the company revenue collection. Total revenue increased almost in twice during four years of company's activity. It should be noted that 2018 was less successful for "Republia Group" LTD, as the company has grown during the year – company`s revenue increased from UAH 78.56 million in 2017 to UAH 90.68 million in 2018. However, what is more important, for the first years of company activity it's average revenue growth was 13%.

Despite the fact that "Republia Group" increased revenue during all the years in 13% in average, average growth rate of costs of goods sold were higher than growth rate of revenue. So, gross profit hardly increased in 14% and equals in 2018 UAH 33,89 million.

Table 2.5

Net profit formation of "Republia Group LTD" for 2015-2018 yy.

Position	Years				Absolute deviation, ths.uah			Relative deviation, %		
	2015	2016	2017	2018	2016 to 2015	2017 to 2016	2018 to 2017	2016 to 2015	2017 to 2016	2018 to 2017
Total Revenue	52,05	65,08	78,56	90,68	13,02	13,48	12,12	25,0%	20,7%	15,4%
Cost of Revenue	29,40	37,93	47,50	56,79	8,54	9,56	9,29	29,0%	25,2%	19,6%
Gross Profit	**22,66**	**27,14**	**31,06**	**33,89**	4,48	3,92	2,83	19,8%	14,4%	9,1%
Research Development	-	-	-							
Selling General and Administrative	12,90	17,17	21,37	24,12	4,28	4,20	2,75	33,2%	24,5%	12,9%
Others	1,68	2,38	3,48	4,27	0,70	1,10	0,78	41,5%	46,3%	22,5%
Total Operating Expenses	42,29	55,10	68,87	80,91	12,81	13,77	12,04	30,3%	25,0%	17,5%
Operating Income or Loss	**8,08**	**7,59**	**6,20**	**5,50**	-0,49	-1,39	-0,70	-6,1%	-18,3%	-11,3%
Total Other Income/Expenses Net	-0,78	9,02	10,98	11,67	9,80	1,96	0,69	- 1252,7%	21,7%	6,3%
Earnings Before Interest and Taxes	8,08	7,59	6,20	5,50	-0,49	-1,39	-0,70	-6,1%	-18,3%	-11,3%
Interest Expense	0,000	-8,10	-8,10	0,00	-8,10	0,00			0,0%	0,0%
Income Before Tax	7,30	8,51	9,08	17,17	1,21	0,57	8,09	16,6%	6,7%	89,1%
Income Tax Expense	1,31	1,53	1,63	3,09	0,22	0,10	1,46	16,6%	6,7%	89,1%
Minority Interest	3,20	3,20	3,20	3,20	0,00	0,00	0,00	0,0%	0,0%	0,0%
Net Income From Continuing Ops	**5,98**	**6,98**	**7,45**	**14,08**	0,99	0,47	6,63	16,6%	6,7%	89,1%
Net Income	**5,98**	**6,98**	**7,45**	**14,08**	0,99	0,47	6,63	16,6%	6,7%	89,1%
Net Income Applicable To Common Shares	**5,98**	**6,98**	**7,45**	**14,08**	0,99	0,47	6,63	16,6%	6,7%	89,1%

Due to the significant increase in administrative, sales and other operating expenses, as well as the high value of other operating expenses, the operating profit of the company was small for 4 years, and further decreased from UAH 8.08 million in 2015 to UAH 5.5 million in 2018.

Due to significant amounts of the other net revenues profit before taxation were more than operation profit all the years. Year 2018 brought great increase in other revenue – from UAH 9,08 million to UAH 17,7 million. So all the years were profitable for “Republic Group” mainly due to non-operational net income which growed from UAH 9,02 mln to UAH 11,67 mln.

As a result, the company received UAH 14,07 mln net income, it were twice more than in 2017: UAH 7,45 mln.

Visual interpretation of the main operational parameters: revenues, costs and profits is shown in graph 2.1.

According to graph. 2.1, we can see that operational revenue and expences changed proportionally during 2015-2018 years. Operational prodfit increased in a low growth rate, but net profit growth were caused by increase of non-operational income.

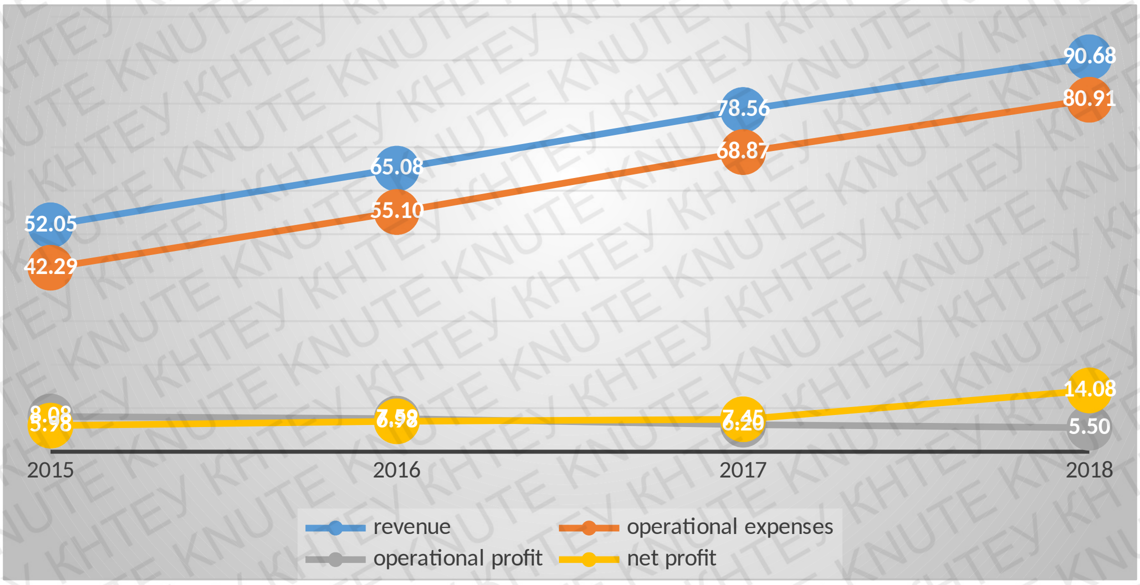

Figure 2.1. Revenue, expenses and profits dynamics

For better understanding factors that influenced profit formation we should analyze revenue and cost structure. Vertical analysis is a process of comparison of one item to the base item. Commonly, the vertical analysis is conducted for the financial statement of a single period (unlike the horizontal analysis, which is reviewing information over at least two different periods of time, or more). Also referred as common-size analysis, vertical analysis generally means usage of total assets or total liabilities or shareholders' equity as base figures of the proportion. The main reason for performing the vertical analysis for one single period is seeing the relative proportions of different elements of assets and sources of finance.

Table 2.6

Revenue structure of "Republia Group LTD" for 2015-2018 yy

Position	**Years**				**Absolute deviation, p.p.**		
	2015	**2016**	**2017**	**2018**	**2016 to 2015**	**2017 to 2016**	**2018 to 2017**
1	2	3	4	5	6	7	8
Total Revenue	100%	100%	100%	100%	0,00	0,00	0,00
Cost of Revenue	56,5%	58,3%	60,5%	62,6%	1,8%	2,2%	2,2%
Gross Profit	43,5%	41,7%	39,5%	37,4%	-1,8%	-2,2%	-2,2%
Selling General and Administrative	24,8%	26,4%	27,2%	26,6%	1,6%	0,8%	-0,6%
Total Operating Expenses	81,2%	84,7%	87,7%	89,2%	3,4%	3,0%	1,6%
Operating Income or Loss	15,5%	11,7%	7,9%	6,1%	-3,9%	-3,8%	-1,8%
Total Other Income/Expenses Net	-1,5%	13,9%	14,0%	12,9%	15,4%	0,1%	-1,1%
Earnings Before Interest and Taxes	15,5%	11,7%	7,9%	6,1%	-3,9%	-3,8%	-1,8%
Interest Expense	0,0%	-12,4%	-10,3%	0,0%	-12,4%	2,1%	10,3%
Income Before Tax	14,0%	13,1%	11,6%	18,9%	-0,9%	-1,5%	7,4%
Income Tax Expense	2,5%	2,4%	2,1%	3,4%	-0,2%	-0,3%	1,3%
Minority Interest	6,1%	4,9%	4,1%	3,5%	-1,2%	-0,8%	-0,5%
Net Income From Continuing Ops	11,5%	10,7%	9,5%	15,5%	-0,8%	-1,2%	6,0%
Non-recurring Events	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Net Income	11,5%	10,7%	9,5%	15,5%	-0,8%	-1,2%	6,0%

Revenue structure analysis don’t reveal significant changes in cost and revenue structure during 4 years. Though total weight of the operational fixed and non-fixed costs slightly increased all the years round and achieved 89,2% in total revenue. So, the company has low operational marginality which decreased from 2015 to 2018 years.

Company didn’t have the non-operational income in 2015 but it received net non-operational income in 2016-2018. The share of non-operating income was 13% of total revenues in average. In 2016 and 2017 company paid interest payments which also decreased profitability.

Marginal analysis and management efficiency analysis reflected in the table 2.7. These ratios are related to resource performance indicators, which are also called managers' performance indicators.

Table 2.7

Profitability ratios dynamics of “Republia Group” LTD for 2015-2018 yy

Ratio	Years				Absolute deviation, p.p.		
	2015	2016	2017	2018	2016 to 2015	2017 to 2016	2018 to 2017
Gross margin, %	43,5%	41,7%	39,5%	37,4%	-1,8%	-2,2%	-2,2%
Operatin margin, %	15,5%	11,7%	7,9%	6,1%	-3,9%	-3,8%	-1,8%
Net profit margin, %	11,5%	10,7%	9,5%	15,5%	-0,8%	-1,2%	6,0%
Cost margin, %	19,1%	13,8%	9,0%	6,8%	-5,3%	-4,8%	-2,2%
Return on assets, ROA, %	-	19,9%	15,8%	24,5%	19,9%	-4,1%	8,6%
Return on equity, ROE %	-	26,8%	21,6%	32,9%	26,8%	-5,2%	11,2%
Return on invested capital, ROIC %	-	22,4%	18,1%	28,3%	22,4%	-4,3%	10,3%

The dynamics of profitability coefficients decline in 2017, when the largest growth of enterprise resources was observed, and increases in 2018. Company is highly profitable as its asset return exceeds 15% in 2016 and 2017 and reaches

24% in 2018. The return on equity at the end of 2018 was 32.9%, up 11.2 pp over 2017. Return on invested capital is also rising in 2018, reaching 28.3%. This testifies to the high efficiency of the management of the company and its investment attractiveness.

According to the profit margin analysis we can conclude slight decrease in gross margin from 43,5% in 2015 to 37,4% in 2018. Total gross margin decrease was 6,2 percentage points. Decrease in operating margin was more notable and with the same tendency as gross margin. Total decrease in operation margin consisted 9,5 p.p. But as for net margin we can notice a slight increase from 11,5% to 15,5%. Therefore, we can conclude that company efficiency commonly increased during four years. Company’s operational activity was low-margin but other activity caused increase in “Republia Group” LTD efficiency.

2.3. Investigation of the “Republia Group” LTD equity and debt capital management

In order to carry out business activities, an enterprise must have property belonging to it. All property that is owned by an enterprise and is reflected in the balance sheet is called its assets. Assets are resources controlled by an enterprise as a result of past events, the use of which will lead to an increase in economic benefits in the future [30, p.64].

The formation of the assets of the enterprise occurs at the expense of equity and borrowed capital.

Capital is the money that an enterprise owns to operate in order to make a profit. The functioning of the enterprise capital in the process of its use is characterized by the process of its constant circulation.

The main purpose of capital formation is to meet the needs of the enterprise in the acquisition of assets and to optimize its structure in terms of ensuring the conditions for its efficient use.

When conducting capital analysis, it should be borne in mind that:

- the capital of the enterprise is the main factor of production;
- capital characterizes the financial resources that provide it with income;
- capital is the main source of wealth for its owners
- the capital of the enterprise is the main measure of its market value;
- capital dynamics is the main indicator of the level of efficiency of its economic activity.

In the process of analyzing the capital of an enterprise, first of all they determine changes in its structure, composition and give them an objective assessment from the point of view of investors and the enterprise. Yes, banks and other investors are mostly interested in the share of equity in its total size (it should be at least 50%). In internal analysis, more attention is paid to the study of the dynamics and structure of equity and borrowing capital, identify the causes of changes in individual components of equity and borrowed capital, and evaluate these changes. Particular attention is paid to the movement of sources of borrowed funds, which are divided into long-term, short-term loans and borrowings, accounts payable, current payment obligations.

The analysis reveals trends in changes in the volume and share of bank loans and loans that are not repaid on time. They also compare the structure of assets and liabilities of the balance sheet, assess the factors that affect the ratio of equity to debt, and therefore the financial stability of the enterprise.

Of great importance is the structure of loans funds, that is, the ratio between long-term and current liabilities. Current ones the obligation is the debt of the enterprise to suppliers, insurance, payment labor, budget, short-term bank loans and other accounts payable. Such commitments arise when an entity has a shortage of resources to finance its current operations, that is, current assets. In addition, current obligations in terms of their urgency repayments are more risky than long-term ones. Therefore, it is considered that the smaller the structure liabilities of current liabilities, the better the capital structure and the higher its solvency.

The sources of financing of the “Republic group” LTD analyzed in the table 2.8.

Analysis of the capital structure showed a significant advantage of equity over debt - 77.85 at the end of 2018. During 4 years, the share of equity increased gradually. At the beginning of the start-up, the capital was dominated by 71%. own capital accounts for the largest share of additional capital and retained earnings, which is a positive feature.

Table 2.8

Equity and Liabilities structure of “Republic Group” LTD for 2015-2018 yy

Position	**Years**				**Absolute deviation, p.p**		
	2015	**2016**	**2017**	**2018**	**2016 to 2015**	**2017 to 2016**	**2018 to 2017**
Current Liabilities	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Accounts Payable	2,4%	2,2%	4,5%	4,3%	-0,1%	2,3%	-0,2%
Other Current Liabilities	13,3%	9,4%	8,2%	6,0%	-3,9%	-1,3%	-2,1%
Total Current Liabilities	22,6%	18,7%	19,9 %	18,7 %	-3,9%	1,2%	-1,2%
Long Term Debt	6,3%	4,8%	9,5%	3,5%	-1,5%	4,6%	-6,0%
Other Liabilities							
Minority Interest	10,4%	8,1%	5,8%	5,3%	-2,3%	-2,3%	-0,5%
Total Liabilities	28,8%	23,5%	29,3 %	22,2 %	-5,3%	5,8%	-7,1%
Stockholders Equity	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Registered capital	1,1%	2,6%	1,9%	1,7%	1,5%	-0,7%	-0,2%
Retained Earnings	40,9%	46,6%	44,4 %	50,3 %	5,7%	-2,2%	5,9%
Treasury Stock	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Capital Surplus	29,1%	27,2%	24,3 %	25,7 %	-1,8%	-2,9%	1,4%
Total Stockholder Equity	71,1%	76,5%	70,7 %	77,8 %	5,3%	-5,8%	7,1%
Total Equity and Liabilities	100,0 %	100,0 %	100,0 %	100,0 %	0,0%	0,0%	0,0%

The enterprise is also financed by long-term liabilities whose share has changed unevenly and did not exceed 10% in the liability structure. The share of current liabilities gradually decreased from 22b6% to 18.7% over the years. Accordingly, the total share of liabilities decreased from 28.85% to 22.2%. Therefore, the capital structure of the enterprise is low-risk and sustainable.

“Republic Group” LTD increased its equity at the expense of profits, which increased its capitalization and, accordingly, investor confidence.

As Equity is the main sourse of “Republia group” financing, investigate its structure and dynamics for 4 years.

Table 2.9

Equity dynamics of “Republia Group” LTD for 2015-2019 yy

Stockholders' Equity	**Years**				**Growth, %**		
	2015	**2016**	**2017**	**2018**	**2016 to 2015**	**2017 to 2016**	**2018 to 2017**
Registered capital	0,34	1,04	1,04	1,04	205,9%	0,0%	0,0%
Retained Earnings	12,6	18,4	24,3	30,4	46,5%	32,3%	25,0%
Capital Surplus	8,9	10,7	13,3	15,5	20,5%	23,9%	16,7%
Other Stockholder Equity	0	0	0	0			
Total Stockholder Equity	21,8	30,2	38,7	47,0	38,3%	28,2%	21,5%

Equity for the independence of the enterprise is of great importance. For creditors and investors, it is desirable to have a significant share of equity, since in this case they will have less financial risk and they will have confidence in the return on their investments. But in practice, borrowing capital efficiency is usually higher than equity.

For businesses that are unable to raise funds from external financial sources (due to low creditworthiness or investment attractiveness, insufficient credit facilities), internal financing is the only way to secure financial resources.

However, a significant problem that arises is the problem of ownership control over the efficient use of financial resources.

From table 2.9 it follows that the dynamics of the company's equity was positive throughout its period of operation. Overall, equity increased by 115%, equaling 25.2 million hryvnia equivalents, reaching 47 million by the end of 2018.

As a part of equity capital, the following items have gained the most gains: retained earnings increased with maximum growth. In 2018, this capital item increased by 25% and in previous years by 32% and 45% respectively. At the end of 2018, retained earnings stood at UAH 30.4 million, up UAH 17.9 millions more than in 2015. Overall, the company's retained earnings increased by 142%.

Additional capital also showed growth throughout the period, but the growth rate was slower. Thus, the largest increase in additional capital was in 2017 - 23%. On the whole, additional capital increased by 174% over the past four years, amounting to UAH 6.6 million and amounted to UAH 15.5 million at the end of 2018.

We analyze the components of the equity of the enterprise at the end of 2018 (Figure 2.2).

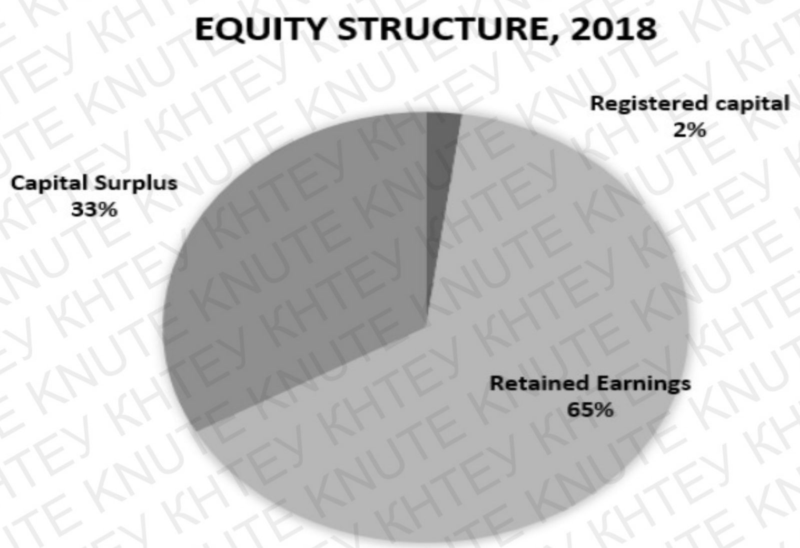

Figure 2.2 Equity structure of "Republia Group" LTD

It should be noted that in previous years the capital structure of the enterprise was similar to the structure of 2018.

Table 2.10

Equity and Liabilities dynamic of "Republia Group" LTD for 2015-2018 yy

Position	**Years**				**Absolute deviation, mln. UAH**			**Relative deviation, %**		
	2015	**2016**	**2017**	**2018**	**2016 to 2015**	**2017 to 2016**	**2018 to 2017**	**2016 to 2015**	**2017 to 2016**	**2018 to 2017**
Current Liabilities										
Trade Accounts Payable	0,72	0,88	2,49	2,60	0,16	1,61	0,11	21,5%	183,0%	4,5%
Other Accounts Payable	2,12	2,78	2,78	3,91	3,91	5,04	0,66	1,13	1,13	31,3%
Other Current Liabilities	4,07	3,72	4,46	3,65	-0,36	0,75	-0,81	-8,8%	20,1%	-18,2%
Total Current Liabilities	**6,92**	**7,38**	**10,86**	**11,29**	**0,46**	**3,49**	**0,43**	**6,6%**	**47,3%**	**4,0%**
Long Term Debt	1,93	1,91	5,17	2,09	-0,02	3,27	-3,08	-1,2%	171,6%	-59,5%
Minority Interest	3,20	3,20	3,20	3,20	0,00	0,00	0,00	0,0%	0,0%	0,0%
Total Liabilities	**8,84**	**9,28**	**16,04**	**13,39**	**0,44**	**6,76**	**-2,65**	**4,9%**	**72,8%**	**-16,5%**
Stockholders' Equity										
Registered capital	0,34	1,04	1,04	1,04	0,70	0,00	0,00	205,9%	0,0%	0,0%
Retained Earnings	12,55	18,39	24,32	30,40	5,84	5,93	6,08	46,5%	32,3%	25,0%
Capital Surplus	8,92	10,75	13,32	15,55	1,83	2,57	2,23	20,5%	23,9%	16,7%
Total Stockholder Equity	**21,81**	**30,17**	**38,68**	**46,99**	8,36	8,51	8,31	38,3%	28,2%	21,5%
Total Equity and Liabilities	**30,65**	**39,45**	**54,72**	**60,38**	**8,80**	**15,27**	**5,66**	**28,7%**	**38,7%**	**10,3%**
Net Tangible Assets	14,55	22,76	18,94	27,46	8,21	-3,82	8,52	56,4%	-16,8%	45,0%

Equity and liabilities dynamic is represented in the table 2.10. Both the amount of assets and the amount of capital in 2015-2018 increased almost in twice. Total growth rate of company capital was 99%. With regard to equity, its amount was steadily increasing. It experienced the greatest growth in 2016 and in 2017 yy. As of 01.01.2019, the growth of equity was 21.5%. The dynamics of borrowed capital was different. In particular, long-term bank loans appeared in 2015 with the company establishment. Their use increased during 2017 and slightly decreased in 2018 y. In terms of short-term capital, its amount is characterized by an ambiguous trend, but is mainly increased. Thus, in 2016, short-term liabilities increased by 6,6%, in 2017 it significantly increased by 47,3%, in 2018 it sharply grew again by 4%. This was mainly due to an increase in the amount of accounts payable (by 183% in 2017).

The financial condition of the enterprise depends to a great extent on the optimal balance between equity and debt, its rational placement in the assets of the enterprise.

The total sources of financing of the “Republia group” LTD analyzed in the table 2.11.

The valuation of changes in the capital structure may differ from the point of view of investors and the position of enterprises. Thus, for investors, in particular banks, the situation is higher when the equity of clients is higher because it eliminates financial risk. To analyze the change in the structure of sources of financial resources determine the proportion of own and borrowed funds in their total amount at the beginning and end of the reporting period, the results are compared.

The results of the analysis of the structure of sources of financial resources should show, on which mainly capital the enterprise operates - own or borrowed, whether there is a risk in the formed structure for factors, or whether this structure is favorable for efficient use of capital.

Table 2.11

Equity and Liabilities structure of “Republia Group” LTD for 2015-2018 yy

Position	Years				Absolute deviation, p.p		
	2015	2016	2017	2018	2016 to 2015	2017 to 2016	2018 to 2017
Current Liabilities	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Trade Accounts Payable	2,4%	2,2%	4,5%	4,3%	-0,1%	2,3%	-0,2%
Other accounts Payable	6,9%	7,1%	7,2%	8,4%	0,1%	0,1%	1,2%
Other Current Liabilities	13,3 %	9,4%	8,2%	6,0%	-3,9%	-1,3%	-2,1%
Total Current Liabilities	22,6 %	18,7%	19,9 %	18,7%	-3,9%	1,2%	-1,2%
Long Term Debt	6,3%	4,8%	9,5%	3,5%	-1,5%	4,6%	-6,0%
Minority Interest	10,4 %	8,1%	5,8%	5,3%	-2,3%	-2,3%	-0,5%
Total Liabilities	28,8 %	23,5%	29,3 %	22,2%	-5,3%	5,8%	-7,1%
Stockholders Equity	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Registered capital	1,1%	2,6%	1,9%	1,7%	1,5%	-0,7%	-0,2%
Retained Earnings	40,9 %	46,6%	44,4 %	50,3%	5,7%	-2,2%	5,9%
Treasury Stock	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Capital Surplus	29,1 %	27,2%	24,3 %	25,7%	-1,8%	-2,9%	1,4%
Total Stockholder Equity	71,1 %	76,5%	70,7 %	77,8%	5,3%	-5,8%	7,1%
Total Equity and Liabilities	100,0 %	100,0%	100,0 %	100,0 %	0,0%	0,0%	0,0%

Of great importance is the structure of loans funds, that is, the ratio between long-term and current liabilities. Current ones the obligation is the debt of the enterprise to suppliers, insurance, payment labor, budget, short-term bank loans and other accounts payable. In addition, current obligations in terms of their urgency repayments are more risky than long-term ones.

Analysis of the capital structure showed a significant advantage of equity over debt - 77.85 at the end of 2018. During 4 years, the share of equity increased gradually. At the beginning of the start-up, the capital was dominated by 71%.

Equity capital accounts for the largest share of additional capital and retained earnings, which is a positive feature. The enterprise is also financed by long-term liabilities whose share has changed unevenly and did not exceed 10% in the liability structure.

Capital structure of “Republia Group” LTD detailed in the diagram (2.3).

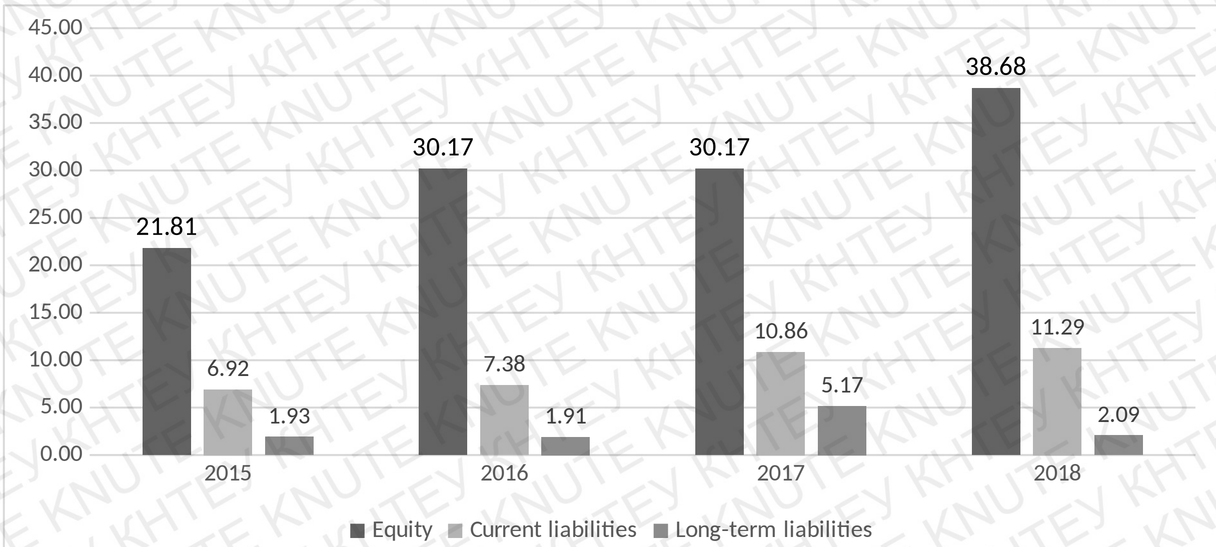

Figure 2.3. Structural dynamics of the capital of “Republia Group” LTD

The share of current liabilities gradually decreased from 22,6% to 18,7% over the years. Accordingly, the total share of liabilities decreased from 28.85% to 22.2%. Therefore, the capital structure of the enterprise is low-risk and sustainable. The chart clearly shows the dominance of equity capital and its growing dynamics compared to debt capital.

Thus, it can be concluded that the management of equity capital in compliance is conducted in accordance with a conservative policy - to ensure the dominant financing of all activities at the expense of equity and thus achieve sustainability, solvency and low risk.

CHAPTER 3
DIRECTIONS TO IMPROVE THE EQUITY MANAGEMENT OF THE "REPUBLIA GROUP" LTD

The effectiveness of the operation of any enterprise depends on the right strategy chosen for the formation and management of capital structure.

When developing a strategy for the formation of capital structure, there is a need to predict the average growth rate of financial resources that are formed from own sources, the minimum permissible share of equity in the total amount of enterprise capital, the index of return on equity of the enterprise, the ratio of the value of current and current assets (coefficient of coverage) [34, p. 253].

The strategy of forming the capital structure of the enterprise includes [38, p. 28]:

- strategy of formation and management of own financial resources;
- strategy of formation and management of borrowed financial resources.

The objectives of the strategy of forming the capital structure of the enterprise are [38, p. 28]:

- ensuring a sufficient level of financing at the expense of own internal sources, the main of which is profit;
- attraction of necessary financing from external own and borrowed sources;
- ensuring the optimal structure of sources of financing in terms of efficiency and minimizing the financial risks of the enterprise.

The strategy of formation of the capital structure of the enterprise involves the assessment of the capital structure as the ratio between different sources of funds, which provides its minimum price and, accordingly, the maximum price of the enterprise.

In the arsenal of strategic methods of ensuring financial security in the process of long-term development, capital structure management plays an important role. The main task of strategic management of the capital structure in the process of ensuring the financial security of the enterprise is to optimize the capital structure, the process of such optimization in each enterprise involves the establishment of the target capital structure.

Capital analysis of a company	Analyze the composition of capital in dynamics over the periods and trends in changes in its structure, as well as the impact they have on financial sustainability and capital efficiency.
Assessment of the main factors that determine the formation of the capital structure	To evaluate the influence of the main factors that determine the structure of capital: industry peculiarities of operating activity, life cycle stage of organization, commodity market conjuncture, financial market conjuncture, level of operating profitability, tax pressure on the company, equity concentration level
Optimization of the capital structure by the criterion of maximizing the level of financial profitability	A prerequisite for an increase in the return on equity is the excess return on assets of the average loan rate. Since the financial leverage ratio enhances the positive effect of this differential, its value should be maximized.
Optimization of the capital structure by the criterion of minimizing its value	The calculation of the weighted average cost of capital, that is, the total amount of equity and borrowing capital and the cost of servicing them, allows us to choose a proportion at which this indicator will be minimal, and the amount of attracted capital will reach a value at which the maximum market value of the organization will be maximized.
Optimization of the capital structure by the criterion of minimizing the level of financial risks	Choosing one method of asset financing must take into account the profitability of the organization, its credit rating, liquidity and solvency. The stronger the organization's position on these indicators, the more risky it chooses to finance.
Formation of target capital structure indicator	The development of a financial strategy should be based on the definition of the main goals for the future and the objectives of achieving the planned targets. According to them, the formation of the target capital structure of the organization will be carried out by attracting financial resources from relevant sources.

Figure 3.1. The main stages of the process of optimizing the capital structure of the enterprise

Targeted capital structure refers to the ratio of own and borrowed sources of capital formation of the enterprise, which allows to fully achieve the chosen criterion for its optimization. Specific target capital structure provides a given level of profitability and risk in the activity of the enterprise, minimizes its weighted average value or maximizes the market value of the enterprise [6, p. 260].

Optimization of the capital structure is one of the most important and complex tasks that are solved in the process of developing the capital formation strategy of "Republia Group" LTD.

Let's carry out the process of optimizing the capital structure by the criterion of financial leverage. Financial leverage is an effective tool for optimizing capital structure. When the interest rate spread is significant, the average weighted interest rate on all loans should be used, which significantly improves the accuracy of the calculations. When calculating the EFL, it is necessary to take into account the increase in Ra at the expense of the additional income derived from the use of loans. Thus, conducting EFA calculations can significantly optimize the capital structure and benefit from the use of loans. So, let's determine the optimal capital structure of "Republia Group LTD" for 2018 by the criterion of maximizing the level of financial profitability in Table. 3.1.

According to the calculations in table. 3.1, the effect of financial leverage will be:

1) Variant "B" (80% equity i 20% liabilities): EFL = (1-0,18)*(9,1-8)*(12,08/48,31) = 0,23%;

2) Variant "C" (60% equity and 40% liabilities):

EFL =(1-0,18)*(9,1-8)*(24,15/36,23)= 0,6%;

1) Variant "D" (50% equity and 50% liabilities):

EFL =(1-0,18)*(9,1-8)*(30,19/30,19) = 0,91%;

2) Variant "E" (40% equity and 60% liabilities):

EFL =(1-0,18)*(9,1-8)*(36,23/24,15) = 1,36.

Table. 3.1.

Optimization of the capital structure for 2019 by the criterion of maximizing the level of financial profitability

№	Indicator	Variant				
		A	B	C	D	E
1	Total amount of assets	60,38	60,38	60,38	60,38	60,38
2	Equity weight, %	100	80	60	50	40
3	Liabilities weight, %	-	20	40	50	60
4	Amount of Equity	60,38	48,31	36,23	30,19	24,15
5	Amount of Liabilities	-	12,08	24,15	30,19	36,23
6	EBIT	5,50	5,50	5,50	5,50	5,50
7	EBIT assets marging (ROA), %	9,11%	9,11%	9,11%	9,11%	9,11%
8	Interest rate, %	8%	8%	8%	8%	8%
9	Amount of inerest payment ((r.5*r.8)/100)	0	0,97	1,93	2,42	2,90
10	EBIT subtract interest payment (r.6-r.9)	5,50	4,53	3,57	3,08	2,60
11	corporate tax rate	0,18	0,18	0,18	0,18	0,18
12	Corporate tax amount (r.10*r.11)	0,98964	0,81574	0,64184	0,55489	0,46794
13	NOPAT (r.10-r.12)	5,32	4,35	3,39	2,90	2,42
14	ROE, % ((r.13*100)/r.4)	8,8%	9,0%	9,3%	9,6%	10,0%
15	ROE Growth,% (respectively to variant A)	-	2%	4%	3%	4%
16	EFL, %	-	0,23%	0,60%	0,91%	1,36%

As a result of the calculations, we can say that the best option for the relationship between the equity and borrowed capital of the company is the option "E", where the share of equity is 40% and debt - 60%. And under this condition, the company has the greatest value of the effect of financial leverage 1,36%. The worst option for a capital structure for an enterprise is option A. Under this option, 100% is equity and 0% is debt, with a financial leverage effect of 0,23%. In general, it can be said that the effect of financial leverage is quite low, since the company is highly profitable and has a stable capital structure.

Therefore, from the results of the calculations in table. 3.1 shows that the higher the share of borrowed capital in the total amount of capital used by an enterprise, the higher the level of profit it receives on equity.

The method of optimizing the capital structure by the criterion of minimizing its value is based on the preliminary estimation of equity and loan capital under different conditions of its attraction and multivariate calculations of the weighted average cost of capital. Using capital from different sources, it is necessary to try to optimize the structure of capital to reduce the weighted average cost of capital - the average payment for all sources of financing [6, p. 237]

Table data. 3.2 indicate that the minimum weighted average cost of capital of SK Group-1 LLC in 2019 is reached for the ratio of equity and borrowed capital in the proportion of 50% to 50% (option 3). With such a capital structure and other things being equal, the real market price of the enterprise will be maximum. The lowest weighted average cost of capital in 2020 is achieved in the case of a ratio of 40% of equity to 60% of debt (option 7), and is 10.3%. And, accordingly, the lowest average weighted cost of capital in 2021 is achieved in the case of a ratio of 30% of equity to 70% of debt (Option 12). Thus, the table clearly shows that if the level of dividend payments, as planned by the company in the future, reducing the share of equity leads to a decrease in its value. If the dividend level remains constant or decreases below the cost of loans, it may be advisable to increase equity in order to minimize WACC.

In 2019, the ratio of equity to debt at the enterprise was 77% to 23%, which, as can be seen from the calculations, corresponds to the weighted average cost of capital (9.21%), which at this level of dividends was optimal for the enterprise and has a positive effect on its efficiency. activities.

As a result of the forecast of the optimal capital structure by the criterion of minimizing the weighted average cost of the total capital, it was revealed:

- the increase in the interest rate on the loan reduces the share of borrowed capital and increases the share of own in the capital structure of the enterprise;

Table 3.2

Optimization of the capital structure by the criterion of minimizing the weighted average cost of capital

For "Republia Group" LTD years 2019-2021

Indicators	**Base year 2018**	**Variants of calculations**											
		2019 y				**2020 y**				**2021 y**			
		1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
Total capital need	60,38	69,44	69,44	69,44	69,44	79,86	79,86	79,86	79,86	91,83	91,83	91,83	91,83
Capital structure variants, %													
a) equity capital	77	80	70	60	50	70	60	50	40	60	50	40	30
б) debt capital	23	20	30	40	50	30	40	50	60	40	50	60	70
Level of dividents, %	10	10	10	10	10	15	15	15	15	15	15	15	15
Credit int.rate, %	8	8	8,1	8,2	8,3	8,2	8,4	8,6	8,8	8,4	8,6	8,8	9
Tax rate	0,18	0,18	0,18	0,18	0,18	0,18	0,18	0,18	0,18	0,18	0,18	0,18	0,18
Tax corrector	0,82	0,82	0,82	0,82	0,82	0,82	0,82	0,82	0,82	0,82	0,82	0,82	0,82
Int.rate incl.tax corr, %	6,56	6,56	6,642	6,724	6,806	6,724	6,888	7,052	7,216	6,888	7,052	7,216	7,38
WACC, %	9,21%	9,31%	8,99%	8,69%	8,40%	12,52%	11,76%	11,03%	10,33%	11,76%	11,03%	10,33%	9,67%

- the increase in the dividend rate is associated with an increase in equity in liabilities and an increase in the weighted average cost of capital.

Thus, the method of optimizing the structure of capital by the criterion of minimizing its value is the most appropriate, since the weighted average cost of capital is the main criterion for assessing the efficiency of formation of capital structure of the enterprise [6, p. 237].

Now we will optimize the capital structure by the criterion of minimizing financial risks. Depending on their attitude to financial risks, the owners or managers of the business choose one of the above options for financing the assets

Determine the optimal capital structure of the analyzed enterprise by the criterion of minimizing the level of financial risks. The source information for the calculations is given in Table 3.3.

Table 3.3

Background information to determine the capital structure to minimize the level of financial risk

Indicators	**2015 y**		**2016 y**		**2017 y**		**2018 y**	
	Value mln uah	weight, %	Value mln uah	weight, %	value mln uah	weight, %	value mln uah	weight, %
Long-term assets	11,14	36,4%	12,74	32,3%	26,07	47,7%	26,02	84,9%
Short-term assets	19,51	63,6%	26,72	67,7%	28,65	52,3%	34,36	112,1%
Including:		0,0%		0,0%		0,0%		0,0%
- constant part	5,8536	19,1%	8,01	20,3%	8,59	21,8%	10,31	33,6%
- variable part	13,66	44,6%	18,70	47,4%	20,05	50,8%	24,05	78,5%
Total capital	30,66	100,0%	39,45	100,0%	54,72	100,0%	60,38	197,0%

Taking into account the information in Table 3.3, we calculate the equity and borrowing capital of “Republia Group” LTD for the planned year 2019 using different approaches to financing individual asset groups. When calculating, we take into account that we consider 60% of equity and 40% of debt to be the optimal capital structure, and it corresponds to the compromise approach, in which non-current assets are financed by equity, the permanent part of current assets is financed by the constant part of borrowed capital.

Table 3.4

Calculation the size of the enterprise capital in order to minimize the level of financial risk

Indicators	Conservative approach	Compromise approach	Aggressive approach
1	2	3	4
Equity	47,71	36,71	28,25
including:			
- long-term assets	31,25	31,25	31,25
- short-term assets	38,19	38,19	38,19
Amon them:			
- constant part	11,46	11,46	11,46
- variable part	26,73	26,73	26,73
Liabilities	21,73	32,73	41,19
Including:			
- constant (long-term) part	3,00	6,00	3,00
- variable part	18,73	26,73	38,19
Total capital	69,44	69,44	69,44

Based on the analysis of the structure of financing the assets of the company with the help of Table 3.4 we can conclude that for our enterprise all approaches can be considered normal. After all, even according to the aggressive approach, the share of equity in the overall structure is 40%, and only 90% of fixed assets should be financed with equity. Using a trade-off approach shows that equity is 60%, and borrowing is 40% and only non-current assets and a half of the constant current assets should be financed by equity. So, calculate the planned capital statement based on the three variants of optimization. Consider 60% equity and 40% of liabilities as optimal capital structure.

Table 3.5

Capital structure forecast of “Republia Group” LTD for 2019-2020

Statement	**Base 2018**	**Weight, %**	**2019**	**Weight, %**	**2020**	**Weight, %**	**Structural deviation, %**		
							2019-2018	**2020 - 2019**	**2020-2018**
Equity									
Registered capital	1,04	1,7%	1,04	1,5%	1,04	1,3%	-0,2%	-0,2%	-0,4%
Capital surplus	15,55	25,7%	15,55	22,4%	15,55	19,5%	-3,4%	-2,9%	-6,3%
Retained earnings	30,4	50,3%	31,12	44,8%	32,92	41,2%	-5,5%	-3,6%	-9,1%
Total equity capital	46,99	77,8%	47,71	68,7%	49,51	62,0%	-9,1%	-6,7%	-15,8%
II. Long-term debt	2,09	3,5%	3,00	4,3%	5,59	7,0%	0,9%	2,7%	3,5%
Trade Accounts Payable	2,60	4,3%	3,75	5,4%	8,66	10,9%	1,1%	5,5%	6,5%
Other accounts payable	5,04	8,4%	6,56	9,4%	7,67	9,6%	1,1%	0,2%	1,3%
Other Current Liabilities	3,65	6,0%	8,43	12,1%	8,42	10,5%	6,1%	-1,6%	4,5%

Total Current Liabilities	11,29	18,7%	18,73	27,0%	24,76	31,0%	8,3%	4,0%	12,3%
Balance	60,38	100	69,44	100	79,86	100	-	-	-

According to the results of the forecast in table. 3.5, during 2019-2020 there will be an increase in the loan capital of the enterprise, due to the increase in the share of long-term bank loans in 2019-200, as well as an increase in accounts payable. Retained earnings will increase slightly in absolute terms, and their share in liabilities will decline as the level of dividend payments increases against the backdrop of rising borrowing capital. The debt capital of the enterprise in the share will increase by 17, to in two years, with the share of debt capital increasing in the balance sheet to 38% in 2020.

The planned and forecasted capital structure of the enterprise is shown in Fig.3.2.

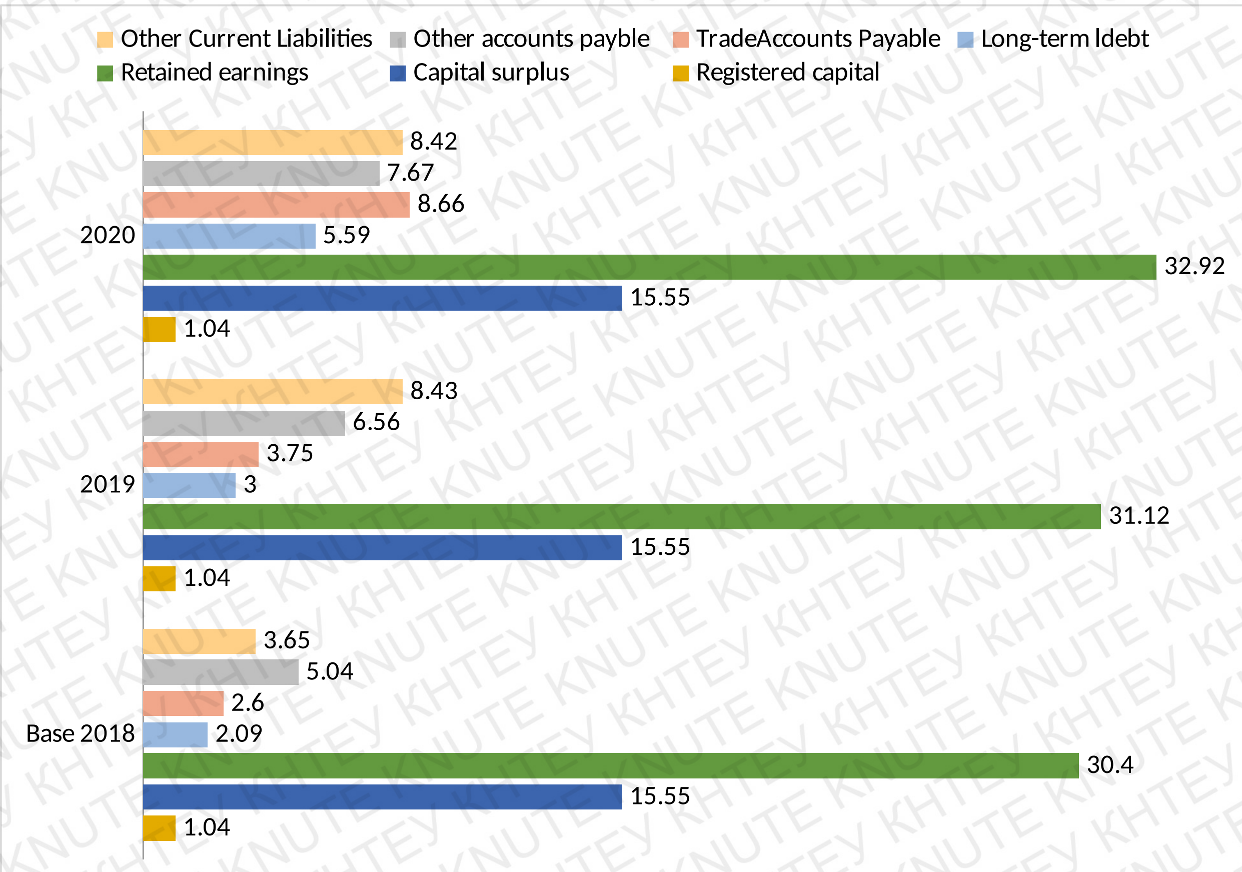

Figure 3.2. Planned and forecasted capital structure of "Republia Group" LTD for 2019-2020 yy.

From the diagram in Fig. 3.2 it is clear that the main capital-forming items of the balance sheet are the items of equity - retained earnings and additional capital. The policy of increasing the real capitalization of the enterprise will not change significantly in the future and equity will remain the main part of the liability.

Despite the increase in financial risks for the company during 2019-2020, there is a positive tendency to increase the share of borrowed capital, because this is exactly what is needed for the company to optimize its capital structure and maintain its competitive position in the market. Therefore, the development of a strategy for forming the capital structure involves optimizing the capital structure and based on the above calculations, forecasting the capital structure of the enterprise in order to improve its financial results.

Besides we can conclude that during the planning period the golden rule of financing will be fulfilled, and the value of the ratios at the end of 2020 indicates that the value of current assets far exceeds the value of current liabilities, and the value of fixed liabilities also significantly exceeds current assets, which they must be funded. In previous periods, the values of the ratios indicate that the magnitude of the sources of funding is sufficient to cover the assets and also slightly exceed them.

CONCLUSIONS AND PROPOSALS

Capital is one of the most used economic categories. It is the basis for the creation and development of the enterprise in the functioning of the interests of the state, owners and staff.

The economic essence of the capital of the enterprise is distinguished in its characteristics: 1) the capital of the enterprise is the main factor of production; 2) capital characterizes the financial resources of an income-generating enterprise; 3) capital is the main source of formation of the welfare of its owners; 4) the capital of the enterprise is the main measurement of its market value; 5) the dynamics of the capital of the enterprise is an important barometer of the level of efficiency of its economic activity.

Capital structure is the ratio of own and borrowed funds used by an enterprise in the course of business. Gain in the 50's of XX century. competition among large corporations, led to the emergence and development of theories of capital structure, which established the relationship between capital structure, its weighted average cost and market value of the entire enterprise.

The traditional approach to determining the optimal capital structure, which has largely been confirmed in the practice of financial management, was that the cost of capital of the enterprise depends on its structure. There is an optimal capital structure for the enterprise, which minimizes the value of the SVZK and at the same time maximizes the market value of the enterprise. Neoclassical theories denied the existence of an optimal capital structure.

The structure of capital is related to the peculiarities of each of its components, ie own and borrowed

The optimal capital structure is the ratio of use of own and borrowed funds, which ensures the most effective proportionality between the coefficient of financial profitability and the coefficient of financial stability of the enterprise, that is, maximizes its market value.

Financial statement analysis of the “Republia Group” company showed that Liquidity ratios of the company showed that the “Republia Group” LTD has surplus of liquidity during the whole period of activity 2016-2018 years, the current liquidity index exceeded 2 during all the years of company activity. In the 2016 and 2018 years the absolute liquidity ratio exceeded 1 when the normative meaning is 0,2-0,35.

During 4 years the company had absolute type of financial stability. Financial stability ratios also reflect the high level of financial stability. So, independence ratio in dynamics decreased from 0.71 in 2015 to 0.78 in 2018, which is a positive trend for the studied enterprise and requires measures aimed at managing the company's equity

According to the operational activity analysis it can be concluded that 2017 was the year of the highest business activity of “Republic Group” LTD. Company is highly profitable as its asset return exceeds 15% in 2016 and 2017 and reaches 24% in 2018. The return on equity at the end of 2018 was 32.9%, up 11.2 pp over 2017.

The strategy of formation of the capital structure of the enterprise involves the assessment of the capital structure as the ratio between different sources of funds, which provides its minimum price and, accordingly, the maximum price of the enterprise.

To better managing the equity of “Republia Group” LTD we provide capital structure optimization according the 3 approaches: financial leverage effect, WACC minimization and financial risk minimization approach.

Despite rather different results of our optimization calculations, we assume that capital structure of 60% of Equity and 40% of debt can be considered as an optimal structure. Based on this splanned relation equity planning was proposed. According to this plan “Republia Group” LTD can achieve an optimal structure in year 2020.

According to the results of the forecast in table. 3.5, during 2019-2020 there will be an increase in the loan capital of the enterprise, due to the increase in the share of long-term bank loans in 2019-200, as well as an increase in accounts payable. Retained earnings will increase slightly in absolute terms, and their share in liabilities will decline as the level of dividend payments increases against the backdrop of rising borrowing capital. The debt capital of the enterprise in the share will increase by 17, to in two years, with the share of debt capital increasing in the balance sheet to 38% in 2020.

Despite the increase in financial risks for the company during 2019-2020, there is a positive tendency to increase the share of borrowed capital, because this is exactly what is needed for the company to optimize its capital structure and maintain its competitive position in the market. Therefore, the development of a strategy for forming the capital structure involves optimizing the capital structure and based on the above calculations, forecasting the capital structure of the enterprise in order to improve its financial results.

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APPENDIXES

Balance Sheet

(All numbers in million)

Year Ended December

	2016	
	2015	2016
Current Assets		
Cash And Cash Equivalents	4,56	10,85
Short Term Investments	-	-
Net Receivables	14,01	15,13
Inventory	0,14	0,16
Other Current Assets	0,80	0,57
Total Current Assets	**19,51**	**26,72**
Long Term Investments	-	-
Property Plant and Equipment	3,47	4,61
Goodwill	2,96	3,03
Intangible Assets	4,29	4,38
Accumulated Amortization	-	-
Other Assets	0,42	0,72
Deferred Long Term Asset Charges	0,15	0,32
Total Assets	**30,66**	**39,45**
Current Liabilities		
Accounts Payable	0,72	0,88
Short/Current Long Term Debt	-	-
Other Current Liabilities	4,07	3,72
Total Current Liabilities	**6,92**	**7,38**
Long Term Debt	1,93	1,91
Other Liabilities		
Deferred Long Term Liability Charges	-	-
Minority Interest	3,20	3,20
Negative Goodwill	-	-
Total Liabilities	**8,84**	**9,28**
Stockholders' Equity		
Misc. Stocks Options Warrants	-	-
Redeemable Preferred Stock	-	-
Preferred Stock	-	-
Common Stock	0,34	1,04
Retained Earnings	12,55	18,39
Treasury Stock	0,00	0,00
Capital Surplus	8,92	10,75
Other Stockholder Equity	0,00	0,00
Total Stockholder Equity	**21,81**	**30,17**
Total Equity and Liabilities	**30,65**	**39,45**

Net Tangible Assets	14,55	22,76	

Income Statement

(All numbers in million)

Year Ended December 31

	2016		2017	
	2015	2016	2016	2017
Revenue				
Total Revenue	52,05	65,08	65,08	78,56
Cost of Revenue	29,40	37,93	37,93	47,50
Gross Profit	**22,66**	**27,14**	**27,14**	**31,06**
Operating Expenses				
Research Development	-	-	-	-
Selling General and Administrative	12,90	17,17	17,17	21,37
Non Recurring	-	-	-	-
Others	1,68	2,38	2,38	3,48
Total Operating Expenses	42,29	55,10	55,10	68,87
Operating Income or Loss	**8,08**	**7,59**	**7,59**	**6,20**
Income from Continuing Operations				
Total Other Income/Expenses Net	-0,78	9,02	9,02	10,98
Earnings Before Interest and Taxes	8,08	7,59	7,59	6,20
Interest Expense	0,000	-8,10	-8,10	-8,10
Income Before Tax	7,30	8,51	8,51	9,08
Income Tax Expense	1,31	1,53	1,53	1,63
Minority Interest	3,20	3,20	3,20	3,20

Net Income From Continuing Ops	**5,98**	**6,98**	**6,98**	**7,45**
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income				
Net Income	**5,98**	**6,98**	**6,98**	**7,45**

Cash Flow

(All numbers in million)

Year Ended December 31

	2016		**2017**	
	2015	**2016**	**2016**	**2017**
Net Income	**5,98**	**6,98**	**6,98**	**7,45**
Operating Activities, Cash Flows Provided By or Used In				
Depreciation	1,68	2,38	2,38	3,48
Adjustments To Net Income	1,50	1,48	1,48	2,25
Changes In Accounts Receivables	-2,92	-1,04	-1,04	-0,11
Changes In Liabilities	5,34	0,46	0,46	3,49
Changes In Inventories	0,00	-0,02	-0,02	-0,08

Changes In Other Operating Activities	0,95	0,62	0,62	-0,40
Total Cash Flow From Operating Activities	**12,55**	**10,86**	**10,86**	**16,08**
	12,55	**10,86**	**10,86**	**16,08**
Investing Activities, Cash Flows Provided By or Used In				
Capital Expenditures	-6,44	-8,80	-8,80	-15,27
Investments	0,00	0,00	0,00	0,00
Other Cash flows from Investing Activities	-0,50	-0,50	-0,50	-0,50
Total Cash Flows From Investing Activities	**-6,94**	**-9,30**	**-9,30**	**-15,77**
Financing Activities, Cash Flows Provided By or Used In				
Dividends Paid	-1,80	-0,90	-0,90	-1,20
Sale Purchase of Stock	-	-	-	-
Debt repayment	-1,92	-0,10	-0,10	-0,60
Other Cash Flows from Financing Activities	-1,20	5,29	5,29	1,31
Total Cash Flows From Financing Activities	**-4,93**	**4,29**	**4,29**	**-0,49**
Effect Of Exchange Rate Changes	0,39	0,44	0,44	0,28
cash for the beginning of period	**3,49**	**4,56**	**4,56**	**10,85**
Change In Cash and Cash Equivalents	**1,07**	**6,29**	**6,29**	**0,10**