

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Bachelor Thesis

**Assessment of the financial position and performance of a
chosen Russian company**

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

BACHELOR THESIS ASSIGNMENT

Ilia Kolmakov

Business Administration

Thesis title

Assessment of the Financial Position and Performance of a Chosen Russian Company

Objectives of thesis

The aim of this bachelor thesis is to assess the financial position and performance of a chosen Russian company by analyzing the company's financial statements with focus on the representation and changes of the reported assets, liabilities, expenses and revenues for a chosen period and to identify the potential financial problems and the most significant factors influencing the profit.

Methodology

Methodology for the literature overview is based on data collection from the relevant legal framework, specialized publications and other written or online sources. The practical part of the thesis will be based on the information gained from the published annual reports of the chosen company. Vertical and horizontal analysis and ratio analysis of the financial statements will be used to assess the financial position and performance of the company and to prepare the practical part of the thesis. The methods of analysis, synthesis, comparison and deduction will be used to formulate the conclusions of the thesis.

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ALEXANDER, J. Financial Planning & Analysis and Performance Management. USA : John Wiley & Sons, Inc. Hoboken, 2018, 640 p., ISBN-13: 978-1119491484
ERNST & YOUNG, LLC. IFRS, US GAAP and RAP. Comparison and basics, Introduction., 2016, p. 56, ISBN N/A, available online
Russian Federation. Ministry of finance. Federal Law on Accounting, dated December 6, 2011, No. 402-ФЗ, as amended
Russian Federation. Ministry of finance. Order No. 34n of 29.07.1998. Position on accounting and financial statements in the Russian Federation., as amended
SIVOVA, M. Form 2 of the balance – Income statement. Сивова Марина: Заполнение формы 2 бухгалтерского баланса (образец), 2020, available online
SOCKAJA, A. PBU (RAS) 4/99 – accounting statements of the organization (Соцкая Анастасия: ПБУ 4/99 – бухгалтерская отчетность организации), 2020, available online
VAHRUSHIN, M.A. Analiz finansovoj otchetnosti [Analysis of financial statements]. Moscow: INFRA-M, 2016. 432 p., ISBN: 5-901620-61-5

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Declaration

I declare that I have worked on my bachelor thesis titled "Assessment of the financial position and performance of a chosen Russian company" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on March 2021

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I would like to thank Ing. Enikő löriczová, Ph.D. for her advice and support during my work on this thesis

Assessment of the financial position and performance of a chosen Russian company

Abstract

The bachelor thesis deals with the analysis of the financial position of MTS Russian Company under chosen period. The bachelor thesis is subdivided into two main parts: theoretical and practical.

The theoretical part explains the financial system in Russia, corporate finance, statements used for the analysis of the financial position, and ratio analysis. The main methodology for the theoretical part is a literature review based on books and online resources.

The practical part focuses on the realization of financial analysis for the chosen Russian Company. The practical part starts with an explanation of MTS company and consists of an analysis of its competitors. The next chapter in the practical part relates to the understanding of the telecommunication industry in Russia. To demonstrate the financial position of the company, the author applies the vertical and horizontal analysis of the balance sheet and income statement. In the next chapter, the author conducts liquidity ratio.

Keywords: Financial analysis, Financial system in Russia, Horizontal Analysis, Vertical Analysis, Ratio Analysis, Telecommunication industry

Posouzení finanční situace a výkonnosti vybrané ruské společnosti

Abstrakt

Bakalářská práce se zabývá analýzou finanční situace ruské společnosti MTS ve zvoleném období. Bakalářská práce je rozdělena do dvou hlavních částí: teoretické a praktické.

Teoretická část vysvětluje finanční systém v Rusku, podnikové finance, výkazy použité pro analýzu finanční situace a poměrovou analýzu. Hlavní metodikou pro teoretickou část je literární rešerše založená na knihách a online zdrojích.

Praktická část je zaměřena na realizaci finanční analýzy pro vybranou ruskou společnost. Praktická část začíná vysvětlením společnosti MTS a sestává z analýzy jejích konkurentů. Další kapitola v praktické části se týká pochopení telekomunikačního průmyslu v Rusku. K prokázání finanční situace společnosti autor aplikuje vertikální a horizontální analýzu rozvahy a výsledovky. V další kapitole autor provádí ukazatel likvidity.

Klíčová slova: Finanční analýza, finanční systém v Rusku, horizontální analýza, vertikální analýza, poměrová analýza, telekomunikační průmysl

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1. Introduction

The main goal of finance activities is to provide enterprises with the necessary financial resources to reach growth in revenue, organize a constant circulation of funds in the economy and, on this basis, increase income from economic activities. Financial analysis is a process of researching the principal indicators of an enterprise that give an objective assessment of its financial condition. The financial analysis focuses on choosing the most rational fiscal decisions that ensure the further development of an enterprise and understanding its current state.

The bachelor thesis aims to assess the financial position and performance of a chosen Russian company. An analysis of the company's financial statements focuses on the representation and changes of the reported assets, liabilities, expenses, and revenues for a chosen period. The bachelor thesis consists of two main parts: theoretical and practical.

The author in the bachelor thesis describes the telecommunication company MTS. The modern telecommunications market in Russia consists of many telecom operators functioning in a single information and legal space. These days, there is a tendency towards the intensive development of the telecommunications market in Russia. Furthermore, the intensification of the competition between telecom operators for groups of consumers and total revenues makes the company react rationally and effectively. The fundamental task of the company is the system of effective financial management of telecommunications enterprises, in this regard, the topic of this final qualification work is currently quite relevant.

The primary methodology for the theoretical part is the collection of information based on literature and online resources. The theoretical part aims to analyze and gain appropriate data for future financial analysis of a chosen company. The theoretical part starts with a detailed description of finance, function of finance, type of finance, and description of the financial system in Russia. The next chapter deals with corporate finance and its functioning within a company. Then, the author describes financial analysis itself, the source for information to conduct financial analysis and international financial reporting standards. The next part of the theoretical part deals with financial statements and methods of financial analysis such as horizontal, vertical, and ratio analysis.

Based on literature research and knowledge gained from the theoretical background in the practical part author would like to develop the financial analysis for telecommunication company MTS between 2017 to 2019. The practical part consists of 3 main parts. In the first sub-part, the author describes the telecommunication industry in Russia, challenges, and to know significant competitors in the market. The next sub-part represents MTS Company. It starts with basic information about the company, products, and services. Also, there is a strategy for the nearest future and dynamics of financial and operational indicators. Then the author conducts the financial analysis of MTS Company through analyzing the balance sheet, vertical and horizontal analysis of balance sheet, income statement, vertical and horizontal analysis of income statement, and ratio analysis. In the last chapter, the author concludes all conducted analyses and reviews the factors that made the profit of the company.

2. Objectives and Methodology

2.1 Objectives

The aim of this bachelor thesis is to assess the financial position and performance of a chosen Russian company by analyzing the company's financial statements with focus on the representation and changes of the reported assets, liabilities, expenses, and revenues for a chosen period and to identify the potential financial problems and the most significant factors influencing the profit.

2.2 Methodology

Methodology for the literature overview is based on data collection from the relevant legal framework, specialized publications and other written or online sources. The practical part of the thesis will be based on the information gained from the published annual reports of the chosen company. Vertical and horizontal analysis and ratio analysis of the financial statements will be used to assess the financial position and performance of the company and to prepare the practical part of the thesis. The methods of analysis, synthesis, comparison, and deduction will be used to formulate the conclusions of the thesis.

2.3 Research questions

The author determined research questions for the bachelor thesis:

- What are the financial standards in Russia?
- How is MTS competitive within the industry?
- Is MTS going to increase their financial results during the analyzed period?
- What are the most crucial factors that generate profit?

3. Literature Review

3.1 Finance

“The term “finance” comes from the Latin word “finis,” meaning the end, mainly the completion of the payment. Later, from the word “finis” came the word “financia” meaning money payment.”¹ In this way, several components distinguish financial relationships, but the basis is always money, which is eventually the exchange for certain goods and services. As mentioned by Černohorský (2020)² this means that in this sense we do not consider the term finance and money as a synonymous – finance is not money. Finance is a dividing relationship that is expressed through money. Finance is a set of material resources expressed in a monetary form. Resources can be in possession of an individual, an economic entity, business, or the state.

Finance is a set of economic relations arising in the process of formation, distribution, and the use of funds. Financial relationships are associated with monetary relationships that arise between:

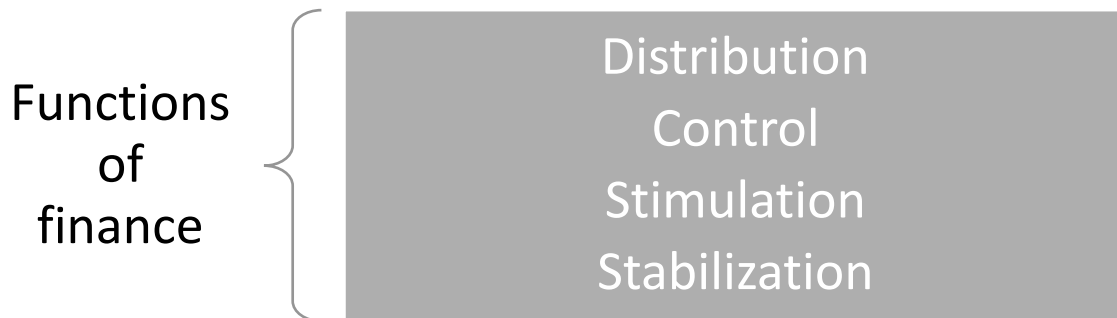
- business entities in the process of selling products, providing services, purchasing inventory
- business entities and higher organizations in the creation of joint funds of funds and their use
- business entities and the state, local governments in the establishment of estimates and extra-budgetary funds
- within business entities in the development and use of targeted funds
- separate budgets, extra-budgetary funds
- citizens and the state, local authorities in the creation of budgets and extra-budgetary funds.

¹ Glotova.I and Tomilina.E. *Finance*. Stavropol: Argus. 2013. p. 8. ISBN: 978-5-9596-0943-6.

² Černohorský. J. “*Finance: from theory to reality*”. Praha: GRADA Publishing. 2020. P. 11. ISBN: 978-80-271-1809-0.

The essence of finance is manifested in their functions. As defined by Černohorský (2020)³, the functions of finance are the following:

Figure 1. Functions of finance



Source: Author based on Černohorský (2020)

- **The distribution function** displays that finances are actively involved in the distribution and redistribution of the gross domestic product and national income between participants in social production, sectors of the economy, regions the socio-cultural sphere.
- **The control function** is expressed exclusively through financial control over the qualitative and quantitative use of monetary resources.
- **The stimulation function** demonstrates the fact that the state, using financial market instruments, can encourage or restrain the production and consumption of certain types of goods. The tax system acts as the main instrument that ensures the implementation of the incentive function.
- **Stabilization function** content is to ensure stable conditions in economic and social relations for all business entities and citizens. In this case, the issue of the stability of financial legislation is of particular importance, since without this it is impossible to implement investment policy in the production sector on the part of private investors.

³ Černohorský, J. *Finance: from theory to reality*. Praha: GRADA Publishing, 2020. P. 13. ISBN: 978-80-271-1809-0.

3.1.1 Financial system in Russia

The financial system is a complex of economic relations for the formation and use of funds based on the processes of distribution and redistribution of national income and other macroeconomic results of general production. The financial system determines the set of interconnected spheres and segments of financial relations. It consists of financial institutions and financial instruments. According to Tomilina and Agarkova (2016)⁴ the following figure shows us the financial system in Russia:

Table 1. Financial system in Russia

Segments of financial relations	Description	Example
Centralized finance	Economic relations associated with the formation and use of state funds accumulated in the state budget system and off-budget funds	<ul style="list-style-type: none">• Budget system• State off-budget funds• State and municipal loans
Decentralized finance	Monetary relations that mediate the circulation of monetary funds of economic entities	<ul style="list-style-type: none">• Finance of commercial organizations• Finance of non-profit organizations• Finance of financial intermediaries

Source: Tomilina and Agarkova (2016)

⁴ Tomilina E. and Agarkova L. *Corporate finance*. Stavropol: Argus. 2016. p. 17. ISBN: 978-5-9596-1271-6.

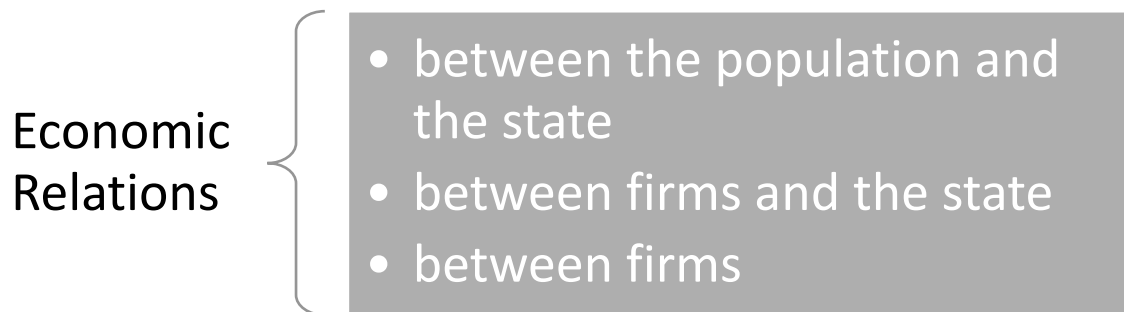
In Russia, the principal financial management body is the Ministry of Finance (Minfin). Its tasks include, write Vsdelke.ru⁵:

- Country budgeting
- Reallocation of funds between different industries
- Drawing up the methodologies for accounting, auditing, and reporting within the Russian Federation
- Development of laws related to financing.

3.1.2 Type of finance

Finance is a set of economic relations arising from the formation, distribution, and use of funds. Types of finance are financial relationships grouped according to the varieties of market participants. These economic relations are formed between different subjects:

Figure 2. Economic Relations



Source: Discovered (2019)⁶

⁵ Vsdelke. *Finance, financial markets and investments*. [online]. Available from: <https://vsdelke.ru/ekonterminy/finansy-cto-eto-takoe.html>

⁶ Discovered. *Type of finance*. [online]. Available from: <https://discovered.com.ua/finance/vidy-finansov/>

“Finance is the allocation of assets, liabilities, and funds over time, process, mediums to reap the most out of the activity. In other words, managing or multiplying funds to the best in interest while tackling the risks and uncertainties. Finance is majorly divided into three segments: Personal Finance, Corporate Finance, and Public Finance.”⁷

Personal finance - it is a set of relationships regarding the creation, use of funds, and financial assets necessary to ensure the life of members of the household.

Corporate finance - this is the finance of commercial organizations. They primarily aim to generate profit from their activities. The main source of income for such organizations is the proceeds from the sale of the goods it produces, as well as the services they provide

Public finance - these are the finances of the state or financial revenues and expenditures of the state. State finances exist in the form of revenues and expenditures of state governing bodies and authorities, other budgetary institutions: public schools, universities, hospitals, theatres, museums, etc.

⁷ Edupristine. Empowering Professionals. *What is Finance: Types of Finance and Financial Instruments?* [online]. Available from: <https://www.edupristine.com/blog/what-is-finance>

According to EduPristine⁸ the following table shows detailed description of each type of finance:

Table 2. Description of type of finance

Type of finance	Description
Private finance	<ul style="list-style-type: none"> • Protection against unforeseen and uncertain personal events • Transfer of wealth across generations of the family • Paying for a loan or debt obligations • Investment and wealth accumulation goals
Corporate finance	<ul style="list-style-type: none"> • Capital budgeting • Employing standard • Identifying the source of funding in the form of equity, shareholders' funds, creditors, debts • Determining the utility of unappropriated profits for future investment • Risk management
Public finance	<ul style="list-style-type: none"> • Identifying the expenditure required by the public entity • The sources of revenue for the public entity • Determining the budgeting process and source of funds • Tax management

Source: EduPristine

⁸ Edupristine. Empowering Professionals. *What is Finance: Types of Finance and Financial Instruments?* [online]. Available from: <https://www.edupristine.com/blog/what-is-finance>

3.2 Corporate Finance

*“Corporate finance is a relatively independent sphere of the state finance system, covering a wide range of monetary relations associated with the formation and monetary funds in this area, part of the income, which in the use of capital, income, in the process of the circulation of their finances is formed, the main subsequent through various channels are redistributed in the national economy funds. It is the complex that serve as social development and the main source of economic growth and society”*⁹. Corporate finance is a system of economic relations between participants in production and economic activities. It includes the collection, distribution, and expenditure of financial resources. They are involved in the production and sale of finished products or services. Corporate finance is one of the principal sources of income for the state budget revenue. Additionally, it forms GNP (gross national product). *„The ultimate purpose of corporate finance is to maximize the value of a business through planning and implementation of resources while balancing risk and profitability.”*¹⁰

In the process of forming and using the funds of organizations (capital, income, reserves, etc.), a wide range of monetary relations arise, expressing the economic content of the finances of organizations and, accordingly, financial relationships.

According to Avdeeva and Krutikov (2016)¹¹ Financial, relationships arise between:

- ✓ the organization and its investors (shareholders, participants, owners)
- ✓ suppliers and buyers regarding the forms, methods, and terms of settlements,
- ✓ financial (credit) institutions and other organizations regarding the attraction and placement of free funds
- ✓ subsidiaries and parent organizations regarding internal corporate reallocation of funds
- ✓ partners regarding contributions in accordance with contracts of a simple partnership
- ✓ the employer and his employees regarding wages and payments from the consumption fund
- ✓ the state and the taxpayer

⁹ Tomilina E. and Agarkova L. *Corporate finance*. Stavropol: Argus. 2016. p. 15. ISBN: 978-5-9596-1271-6.

¹⁰ Corporate Finance Institute. *Corporate Finance Overview*. [online]. Available from: <https://corporatefinanceinstitute.com/resources/knowledge/finance/corporate-finance-industry/>

¹¹ Avdeeva V. and Krutikov V. *Corporate finance*. Kaluga: Eidos. 2016, p. 7. ISBN: 978-5-905697-67-8

3.2.1 Functions of corporate finance

One of the main functions of corporate finance management is the rational use of available financial resources. As part of this process, the department of finance develops an operating budget that considers all the needs of the company in terms of financing costs. Another duty is an interaction with other departments to track the income received from various operations and investments. Ultimately, the goal of corporate finance management is to ensure that the corporation derives the maximum benefit from the financial resources available while minimizing the number of costs associated with their use.

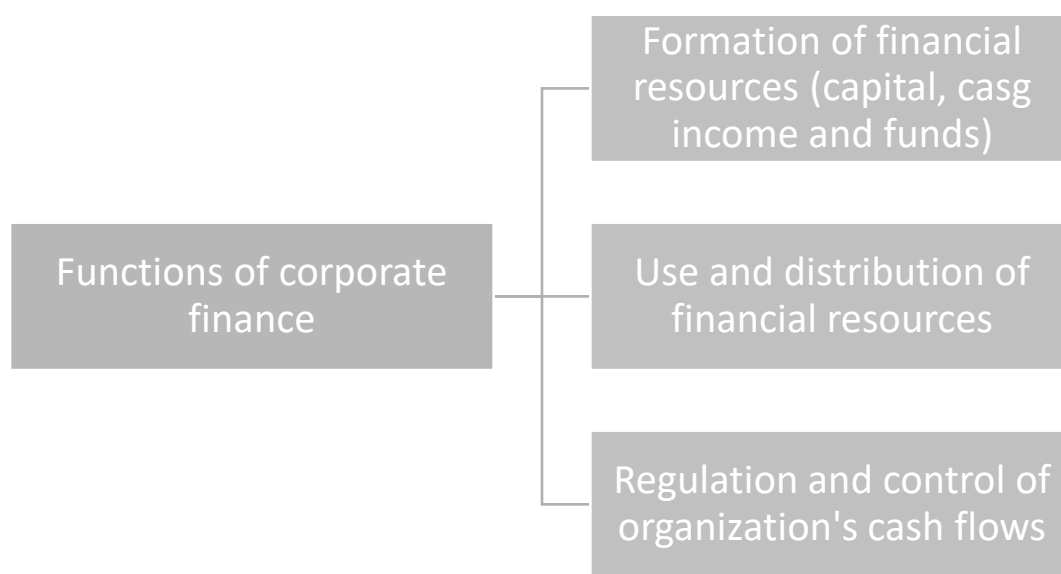
Avdeeva and Krutikov (2016)¹² defined the following functions of corporate finance:

- calculation of financial indicators for the planned period, preparation prospective and current financial plans (in terms of profit, credit, capital investments and financial investments, income balance and expenses, the balance of cash receipts and expenses)
- financial analysis and assessment of a current and prospective financial state of the corporation, possible rates of its development based on a provision of financial resources, as well as forecasting the likelihood of bankruptcy
- managing working capital, and ensuring the liquidity of the corporation (inventory management, cash, receivables, and payables debt)
- capital structure management and control over solvency (ensuring a rational capital structure, control over the proportions between equity and debt capital, for the fulfillment of obligations to investors and creditors with long-term investments, development of proposals on the types of debt obligations that can issue additionally for better meet capital requirements and achieving stability of solvency)
- financial risk management (risk identification, strategy selection, and risk management tactics, organization of specific procedures for risk management)
- maintaining relationships with institutions of market infrastructure, the conclusion of contracts with banks, stock exchanges, insurance companies, investment funds, companies.

¹² Avdeeva V. and Krutikov V. *Corporate finance*. Kaluga: Eidos. 2016, p. 7. ISBN: 978-5-905697-67-8.

As defined by Director's Personal Journal¹³ main goals of the financial department in corporate finance management are the financial stability of the company and the maximization of its profits. They also define the main duties of corporate finance. Three key functions are closely related to each other:

Figure 3. Functions of corporate finance



Source: Director's Personal Journal

Ideally, corporate finance promotes the optimal use of all financial resources, actively seeks ways to improve the financial health of the corporation and maintains the level of assets necessary for smooth operations. The CFO and their direct reports often have the authority to approve or reject various uses of corporate finance, bring matters to the board of directors, or even vote at a company's shareholders' meeting.

Any management activity involves the implementation of regular management functions (functions of the management system). The main uses of financial management as a management system:

¹³ General Director. Director's Personal Journal. *Corporate finance as the basis of company stability*. 2019. [online]. Available from: <https://www.gd.ru/articles/10326-korporativnye-finansy>

Table 3. Functions of Financial Management

Function	Description
Planning	ensures the development of a system that includes strategic and current plans, operating budgets for the principal areas of financial activity, various structural divisions, and finally, the enterprise.
Forecasting	long-term development of changes in the financial condition of an object, and its various parts. Forecasting, unlike planning, does not set the task of explicitly implementing the developed forecasts in practice.
Control	The control checks the management of financial work, implementation of financial plans, etc. Through the control, information collects the use of funds and the financial condition of the facility.
Analyzing	various aspects of financial activities of an enterprise involve an express assessment and in-depth assessment of individual financial transactions, as well as the results of financial actions of individual subsidiaries, branches, and "responsibility centers" and generalized outcomes of financial activities. The criteria for this optimization are financial indicators.

Source: Lukjanchuk (2010)¹⁴

¹⁴ Lukjanchuk. U. *Financial Management*. 2010. [online]. Available from: <https://be5.biz/ekonomika/f011/index.html>

3.3 Financial Analysis

Financial analysis - it is the study of significant indicators, ratios that give an objective assessment of the actual financial condition of organizations to make management decisions. After calculation the financial indicators, you can find out about the current situation at the enterprise, problems and assess its capabilities and prospects in the future.

Zhdanov (2018)¹⁵ mentioned the purpose of financial analysis, which is the reduction of uncertainty about the prospects of the enterprise in the future. It allows to solve the following tasks:

- Predict the changes in the financial condition of the enterprise
- Determine the direction of trends and the dynamics of changes in financial condition
- Highlight the key factors that determine the financial condition at various levels of enterprise management.
- Identify reserves that can improve the financial condition of the enterprise
- Highlight threats, both external and internal, for the financial condition of the enterprise

Analysis of financial indicators is one of the methods for assessing the state of the enterprise and its capabilities in the future. It acts as the basis for strategic planning, helps managers to identify resources and directions for the subsequent development of the enterprise, to find its strengths and weaknesses. *“Financial analysis is designed to identify the strengths and weaknesses of the financial and economic activities of the organization. Analysis of the financial is an important stage in the development of its financial strategy.”*¹⁶

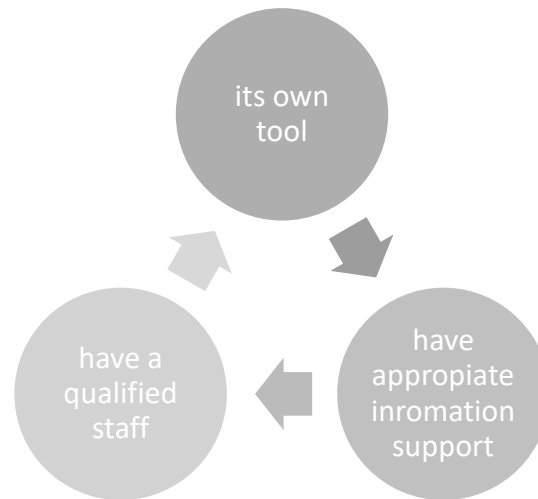
The analysis of financial ratios aims to identify the optimal ways to achieve the goals of the enterprise. Increasing business activity - asset turnover, ensuring liquidity and financial stability, increasing the profitability of the enterprise are examples of those goals. An analyst must understand the variety of figures from accounting and management reports. Moreover, he must determine the effectiveness of the current activities of the enterprise and develop recommendations for increasing it.

¹⁵ Zhdanov V. *Financial Analysis of an enterprise using coefficients and models*. Moscow: Prospect. 2018, p. 1. ISBN: 978-5-392-29798-6.

¹⁶ Bocharov.V. *Financial Analysis. Short course*. Moscow: Piter. 2009, p. 8. ISBN: 978-5-469-01726-4.

Bochrav (2009) ¹⁷ defined to conduct a high-quality financial analysis, you must:

Figure 4 High-quality financial analysis



Source: Bochrav (2009)

The users of the financial analysis are the top management of the company, investors who want to study whether it is worth investing in it. The banks are also considering whether to provide this organization a loan or not. Additionally, if the company wants to list its shares in the stock market, it is necessary to understand the financial condition of the chosen company. According to Accounting Tool the users of financial analysis. „**Company management.** *The management team needs to understand the profitability, liquidity, and cash flows of the organization every month, so that it can make operational and financing decisions about the business.* **Competitors.** *Entities competing against a business will attempt to gain access to its financial statements, to evaluate its financial condition.* **Customers.** *When a customer is considering which supplier to select for a major contract, it wants to review their financial statements first, to judge the financial ability of a supplier to remain in business long enough to provide the goods or services mandated in the contract.*“¹⁸

¹⁷ Bocharov.V. *Financial Analysis. Short course.* Moscow: Piter. 2009, p. 8. ISBN: 978-5-469-01726-4.

¹⁸ Accounting Tools. *Users of financial statements.* [online]. Available from: <https://www.accountingtools.com/articles/users-of-financial-statements.html>

3.3.1 Source of information

As defined Zhdanov (2018)¹⁹ by sources of information for carrying out the financial analysis is accounting and management accounting data, data on the state of the enterprise's property and sources of formation (information on assets and liabilities), information on the period under study. There are some company's activities that give additional information. It allows an accurate analysis of the enterprise: information on the accounting policy of the enterprise, information on the depreciation of fixed assets, intangible assets, the number of personnel, the share of overdue payables and receivables, the volume of products sold.

Carrying out the financial analysis of a company demands the use of various documents, statistical and financial statements of an economic entity, annual reports of managers. Precise attention needs to be on the quality and reliability of the information. Organization of financial analysis in the presence of electronic information resources and automated management systems requires the study of experience, as well as the opportunities that companies acquire because of using modern information technologies in the analysis.

3.3.2 International Financial Reporting Standards

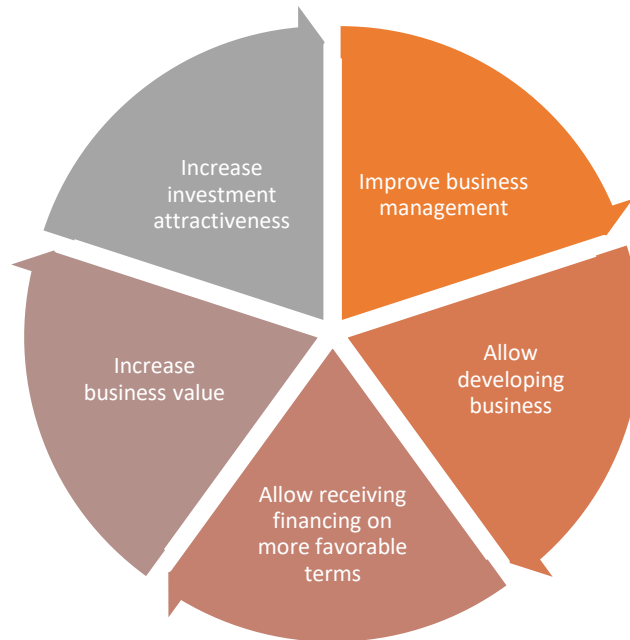
International Financial Reporting Standards (IFRS) are a set of International Accounting Standards that specify how specific types of transactions and other events should be reflected in financial statements. „*IFRS (International Financial Reporting Standards) is a set of documents (standards and interpretations) governing the preparation of financial statements necessary for external users to make economic decisions about an enterprise.*“²⁰ The goal of IFRS is to maintain stability and transparency in the financial world. This allows businesses and individual investors to make proficient financial decisions. They have transparent information about the company that helps investors to make conclusions.

¹⁹ Zhdanov V. *Financial Analysis of an enterprise using coefficients and models*. Moscow: Prospect. 2018. ISBN: 978-5-392-29798-6.

²⁰ ITenterprise. *International Financial Reporting Standards*. [online]. Available from: <https://it-enterprise.com/knowledge-base/technology-innovation/international-financial-reporting-standards-ifs>

According to IT Enterprise²¹ company's financial statements, compiled by international standards, give the company several advantages:

Figure 5. Advantages of use of IFRS



Source: IT Enterprise

The regulation of accounting and reporting in the Russian Federation happened because of the transition from a planned economy to a market economy, which took place in the 1990s. International Financial Reporting Standards were the core of the reform at the government level. The impetus for the beginning of the reform was a seminar on the accounting problems in joint ventures, held by the UN Center for TNCs and the USSR Chamber of Commerce and Industry in June 1989 in Moscow. Many inconsistencies existed in Russia comparing to the international accounting practices, ways of adaptation, and integration of the system were outlined. However, the official beginning of the accounting reform process should be considered the adoption of the State Program for the transition of the Russian Federation to the internationally accepted accounting and statistics system by the requirements for the development of a market economy, approved by the Resolution of the Supreme Council of the Russian Federation of October 23, 1992, No. 3708-1. Further adjustment and clarification of the course of reform in Russia was reflected

²¹ ITenterprise. International *Financial Reporting Standards*. [online]. Available from: <https://it-enterprise.com/knowledge-base/technology-innovation/international-financial-reporting-standards-ifs>

in the Concept for the development of accounting and reporting in the Russian Federation for the medium term, approved by Order of the Ministry of Finance No. 180 of July 1, 2004. This document set priorities: individual reporting of companies should be prepared according to national standards, which are based on IFRS, and the consolidated statements - following international accounting standards. In 2010, a document was published, which has been discussed since 2004, which introduced a legislative requirement for reporting by IFRS: Federal Law of the Russian Federation dated July 27, 2010, No. 208-FZ “On Consolidated Financial Statements “, write Journal and Practical development in IFR and management accounting.²²

The following table will show the application of IFRS by the largest Russian companies. Thus, international standards have a significant impact on the formation of accounting information for Russian companies. A vital part of the largest Russian companies prepares reports directly following IFRS, including the Bank of Russia, which follows the credit institutions.

Table 4. Companies in Russia used IFRS

Year	Companies reporting in accordance with IFRS, % of 400 companies	Companies reporting in accordance with IFRS, % of 100 largest companies
2005	13,3	25
2006	16,5	29
2007	19,5	28
2008	24,5	36
2009	22,8	38
2010	27,5	48

Source: Journal and practical developments in IFRS and management accounting. IFRS in Russia

²²Corporate financial statements. International Standards. Journal and practical developments in IFRS and management accounting. IFRS in Russia. *Application, Influence in national accounting*. [online]. Available from: <https://finotchet.ru/articles/751/>

3.3.3 Statements used for financial analysis

The fundamental source of information about the enterprise's activities is the accounting (financial) statements. The Balance Sheet and the Profit and Loss Statement (Income statement) contain comprehensive data for analysis. The analysis of accounting statements acts as a tool to identify problems. It manages financial and economic activities, chooses directions for capital investment, and predicts individual indicators.

Balance Sheet: „*The most common form of the balance sheet is the account form where assets and properties are shown on the right-hand side and owner’s capital and liabilities are shown on the left-hand side. Technically, balance sheet is a list of the balances of the accounts after closing and balancing of all the ledger accounts opened in the general ledger for an accounting period.*“²³ An environment in a market economy is competitive. The companies must make such decisions that prevent bankruptcy. The primary things are to know how to manage financial resources, the capital structure in terms of composition, what share should be borrowed by own funds, and what part to borrow. It is necessary to know such concepts of a market economy as liquidity, solvency, financial stability, business activity, the effect of financial leverage, etc., as well as the methodology for their analysis. The financial analysis based on the data of the balance sheet answers all the questions above.

Table 5. Balance Sheet

Assets	Liabilities
It is customary to arrange the assets to show either the order in which they will be used to satisfy business liabilities in case of winding-up or at the time of liquidation of the business, or their relative position of permanency in the transactions of the business entity	The items on the liabilities side are of two types: 1. These representing claims of creditors, and 2. Those representing claims or equity of the owner

Source: Chowdhry (2007)²⁴

²³ Chowdhry. A. *Fundamentals of Accounting and Financial Analysis*. India: Pearson Education. 2007, p. 109. ISBN: 81-317-0202-2

²⁴ Chowdhry. A. *Fundamentals of Accounting and Financial Analysis*. India: Pearson Education. 2007, p. 110-112. ISBN: 81-317-0202-2

Income statement: The income statement characterizes the results of the organization's activities for the reporting period and shows how it generated profits and losses (by comparing income and expenses). „*The profit and loss account always start with the credit from the trading account in case of gross profit or debit if there is a gross loss. After that, all those expenses of losses, which have not been considered in the trading account, will be debited to the profit and loss account.*”²⁵

The income statement together with the balance sheet is an important source of information for a comprehensive analysis of profit-making.

The information presented in the report allows you to assess the change in the income and expenses of the organization in the reporting period compared to the previous one, to analyze the composition, structure, and dynamics of gross profit, profit from sales, net profit, and to identify the factors forming the final financial result. Summarization of the analysis results makes it is possible to identify untapped opportunities for increasing the organization's profits, increasing the level of its profitability, write Bocharov (2009) ²⁶.

²⁵ Chowdhry. A. *Fundamentals of Accounting and Financial Analysis*. India: Pearson Education. 2007, p. 105. ISBN: 81-317-0202-2

²⁶ Bocharov.V. *Financial Analysis. Short course*. Moscow: Piter. 2009, p. 11. ISBN: 978-5-469-01726-4.

3.4 Methods of financial analysis

Financial statements capture financial data that is usually measured using a variety of financial ratios and methods. Evaluation and analysis of financial statements allow the organization to assess liquidity, profitability, the efficiency of the entire company, and cash flow processes. The purpose of analyzing the company's financial statements is to identify both positive and negative trends in these areas. Most often, several techniques are used sequentially or in parallel. It helps to get a complete picture of the financial condition in several aspects. Three commonly used methods are: horizontal, vertical and ratio.

Table 6. Methods of financial analysis

Horizontal Analysis	Vertical analysis	Ratio Analysis
Evaluates a series of financial statement data over a period	Evaluates financial statements data by expressing each item in a financial statement as a percent of a base amount	Expresses the relationship among selected items of financial statement data

Source: Weygandt, Kimmel and Kieso (2005)²⁷

3.4.1 Horizontal analysis

The analysis of financial statements begins with a horizontal analysis. It assumes that the company has been operating for several periods. Simultaneously, this analysis focuses on trends and changes in financial statements over time. *“Horizontal analysis, also called trend analysis, is a technique for evaluating a series of financial statement data over a period. Its purpose to determine the increase or decrease that has taken place”*²⁸.

According to Zhdanov (2018)²⁹ the resulting assessment is used to distinguish the financial condition of the enterprise. It finds the way to identify problematic areas. Management and tracking of critical changes in balance sheet indicators leads to make management decisions promptly. Horizontal analysis aims to analyze the indicators of financial results and the statement

²⁷ Weygandt, J, Kimmel, D and E. Kieso. *Managerial Accounting: Tools for decision making*. New York: Aptara. 2005, p. 647. ISBN: 13-978-0-470-47714-4

²⁸ Weygandt, J, Kimmel, D and E. Kieso. *Managerial Accounting: Tools for decision making*. New York: Aptara. 2005, p. 647. ISBN: 13-978-0-470-47714-4

²⁹ Zhdanov V. *Financial Analysis of an enterprise using coefficients and models*. Moscow: Prospect. 2018, p. 5. ISBN: 978-5-392-29798-6.

of cash flows. The second name of this approach is temporary (dynamic). In this process, we need to consider the comparison of various periods. The data available at the reporting time is compared with similar data of the past period. For instance, the comparison of equity at the beginning and the end of the previous 2-3 years. Horizontal analysis is especially important for the companies whose activities are highly seasonal.

3.4.2 Vertical Analysis

Vertical analysis of the financial statements determines the overall financial condition. Vertical or size analysis indicates the formation of each financial statement and determines whether significant changes have occurred. *“Vertical analysis, also called common-size analysis, is a technique that expresses each financial statement item as a percent of a base amount.”*³⁰ Vertical analysis is one of the most common forms that explain the financial performance of any enterprise.

As mentioned by Zhdanov (2018)³¹ it is a method for diagnosing the financial condition of an organization and assessing the dynamics of changes in the structure. The purpose of vertical analysis is to analyse changes in the structure of financial indicators for the period under review.

3.4.3 Ratio Analysis

There are a lot of different ratios that help to analyze financial statements. *„A ratio analysis expresses the relationship among selected items of financial statement data. A ratio expresses the mathematical relationship between one quantity and another. The relationship is expressed in terms of either a percentage, a rate, or a simple proportion.”*³²

³⁰ Weygandt, J, Kimmel, D and E. Kieso. *Managerial Accounting: Tools for decision making*. New York: Aptara. 2005, p. 651. ISBN: 13-978-0-470-47714-4

³¹ Zhdanov V. *Financial Analysis of an enterprise using coefficients and models*. Moscow: Prospect. 2018, p. 7. ISBN: 978-5-392-29798-6.

³² Weygandt, J, Kimmel, D and E. Kieso. *Managerial Accounting: Tools for decision making*. New York: Aptara. 2005, p. 654. ISBN: 13-978-0-470-47714-4

Table 7. Ratio Analysis

Liquidity Ratios	Measure short-term ability of the company to pay its maturing obligations and to meet unexpected needs for cash
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Source: Weygandt, Kimmel and Kieso (2005)³³

Liquidity analysis illustrates the most liquid assets of a company. Liquid assets mean that the conversion of them into cash is an immediate process. „Three liquidity ratios are commonly used – the current ratio, quick ratio, and cash ratio. In each of the liquidity ratios, the current liabilities amount is placed in the denominator of the equation, and the liquid assets amount is placed in the numerator.“³⁴

Table 8. Liquidity ratios

Current ratio	Quick ratio	Cash ratio
Current Assets / Current Liabilities	(Cash + Accounts Receivables + Marketable Securities) / Current Liabilities	(Cash + Marketable Securities) / Current Liabilities

Source: Corporate Finance Institute³⁵

³³ Weygandt, J, Kimmel, D and E. Kieso. *Managerial Accounting: Tools for decision making*. New York: Aptara. 2005, p. 654. ISBN: 13-978-0-470-47714-4

³⁴ Corporate Finance Institute. *What is liquidity ratio?* [online]. Available from: <https://corporatefinanceinstitute.com/resources/knowledge/finance/liquidity-ratio/>

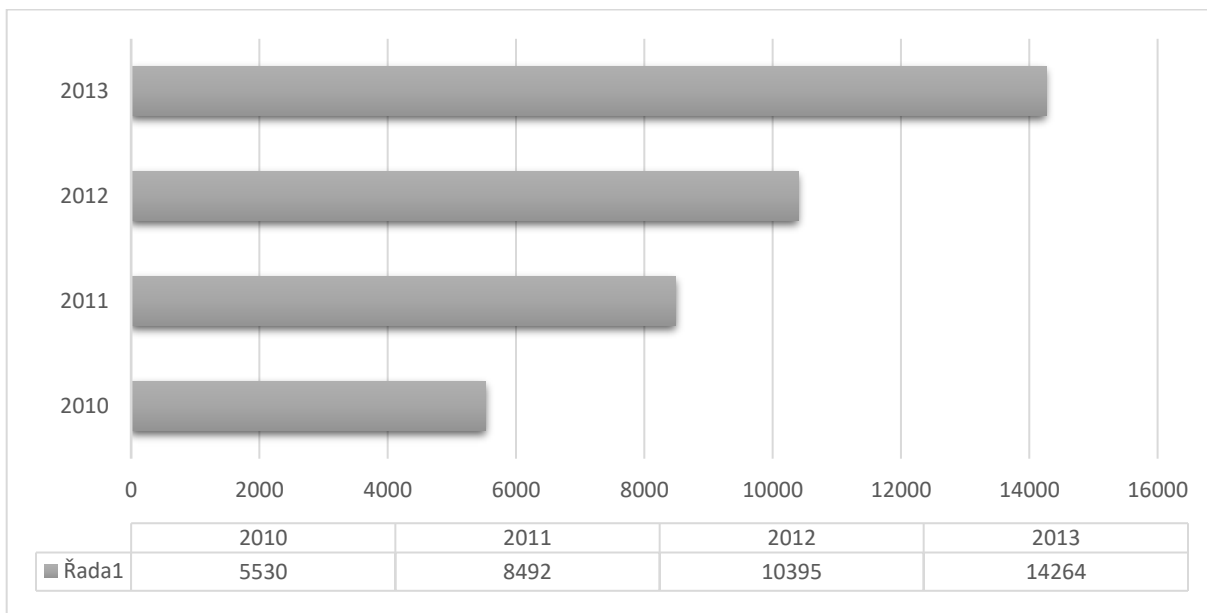
³⁵ Corporate Finance Institute. *What is liquidity ratio?* [online]. Available from: <https://corporatefinanceinstitute.com/resources/knowledge/finance/liquidity-ratio/>

4 Practical Part

4.1 Telecommunication industry in Russia

The telecommunication industry is one of the fundamental sectors of the economy since it ensures the functioning of various sectors and the state by itself. Technological changes are the main reason for the development of the telecommunication industry. For example, high-speed data transmission technologies are rapidly developing all over the world. As a result, the demand for high-quality and diverse information content is increasing. The following graphs show the growth of the telecommunication industry in Russia:

Graph 1. Transmission of information on the Internet in Russia



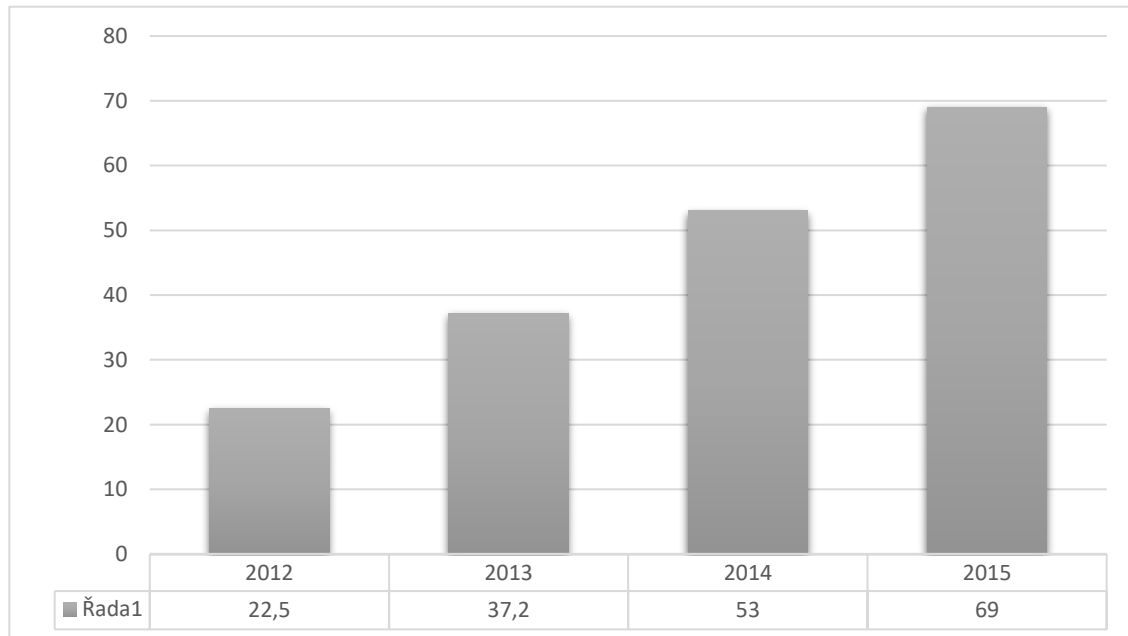
Source: Ministry of Digital Development, Communications and Mass Media of the Russian Federation³⁶

The author would like to analyse the growth of the telecommunication industry using the graph below. According to the data, we can see the internet spread of information in Russia mentioned from 2010 to 2013 expressed in petabytes. In comparison with the year, 2010 where the result was 5 530 petabytes/year, in the year, 2013 the transmission data increased to 14 254 petabytes. The communication and informatization industry are major infrastructural sectors of the country's economy.

³⁶ Ministry of Digital Development, Communications and Mass Media of the Russian Federation. *Telecommunication*. [online]. Available from: <https://digital.gov.ru/ru/activity/statistic/rating/telekommunikacii/>

At present, mobile communications and data spread over the Internet are the most promising segments in Russia. These services are most in-demand among subscribers and bring significant income to telecommunications companies. We can observe a rapid growth of mobile internet users among Russians. We can conclude that it is leading to increased revenues from the provision of these services.

Graph 2. Development of the subscriber base of mobile Internet users



Source: Electronic scientific journal. International student scientific bulletin³⁷

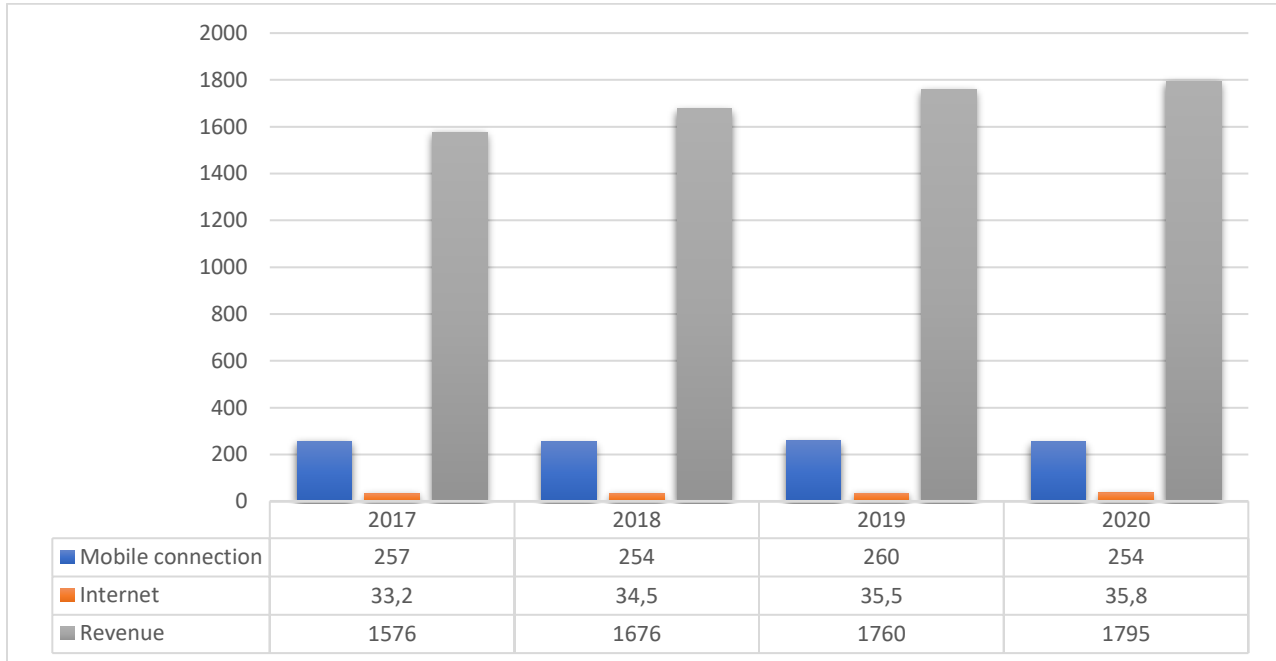
Based on the graph, the subscriber base of mobile Internet users in Russia increased by more than three times from 2012 to 2015.

³⁷ Electronic scientific journal. International student scientific bulletin. *Technological problems of the modern communications industry in the Russian Federation*. [online]. Available from: <https://www.eduherald.ru/ru/article/view?id=17277>

4.1.1 Actual condition of telecommunication industry in Russia

The crisis associated with COVID-2019 has affected some economic sectors, and the telecommunication industry is not an exception. Due to the closed borders, people stopped traveling, and undoubtedly, it entailed a decrease in the use of roaming worldwide. On the other hand, the entire world moved to a home office, that is why the use of the Internet has risen.

Graph 3. Telecommunication industry from 2017 to 2020



Source: Tadviser³⁸

As the author already mentioned, in 2020, the usage of roaming connections decreased. In comparison with 2019, there is a drop from 260 million subscribers to 254. “According to experts, the telecommunications sector was among the industries least affected by the COVID-19 pandemic. The coronavirus damaged the mobile segment, but at the same time contributed to the growth of revenue from broadband access.”³⁹

³⁸ Tadviser. *Telecommunication industry (market in Russia)*. [online]. Available from: [https://www.tadviser.ru/index.php/%D0%A1%D1%82%D0%B0%D1%82%D1%8C%D1%8F:%D0%A1%D0%B2%D1%8F%D0%B7%D1%8C \(%D1%80%D1%8B%D0%BD%D0%BE%D0%BA %D0%A0%D0%BE%D1%81%D1%81%D0%B8%D0%B8\)#.2A2020: .D0.A0.D0.BE.D1.81.D1.81.D0.B8.D0.B9.D1.81.D0.BA.D0.B8.D0.B9 .D1.82.D0.B5.D0.BB.D0.B5.D0.BA.D0.BE.D0.BC .D0.B2.D1.8B.D1.80.D0.BE.D1.81 .D0.BD.D0.B0 2.25](https://www.tadviser.ru/index.php/%D0%A1%D1%82%D0%B0%D1%82%D1%8C%D1%8F:%D0%A1%D0%B2%D1%8F%D0%B7%D1%8C (%D1%80%D1%8B%D0%BD%D0%BE%D0%BA %D0%A0%D0%BE%D1%81%D1%81%D0%B8%D0%B8)#.2A2020: .D0.A0.D0.BE.D1.81.D1.81.D0.B8.D0.B9.D1.81.D0.BA.D0.B8.D0.B9 .D1.82.D0.B5.D0.BB.D0.B5.D0.BA.D0.BE.D0.BC .D0.B2.D1.8B.D1.80.D0.BE.D1.81 .D0.BD.D0.B0 2.25)

³⁹ Tadviser. *Telecommunication industry (market in Russia)*. [online]. Available from: [https://www.tadviser.ru/index.php/%D0%A1%D1%82%D0%B0%D1%82%D1%8C%D1%8F:%D0%A1%D0%B2%D1%8F%D0%B7%D1%8C \(%D1%80%D1%8B%D0%BD%D0%BE%D0%BA %D0%A0%D0%BE%D1%81%D1%81%D0%B8%D0%B8\)#.2A2020: .D0.A0.D0.BE.D1.81.D1.81.D0.B8.D0.B9.D1.81.D0.BA.D0.B8.D0.B9 .D1.82.D0.B5.D0.BB.D0.B5.D0.BA.D0.BE.D0.BC .D0.B2.D1.8B.D1.80.D0.BE.D1.81 .D0.BD.D0.B0 2.25](https://www.tadviser.ru/index.php/%D0%A1%D1%82%D0%B0%D1%82%D1%8C%D1%8F:%D0%A1%D0%B2%D1%8F%D0%B7%D1%8C (%D1%80%D1%8B%D0%BD%D0%BE%D0%BA %D0%A0%D0%BE%D1%81%D1%81%D0%B8%D0%B8)#.2A2020: .D0.A0.D0.BE.D1.81.D1.81.D0.B8.D0.B9.D1.81.D0.BA.D0.B8.D0.B9 .D1.82.D0.B5.D0.BB.D0.B5.D0.BA.D0.BE.D0.BC .D0.B2.D1.8B.D1.80.D0.BE.D1.81 .D0.BD.D0.B0 2.25)

The graph confirms the words mentioned above. The number of Internet users increased from 33.2 million in 2017 to 35.8 million in 2020, which constitutes 8% growth. Overall, the crisis did not critically affect the telecommunication industry. That is because the revenue increased by 219 million RUB from 2017 to 2020. The prediction of the telecommunication industry in Russia for the future is mentioned in **Appendix 1**.

4.1.2 Main players in the telecommunication industry in Russia

Three largest companies stand out among the all-Russian operators, the so-called "Big three". Their joint market share is about 80% of the Russian market. This is the company "MTS", "VimpelCom" and Megafon.

Table 9. Main players

Name	Revenue in 2019 (million RUB)	Number of customers (million)
MTS	472 600	79,1
Megafon	343 390	75,2
VimpelCom	289 900	54,6

Source: Cnews⁴⁰

MTS - a domestic company that is working in the telecommunications sector. It provides its services not only in the territory of the Russian Federation but also in the CIS. The organization was founded in April 1993. MTS provides mobile communication systems in the following formats: GSM, LTE, 3G, and UMTS. It is also engaged in the arrangement of wired telephony, conducts broadband access to the worldwide network. The company provides viewing of both cable and satellite, mobile and digital TV. It participates in the implementation of innovative technological content. The author would like to analyze the financial position of the leading telecommunication company called MTS.

Megafon – according to the official website⁴¹ national Russian operator of digital opportunities. The company stands at a leading position in the telecommunications market in

⁴⁰ Cnews. *Cnews Telecom 2020: The largest telecommunication companies in Russia*. [online]. Available from: https://www.cnews.ru/reviews/telekom_2020/review_table/2ed67a5a049701584ddd515f2216d94452d644aa

⁴¹ Megafone. *About company*. [online]. Available from: <https://corp.megafon.ru/about/megafon/>

Russia and the world. They unite all areas of IT and telecommunications: mobile and fixed-line services, mobile and broadband Internet access, digital television and OTT video content, innovative digital products, and services in the field of ICT, Internet of things, analytics and big data processing, cloud solutions, cybersecurity, financial services, digital advertising and marketing, e-commerce, and converged IT solutions in the field of system integration. The company and its subsidiaries provide services in all Russian regions, in the Republic of Abkhazia, South Ossetia, and Tajikistan.

VimpelCom (Beeline brand) - is part of the VEON group of companies. VEON Ltd. is a global communications provider with the ambition to be the first in personal Internet services for the more than 212 million customers it currently serves and many more in the coming years. VEON Ltd. headquarters located in Holland, in Amsterdam. VEON Ltd. is listed on NASDAQ and Euronext Amsterdam.⁴²

4.2 Characteristics of the company

MTS was founded in October 1993 by OJSC Moscow City Telephone Network (MGTS), Deutsche Telecom (DeTeMobil), Siemens, and several other shareholders as a closed joint stock company. The commercial operation of the network began on July 7, 1994. In 1996, AFK Sistema of Vladimir Yevtushenkov bought the share that belonged to Russian owners. And afterward, German investors sold their shareholdings on the stock exchange. In 2006, the company decided to rebrand by renewing its logo. A white egg on a red background is how the logotype of MTS looks today. In 2010, MTS became a federal operator present in all constituent entities of the Russian Federation.

The company is the largest mobile operator in Russia and the CIS countries, according to the official web page of Mobile TeleSystems Company (MTS)⁴³. Furthermore, it is one of the ten largest mobile operators worldwide in terms of subscriber base and market capitalization. Together with its subsidiaries, the company serves over 85 million subscribers in Russia, Armenia, Belarus, Ukraine, Uzbekistan, and Turkmenistan.

⁴² Beeline. *About Company*. [online]. Available from: <https://moskva.beeline.ru/about/about-beeline/strategy/>

⁴³ MTS. *About Company*. [online]. Available from: <https://moskva.mts.ru/about/informaciya-o-mts/mts-v-rossii-i-v-mire/o-kompanii/informaciya-o-mts>

MTS is a leading company in Russia and the CIS in terms of mobile and fixed-line services, Internet access, cable, and satellite TV broadcasting. Moreover, the company provides digital services and mobile applications, financial services, and e-commerce services. Being a technological company, MTS offers converged IT solutions in system integration, monitoring, data processing, and cloud computing. MTS makes a significant impact on economic growth. Finally, the company is improving the quality of life of tens of millions of people in the countries of presence.

Table 10. Strategy of MTS Company

Client	<ul style="list-style-type: none"> • better customer experience due to a deeply personalized approach based on artificial intelligence, big data analytics, and a single customer ID
Lifetime	<ul style="list-style-type: none"> • focus on a long-term relationship with the client • focusing efforts on increasing customer loyalty and emotional attachment to the brand
Value	<ul style="list-style-type: none"> • conscious receipt by the client of the benefits from being in the ecosystem • convenient technological platform for effective interaction with partners and the best customer experience.

Source: MTS⁴⁴

As mentioned by MTS⁴⁵, the development strategy of the MTS Group CLV 2.0 (Customer Lifetime Value 2.0) implies the provision of various digital services to the subscriber outside of telecommunications services. To concern about creating a product ecosystem based on the core telecommunications business. CLV 2.0's strategy focuses on long-term profit from the client by

⁴⁴ MTS. *Mission and strategy*. [online]. Available from: <https://moskva.mts.ru/about/informaciya-o-mts/mts-v-rossii-i-v-mire/o-kompanii/missiya-i-strategiya>

⁴⁵ MTS. *About Company*. [online]. Available from: <https://moskva.mts.ru/about/informaciya-o-mts/mts-v-rossii-i-v-mire/o-kompanii/informaciya-o-mts>

hearing the needs, increasing loyalty, and providing attractive conditions when using a set of products. Due to this, MTS Group can bring more converged solutions to the market, contributing to the progress of living standards and the development of the digital economy in Russia.

4.2.1 Products of the company

The MTS Group of Companies provides integrated services for mobile and fixed telephony, international and long-distance communications, cable and satellite television, data transmission based on wireless and wired solutions, including fiber-optic access technologies and third and fourth generation mobile networks, as well as financial services. According to official web page of MTS Company⁴⁶:

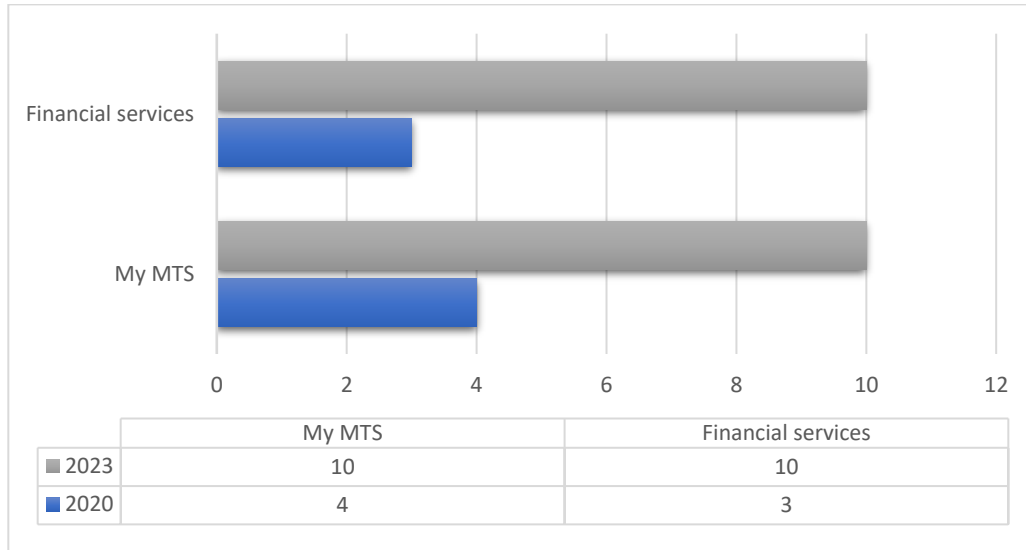
- MTS provides services of fixed telephony, broadband Internet access, and digital cable TV in more than 200 cities in all federal districts of the Russian Federation. In total, over nine million households are covered by fixed services in Russia.
- MTS, through its 100% RTC JSC subsidiary, owns the largest non-food retail network in Russia. It includes 5,600 communication shops for customer service, the sale of mobile devices, and the provision of financial and banking services.
- The company, which controls more than 99% of the capital of MTS Bank, provides banking and financial services in communication salons, financial services, and applications on mobile devices and operates in the investment services market
- MTS is expanding into new markets through M&A transactions: it has a controlling stake in LiteBox, a developer of cloud cash registers for corporate clients; owns two leading Russian ticket operators in the market for cultural and entertainment events
- Through its 100% subsidiary NVision Group JSC, MTS provides system integration and IT outsourcing services to meet the demand of the corporate and public sectors for complex telecom and IT solutions

⁴⁶ MTS. *About Company*. [online]. Available from: <https://moskva.mts.ru/about/informaciya-o-mts/mts-v-rossii-i-v-mire/o-kompanii/informaciya-o-mts>

4.2.2 Strategy for the nearest future

MTS presented a new strategy for 2020–2022. The company expects the growth of the check, due to the services of "tomorrow", mentioned RBC News⁴⁷.

Graph 4. Strategy of MTS



Source: RBC News⁴⁸

As part of the strategy, the operator intends to increase the number of converged subscribers, those who use several services of the company. It is preferably to reach 40% of clients (now there are about 1 million, or 1.3%). In particular, the company expects that 10 million of My MTS application users will pay for video content, including streaming services and interactive TV (currently 4 million). The number of active users of financial services will also grow to 10 million (currently 3 million).

The strategy encourages the creation of "services of tomorrow". The company intends to expand the number of services in the My MTS application. The presentation notes that MTS intends to add partner services to its application, including those from Ivi, Facebook, Apple Music, PepsiCo, AliExpress, Lamoda, Yandex.Taxi, Badoo, Tinder, Twitch, etc.

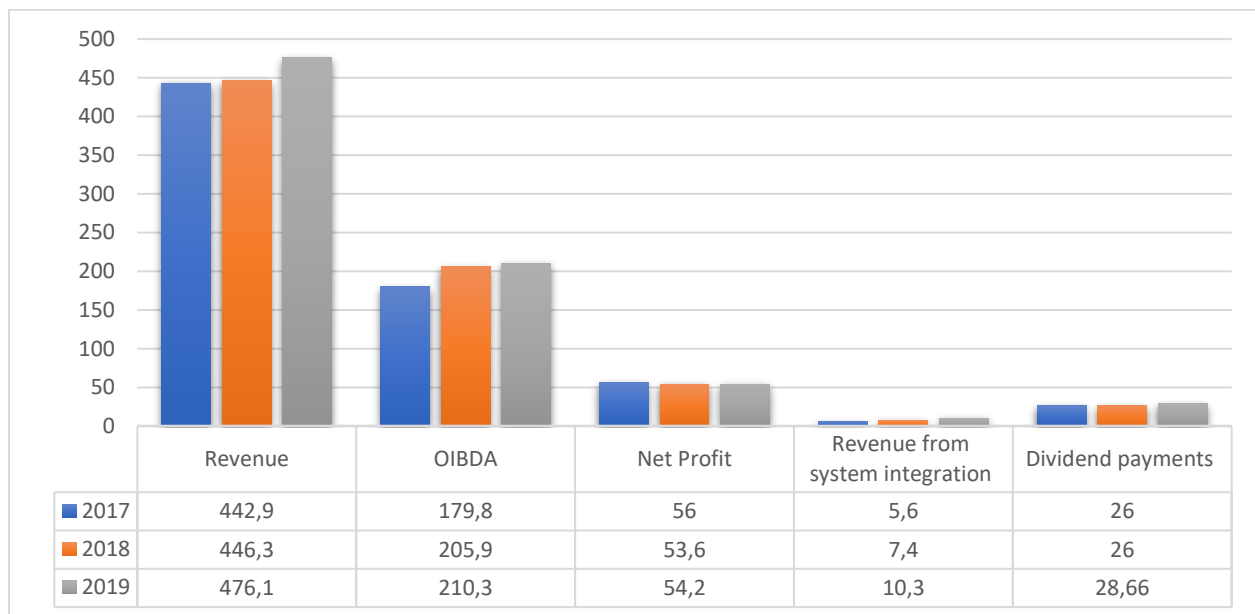
⁴⁷ RBC News. *MTS presented a new strategy for 2020-2022.* [online]. Available from: https://www.rbc.ru/technology_and_media/25/11/2019/5ddbc37a9a7947b7e12518d8

⁴⁸ RBC News. *MTS presented a new strategy for 2020-2022.* [online]. Available from: https://www.rbc.ru/technology_and_media/25/11/2019/5ddbc37a9a7947b7e12518d8

4.3 Financial Analysis of MTS Company

For financial analysis, the author chooses the MTS Russian company during the period between 2017 to 2019. Before starting the horizontal, vertical, and ratio analysis, the author would like to analyze the main financial and operational indicators to see the dynamics of the results.

Graph 5. Dynamics of financial and operational indicators of MTS between 2017 to 2019



Source: author based on⁴⁹

According to graph 5, the dynamics of the primary financial and economic indicators of MTS PJSC have a positive trend. Revenue in 2018 was 446.3 billion RUB which is by 3.4 billion more when compared with the previous year of 2017. First, a positive result is a consequence of the implementation of the strategy for the digital transformation of the business and the strengthening of the position in the Russian market of device sales. Also, high internet usage led to an increase in revenue in 2018. The value of OIBDA (Operating Income Before Depreciation and Amortization) increased in 2018 from 179.8 billion RUB to 205.9 billion RUB. The reason for the positive outcome was the improvement of the market position in Russia and Ukraine. Also, an increase in the use of data transmission and consolidation of the results of MTS Bank. The results of Net Profit changed to the negative direction in 2018 due to an increased cost of using the radio frequency spectrum in Russia by 40%. The revenue in 2019

⁴⁹ MTS. *Annual Reports*. [online]. Available from: <http://ir.mts.ru/investors/financial-center/annual-reports-and-form-20-f/default.aspx>

increased by 6.7% comparing with the year 2018. The principal reasons were the growth of subscriber base and mobile revenue in Russia, growth of MTS Bank consumption, and other digital services: Cloud and IoT. The dynamic of Net Revenue in 2019 was impacted by stronger operating indicators, but the negative results appeared due to high-interest costs. To sum up, the MTS Company made relevant changes to the positive direction in financial and operating indicators during the analyzed period.

4.3.1 Financial position of the company – Balance Sheet

It is relevant and significant to analyze the indicators of the company's balance sheet. It lets to manage and control the activities of the enterprise. Finally, it is necessary to have accurate, objective, and timely information. Based on that data, we can disclose the financial and economic activities of an economic entity. The detailed balance sheet is mentioned in **Appendix 2**.

Table 11. Balance Sheet

	2017	2018	2019
Assets			
Non-current	405 038	647 059	629 322
Current	146 032	268 934	194 588
Total Assets	551 070	915 993	823 910
Equity and Liabilities			
Equity	124 205	77 565	36 394
Non-current liabilities	270 194	542 957	439 059
Current liabilities	156 671	297 471	348 457
Total Equity and Liabilities	551 070	915 993	823 910

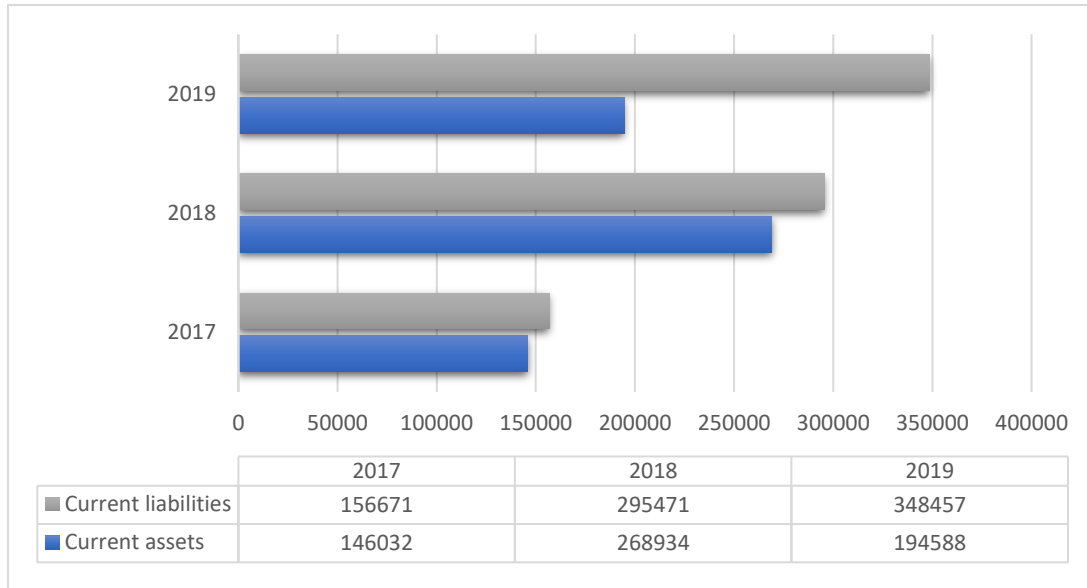
Source: author based on⁵⁰

The sum of current assets should be greater than the sum of current liabilities. It shows the money that a company can use to fund its core business. The indicator is widely used by investors to determine the company's financial stability and financial strength. In simple words, it shows whether a company will be able to pay off its short-term obligations and use the money for

⁵⁰ MTS. *Annual Reports. Financial Results*. [online]. Available from: <http://ir.mts.ru/investors/financial-center/financial-results/default.aspx>

development. In case of negative results, it means that the company is unable to pay short-term needs.

Graph 6. Current Assets and Current Liabilities of MTS Company



Source: author based on⁵¹

The graph mentioned above clearly shows that during analyzing period MTS did not fulfill the condition of a financially stable company. In 2017, 2018, 2019 current assets of MTS are less than the current liabilities. Therefore, the author can conclude that company MTS has a negative working capital. A deficit of working capital provokes an increase in debts due to the inability to pay off short-term debts, and exceeding the norm indicates inefficient use of resources and lost profits.

⁵¹ MTS. *Annual Reports. Financial Results*. [online]. Available from: <http://ir.mts.ru/investors/financial-center/financial-results/default.aspx>

4.3.2 Horizontal Analysis of Balance Sheet

Based on the theoretical part, in a horizontal analysis of reporting, an indicator (line) is taken, and its change is traced over two or more periods. Any identical time intervals can be considered as periods. However, usually, quarterly analysis or analysis of data by years is used for financial statements. Algorithm for horizontal analysis of the balance sheet:

- *1st step = amount in comparison year – amount in base year*
- *2nd step: [absolute changes / amount in base year] * 100*

Table 12. Horizontal Analysis of Balance Sheet

(Amounts in millions of RUB, except share amounts)	2017/2018	2018/2019
NON-CURRENT ASSETS:		
Property, plant, and equipment	13 380/5%	-10 964/-4%
Investment property	1 770/81%	809/27%
Right-of-use assets	149 007/100%	-10 190/-7%
Intangible assets	21 391/16%	-16 665/-14%
Investments in associates	1 283/12%	-4 285/-66%
Deferred tax assets	5 645/50%	-57/-1%
Income tax assets		
Other non-financial assets	2 990/59%	-57/-1%
Other investments	14 920/88%	-5 678/-51%
Accounts receivable, related parties	2 543/100%	8 242/76%
Bank loans to customers and interbank loans due from banks	30 653/100%	22 819/43%
Other financial assets	-1 561/-21%	-553/-8%
Total non-current assets	242 021/37%	-17 737/-3%
CURRENT ASSETS:		
Inventories	8 659/46%	-3 139/-20%
Trade and other receivables	6 526/19%	1 052/3%
Accounts receivable, related parties	-4 973/-78%	-513/-9%
Bank loans to customers and interbank loans due from banks	32 385/100%	6 985/18%
Short-term investments	-2 894/-6%	-22 245/-87%
VAT receivable	250/3%	1 935/21%
Income tax assets	1 049/27%	414/10%
Assets held for sale	1 418/53%	-2 197/-442%
Advances paid and prepaid expenses, contract, and other non-financial current assets	1 506/27%	296/5%
Other financial current assets	25 487/100%	-10 929/-75%
Cash and cash equivalents	53 489/64%	-46 005/-121%
Total current assets	146032/46%	-74 346/-38%

Total assets	364 923/40%	-92 083/-11%
EQUITY:		
Equity attributable to owners of the Company*	-54 852/-84_	-32 206/-97%
Non-controlling interests	8 212/67%	-8 965/-270%
Total equity	-46 640/-60%	-41 171/-113%
NON-CURRENT LIABILITIES:		
Borrowings	125 976/35%	-93 499/-34%
Lease obligation	144 740/100%	-4 660/-3%
Deferred tax liabilities	666/3%	-6 573/-37%
Provisions	1 082/32%	1 370/29%
Bank deposits and liabilities	2 633/100%	-828/-46%
Other financial liabilities	-567/-118%	474/50%
Other non-financial liabilities	-1 767/-80%	-182/-9%
Total non-current liabilities	272 763/50%	-103 898/-24%
CURRENT LIABILITIES:		
Borrowings	-61 411/-2005%	68 683/96%
Lease obligation	15 812/100%	-584/-4%
Provisions	61 059/86%	-59 385/-515%
Trade and other payables	6 309/12%	18 185/25%
Accounts payable, related parties	199/15%	-743/-133%
Bank deposits and liabilities	108 821/100%	27 326/20%
Income tax liabilities	642/36%	-1 008/-129%
Other financial liabilities	1 612/35%	-3 224/-226%
Other non-financial and contract liabilities	5 757/16%	3 736/10%
Total current liabilities	138 800/47%	52 986/15%
Total equity and liabilities	364 923/40%	-92 083/-11%

Source: author based on⁵²

⁵² MTS. *Annual Reports. Financial Results*. [online]. Available from: <http://ir.mts.ru/investors/financial-center/financial-results/default.aspx>

4.3.3 Vertical Analysis of Balance Sheet

According to the theoretical part, vertical analysis of the balance sheet is also called structural. It shows the structure of the balance sheet's final data in the form of relative values. In vertical analysis, reporting items are given as a percentage of their total. This type of analysis allows us to see changes in balance sheet items, for example, what happened to the company's current assets, receivables, payables compared to previous years. Percentage indicators clearly show how many deviations have occurred and in which direction. This method is more convenient for analysis. When there is a calculation in absolute terms, it is not always clear how much the situation has worsened or improved.

$$\text{Formula: } [\text{Individual Item} / \text{Base Amount}] * 100$$

Table 13. Vertical Analysis of Balance Sheet

(Amounts in millions of RUB, except share amounts)	2017	2018	2019
NON-CURRENT ASSETS:			
Property, plant, and equipment	47,73676665	30,17959744	32,22184462
Investment property	0,073856316	0,237665572	0,362418225
Right-of-use assets		16,26726405	16,84856356
Intangible assets	20,62859528	14,7456367	14,37098712
Investments in associates	1,715208594	1,171952187	0,782852496
Deferred tax assets	1,006224255	1,221625056	1,210690488
Income tax assets			
Other non-financial assets	0,371640626	0,550004203	0,604556323
Other investments	0,354401437	1,842044644	1,358764914
Accounts receivable, related parties	0,00036293	0,277840551	1,309244942
Bank loans to customers and interbank loans due from banks		3,346422953	0,000649003
Other financial assets	1,61322518	0,800115285	0,822419925
Total non-current assets	73,50028127	70,64016865	76,38237186
CURRENT ASSETS:			
Inventories	1,81374417	2,036478445	1,883094027
Trade and other receivables	5,084109097	3,771098687	4,320253426
Accounts receivable, related parties	2,061081169	0,697057729	0,712699203
Bank loans to customers and interbank loans due from banks		3,535507367	4,778434538
Short-term investments	9,210626599	5,225258272	3,109320193
VAT receivable	1,300197797	0,809504003	1,134832688
Income tax assets	0,514998095	0,424348221	0,522023036
Assets held for sale	0,231549531	0,294107051	0,060322123
Advances paid and prepaid expenses, contract, and other non-financial current assets	0,733119204	0,605463142	0,709058028
Other financial current assets		2,782444844	1,766940564

Cash and cash equivalents	5,550293066	9,178563592	4,620650314
Total current assets	26,49971873	29,35983135	23,61762814
Total assets	100	100	100
EQUITY:			
Equity attributable to owners of the Company*	21,79868256	7,126036989	4,013545169
Non-controlling interests	0,740196345	1,341822481	0,403684868
Total equity	22,53887891	8,467859471	4,417230037
NON-CURRENT LIABILITIES:			
Borrowings	43,38759141	39,85532641	32,96148851
Lease obligation		15,8014308	17,001857
Deferred tax liabilities	4,313971002	2,668033489	2,168440728
Provisions	0,41900303	0,370199336	0,577854377
Bank deposits and liabilities		0,287447611	0,219077326
Other financial liabilities	0,190175477	0,052511318	0,115910718
Other non-financial liabilities	0,720053714	0,240285679	0,245051037
Total non-current liabilities	49,03079464	59,27523464	53,2896797
CURRENT LIABILITIES:			
Borrowings	11,69978406	0,334391202	8,70798995
Lease obligation		1,726214065	1,848260125
Provisions	1,787794654	7,741434705	1,398939205
Trade and other payables	8,585842089	5,854084038	8,715515044
Accounts payable, related parties	0,199974595	0,142031653	0,067725844
Bank deposits and liabilities		11,88011262	16,52449904
Income tax liabilities	0,208684922	0,195634683	0,095156024
Other financial liabilities	0,550928194	0,507427459	0,172834412
Other non-financial and contract liabilities	5,397317945	3,875575468	4,762170625
Total current liabilities	28,43032646	32,25690589	42,29309026
Total equity and liabilities	100	100	100

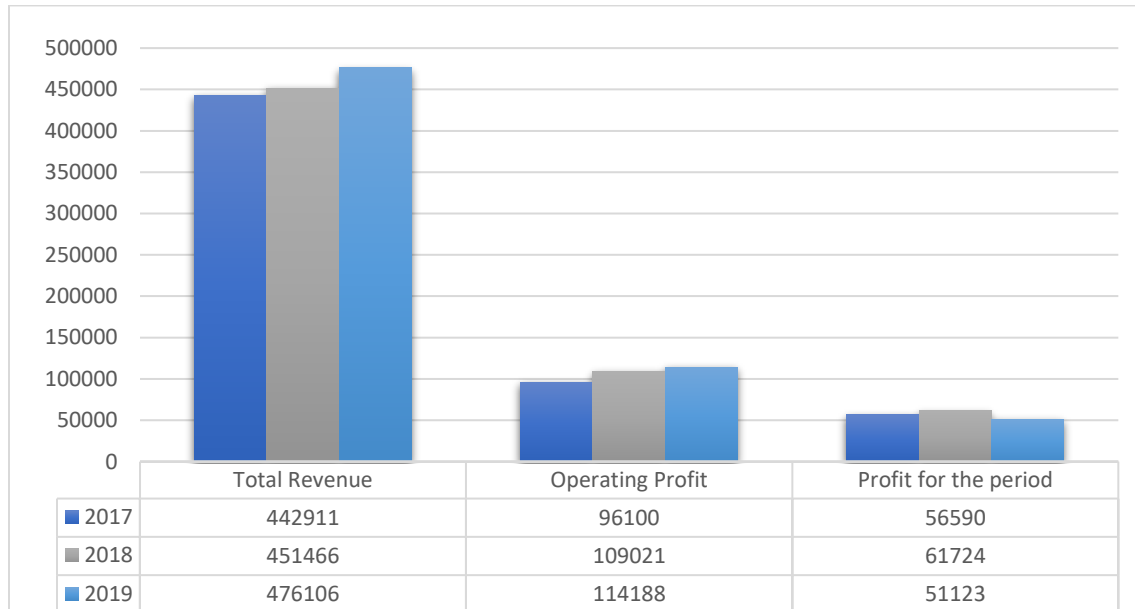
Source: author based on⁵³

⁵³ MTS. *Annual Reports. Financial Results*. [online]. Available from: <http://ir.mts.ru/investors/financial-center/financial-results/default.aspx>

4.3.4 Financial performance of the company – the income statement

As stated in the theoretical part, the profit and loss statement is an important document of an enterprise. It reflects the efficiency and effectiveness of the company. Generally, analysts and investors consider this report to see the company's revenues and costs and what net profit it ultimately earned. The income statement for the analyzed period is mentioned in **Appendix 3**.

Graph 7. Dynamics of basic indicators from Income Statement



Source: author based on Income Statement in Appendix 3

Graph 7 clearly shows an increase in total revenue from 442 911 million rubles to 476 106 million rubles within three analysed years. The operating profit demonstrates a positive change from 96 100 million rubles in 2017 to 114 188 million rubles in 2019. However, net profit (profit for the period) in 2019 is below the level of 2017. For a more detailed analysis author would like to use horizontal and vertical analysis of the income statement.

4.3.5 Horizontal Analysis of Income statement

The same as with the balance sheet, there are 2 steps to calculate horizontal analysis:

- 1st step = amount in comparison year – amount in base year
- 2nd step: [absolute changes / amount in base year] * 100

Table 14. Horizontal Analysis of Income Statement

(Amounts in millions of RUB, except share and per share amounts)		
	2017/2018	2018/2019
Service revenue	-8 063/-2%	24 141/6%
Sales of goods	16 618/24%	499/1%
Total revenue	8 555/2%	24 640/5%
Cost of services	18 850/-18%	-10 066/9%
Cost of goods	-17 630/28%	-636/1%
Selling, general and administrative expenses	11 759/-14%	-7 369/8%
Depreciation and amortization	-15 474/16%	-893/1%
Other operating income / (expenses)	2 646/294%	-1 590/230%
Operating share of the profit of associates	589/16%	784/17%
Impairment of non-current assets	3 924/2634%	-1/-1%
Provision for investments in distressed Ukrainian banks		
Impairment of goodwill in Armenia		
Operating profit	12 921/12%	5 167/5%
Finance income	39/1%	-1231/-28,25%
Finance costs	-10 924/30%	-10380/21,91%
Currency exchange gain or loss	-5 344/132%	6149/291,9%
Other income / (expenses)	4 860/137%	-9951/155,2%
Profit before tax	1 552/2%	-10246/-15,3%
Income tax expense	-3 582/23%	-355/2,53%
Profit for the period from continuing operations	5 134/8%	-10601/-20,7%

Source: author based on⁵⁴

⁵⁴ MTS. Annual Reports. Financial Results. [online]. Available from: <http://ir.mts.ru/investors/financial-center/financial-results/default.aspx>

4.3.6 Vertical Analysis of Income Statement

This analysis identifies the changes in the company's cost structure and its profitability. Such changes can be either negative or positive. It is necessary to calculate the share of all items in the income statement in revenue in% to conduct a vertical analysis. The method of analysis is used in the same way as with the balance sheet:

$$\text{Formula: } [\text{Individual Item} / \text{Base Amount}] * 100$$

Table 15. Vertical Analysis of Income Statement

(Amounts in millions of RUB, except share and per share amounts)	2017	2018	2019
Service revenue	88,22562546	84,7678452	85,45135
Sales of goods	11,77437454	15,2321548	14,54865
Total revenue	100	100	100
Cost of services	-27,9466981	-23,24183881	-24,1532
Cost of goods	-10,300715	-14,01057887	-13,4191
Selling, general and administrative expenses	-21,4909993	-18,47913243	-19,0705
Depreciation and amortization	-18,042451	-21,12805837	-20,2222
Other operating income / (expenses)	-0,39421012	0,19935056	-0,14493
Operating share of the profit of associates	0,724750571	0,841480865	0,962601
Impairment of non-current assets	-0,8523157	0,033003593	0,031086
Provision for investments in distressed Ukrainian banks			
Impairment of goodwill in Armenia			
Operating profit	21,69736132	24,14821936	23,98373
Finance income	1,252621859	1,237523977	0,914922
Finance costs	-5,8847037	-8,192865022	-9,94904
Currency exchange gain or loss	0,293738471	-0,895527016	0,442338
Other income / (expenses)	-0,29757671	0,784555205	-1,34613
Profit before tax	17,06144124	17,0819065	14,04582
Income tax expense	-4,28460797	-3,410002082	-3,30809
Profit for the period from continuing operations	12,77683327	13,67190442	10,73773

Source: author based on⁵⁵

⁵⁵ MTS. *Annual Reports. Financial Results*. [online]. Available from: <http://ir.mts.ru/investors/financial-center/financial-results/default.aspx>

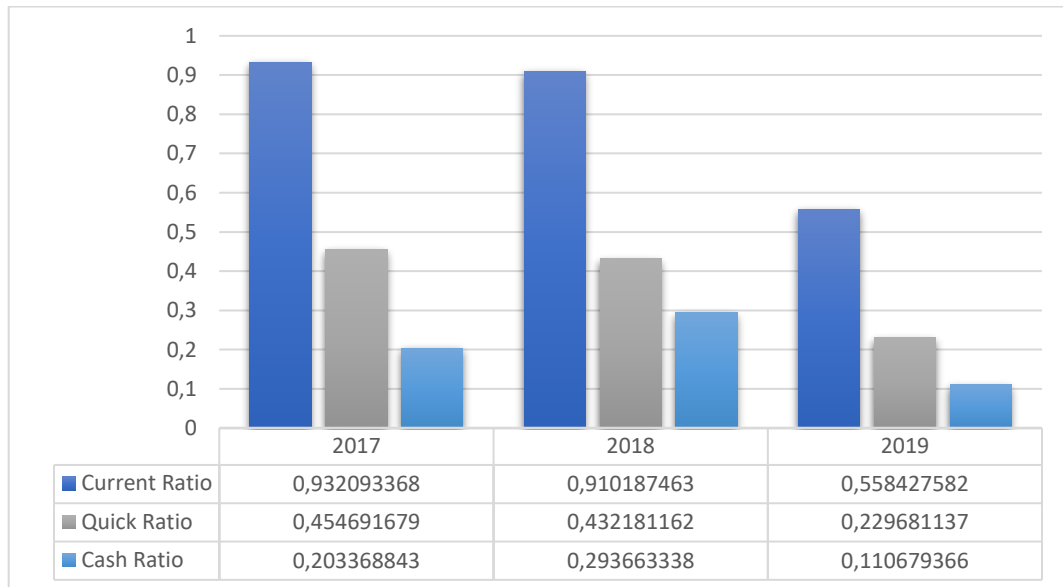
4.3.7 Ratio Analysis

In agreement with the theoretical part, the author is going to make a ratio analysis for the period from 2017 to 2019 through liquidity. The information gained from the balance sheet and income statement used for ratio analysis is mentioned in **Appendix 4**. Before the conclusion of liquidity ratio analysis author would like to sum-up the normal results of all ratios.

Liquidity ratios

- Current ratio > 1.5
- Quick ratio > 1
- Cash Ratio > 0.2

Graph 8. Liquidity Ratios Analysis



Source: author

In line with analyses of the current ratio, the results from 2017 to 2019 were under the norms. The current ratio indicates the ability to repay the current (up to one year) organization's liabilities. Overall, the higher the current ratio, the better it is, at the same time it should not be less than 1. The value of the coefficient below the norm specifies the possible difficulties in repaying its current liabilities. Therefore, the company MTS from 2017 to 2019 had challenges while repaying the current liabilities. The quick ratio did not fulfill the norms during the analyzed period,

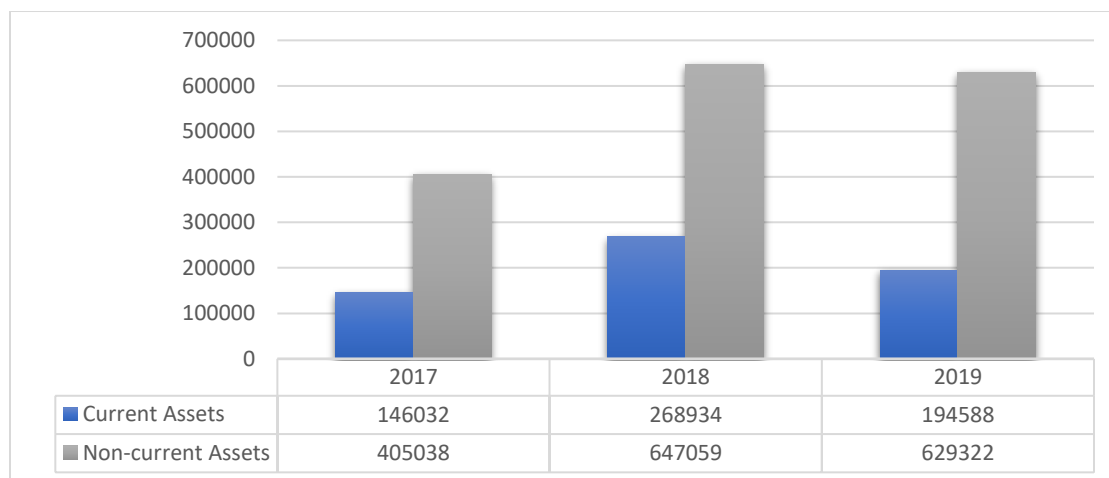
the same as the current ratio. Consequently, the author can conclude that in 2017-2019 the MTS company could not pay off its short-term liabilities by selling liquid assets. Cash ratios fulfill the norms in 2017 and 2018, but in 2019 it was less than 0.2. In other words, the company in 2017 and 2018 could cover the current liabilities by its liquid assets. It is also worth noting that great results of cash ratio have negative dynamics because it means high volumes of free cash that could be used for business development. To sum up, in terms of cash ratio MTS Company has a positive dynamic.

5. Results of financial analysis

5.1 Assessment of the financial position of the company according to the horizontal analysis

According to the data presented in table 13 and 14, the following conclusions can be drawn. Non-current and current assets have made unequal contributions to the change in the total value of the property. The cost of non-current assets decreased by 242 021 million rubles or 37% in 2018, decreased by 17 737 million rubles or 3% in 2019. The value of current assets increased by 146 032 million rubles or 46% in 2018, then decreased by 74 346 million rubles in 2019.

Graph 9. Dynamics of Current and Non-current Assets



Source: author based on⁵⁶

⁵⁶ MTS. *Annual Reports. Financial Results*. [online]. Available from: <http://ir.mts.ru/investors/financial-center/financial-results/default.aspx>

Based on the graph where it has clearly shown the dynamics of change in the structure of current and non-current assets between 2017 – 2019, the cost of non-current assets as a whole for the analyzed period increased by 224 284 million rubles or 36%. The value of current assets for the same period grew by 48 556 million rubles or 25%. In such a case, there is a faster growth of non-current assets in comparison with an increased current asset, which means that the capital of MTS Company has not become more mobile. Analysis of the structure of assets shows that non-current assets prevail, which indicates a "heavy" structure of the balance sheet.

Next, the author would like to analyze how the cost of certain types of non-current and current assets changed. Non-current assets of MTS Company are represented by (more changeable) intangible assets, investment property, account receivables, and other non-current assets. The cost of intangible wealth for the period of 2017-2019 increased by 4 726 million rubles, which in relative terms is 4%. The existence of intangible assets in the property indirectly characterizes the strategy pursued by the company as innovative. Most likely, the analyzed company invests in patents, licenses, and other intellectual property.

The value of the company's investment property for the period 2017-2019 increased by 2 579 million rubles, while the increase in 2018 was 81%, the increase in 2019 was 21%. Based on the data above, we conclude that the company is increasing its financial capital. This action can be assessed positively if their profitability is higher than the profitability of assets used in the company's production and commercial activities.

Current assets of MTS PJSC are represented by inventories, value-added tax on purchased valuables, accounts receivable, short-term financial investments, cash, and other current assets. The value of the inventories of MTS company for the period 2017-2019 increased by 5 520 million rubles, which in relative terms is 65%, while the increase in 2018 was 46%, the decrease in 2019 was 20%. Inventory build-up is usually associated with an increase in the scale of activity. The number of accounts receivable of MTS Company for the analyzing period decreased by 5 486 million rubles. Which indicates an improvement in the payment discipline of buyers and customers. The cost of short-term financial investments for the period 2017-2019 decreased by 25 139 million rubles, which in relative terms is 50,47%, while the decrease in 2018 was 6%, the decrease in 2017 was 87%.

The number of liabilities, as well as the value of MTS assets, increased during analyzing period. The amount of equity for the period 2017-2019 decreased by 87 058 million rubles. The company's liabilities are represented by both long-term and short-term liabilities. The amount of the borrowed capital of the company for the period 2017-2019 increased from 426 865 million in 2017 to 787 516 million in 2019, which is by 54,2%. For the financial stability of the company to remain at an acceptable level, equity capital must grow faster than liabilities. In this case, the amount of equity capital decreased by 87 058 million RUB, and the amount of borrowed capital increased by 360 651 million rubles. Consequently, during the period under review, the level of the company's financial stability decreased.

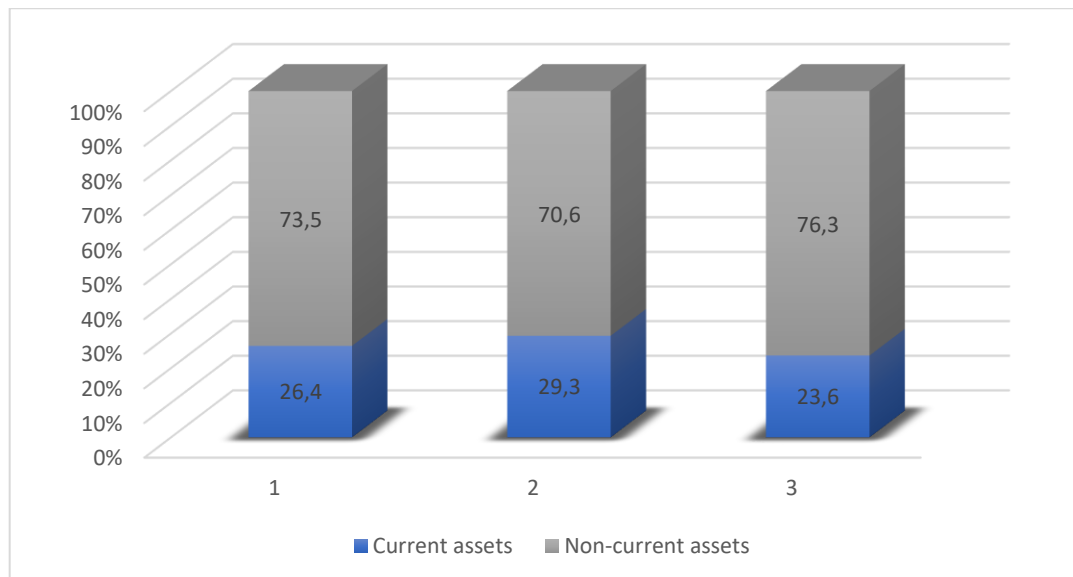
The company attracts both long-term and short-term loans to finance its activities. The number of current liabilities of the company in 2017-2019 increased by 191 786 million rubles, which in relative terms is 44,9%. The amount of non-current liabilities of the company for 2017-2019 increased by 168 865 million rubles. Thus, the company is increasing lending both on a long-term and short-term basis. The increase in loans should be interpreted negatively, since this circumstance leads to an increase in the company's dependence on attracted capital, and, consequently, to a decrease in the company's financial stability.

To sum up, through the horizontal analysis of MTS Company it is possible to conclude that there are several problems in the financial condition of this company.

5.2 Assessment of financial position of the company according to vertical analysis of balance sheet

According to the data presented in table 15, the following conclusions can be drawn. The share of non-current assets was 73,5% in 2017, 70,6% in 2018 and 76,3% in 2019. Thus, during the period under review, this indicator 2.8% percentage points. Accordingly, the share of current assets decreased by the same amount of percentage points.

Graph 10. Dynamics of Current and Non-current Assets in %



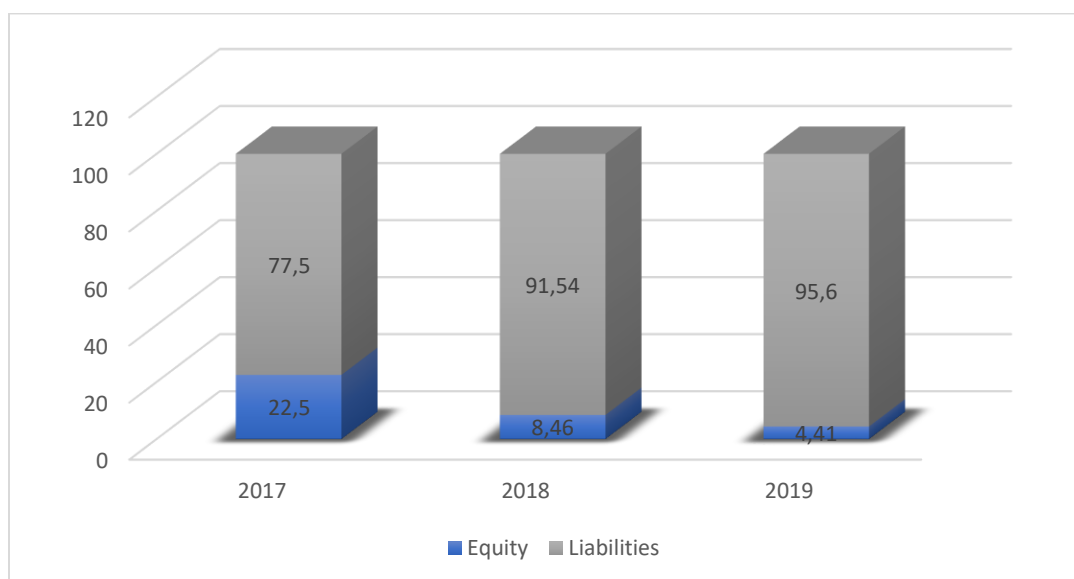
Source: author

Based on the above data, it can be concluded that the company's property is represented mainly by non-current assets. At the same time, it can be concluded that there were no significant changes in the level of asset mobility. Characterizing the changes in the structure of non-current assets, the following can be noted: the share of intangible assets decreased from 20.62% to 14.34%, by 6.28 percentage points, property, plant, and equipment decreased from 47.7% to 32.2% by 15.5 percentage points, investment in associates decreased from 1.71% to 0.78%, by 0.93 percentage points and other non-current assets decreased from 1.61% to 0.82% by 0.79 percentage points. Based on the above data, it can be concluded that the largest role in the company assets plays property, plant, and equipment.

Similarly, the author analyzes the change in the structure of the company's current assets. Inventories increased from 1.81% to 1.88%, by 0.07 percentage points, trade and other receivables

decreased from 5.08% to 4.32%, by 0.76 percentage point, short-term financial investments - increased from 9.21% to 3.10%, by 6.11 percentage point, cash and cash equivalents decreased from 5.5% to 4.62%, by 0,88 percentage. It can be concluded that the greatest role in the composition of the company's current assets is played by trade and other receivables. At the same time, we should positively characterize the decrease in the share of receivables in the structure of the company's assets.

Graph 11. Dynamics of Equity and Liabilities in %



Source: author

Under the basic standard of financial stability⁵⁷, at least 50% of the company's property must be formed from its sources. During the analyzed period, this standard was not met at any reporting date. Consequently, during the analyzed period, the company was in a state of financial instability.

Analyzing in changes of non-current liabilities it can be noted that the most countable parts as non-current borrowing decreased from 43.8% to 32.9% by 10.9 percentage point, deferred tax liabilities decreased from 4.31% to 2.16% by 2.15 percentage point. In terms of current liabilities Trade and other payables increased from 8.58 to 8.71 by 0.13 percentage point, current borrowing decreased from 11.6% to 8.7% by 2.9%. As a result, the dependence of MTS on borrowing capital

⁵⁷ Afdanalyse. *Financial analysis of the company*. [online]. Available from: https://afdanalyse.ru/publ/finansovyi_analiz/analiz_balansa/shest_ehtapov/10-1-0-70

has decreased, which positively characterizes the changes that have taken place in the financial condition.

5.3 Assessment of the financial performance of the company according to horizontal analysis of income statement

According to the horizontal analysis of the income statement mentioned in table 14, the author can make a conclusion. The service revenue of MTS Company showed positive dynamics. In 2017-2019 this indicator increased by 16.3%. The decrease in 2018 compared to 2017 amounted to 8 063 million rubles. Then the increase in 2019 compared to 2018 amounted to 78 141 thousand rubles or the raise by 3.29%. The sales of goods between 2017-2019 increased by 18%. Together, both of these factors (service revenue and sales of goods) had a positive impact on the amount of total revenue with a positive result. The total revenue increased from 442 911 million rubles in 2017 to 476 106 million rubles in 2019, by 7%. It positively characterizes the situation with the company's financial results.

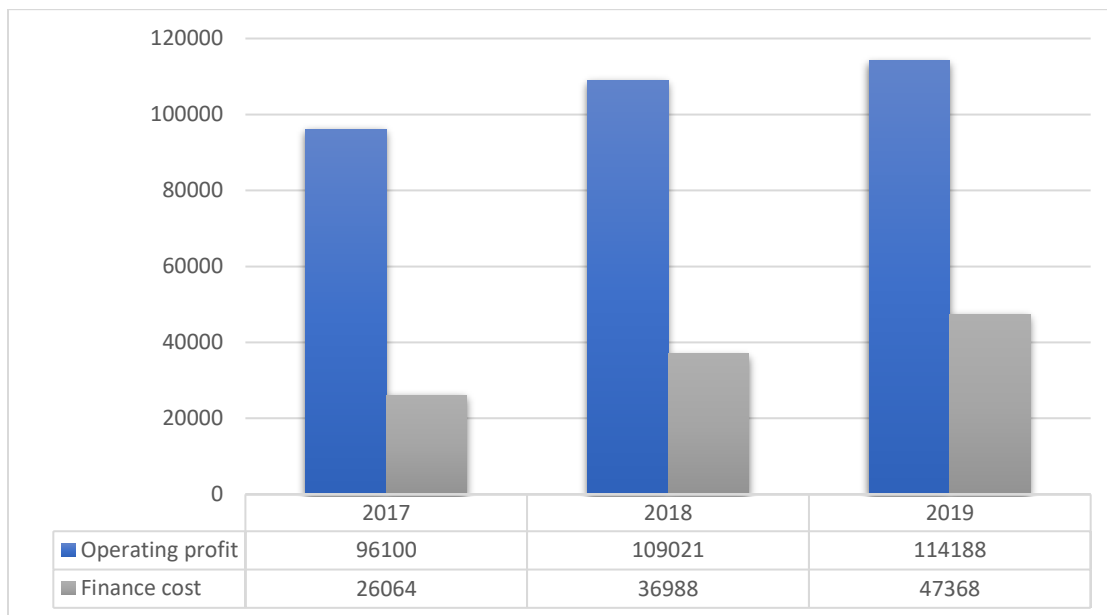
The cost of services of MTS company during 2017-2019 increased by 8%. The main activity of the company in 2019 became less cost-intensive as compared with 2017. Indeed, if in 2017 for 1 RUB the revenue was 31.6 kopeks in terms of cost, then in 2019 this indicator was lower and amounted to 28,2 kopeks. Thus, according to this criterion, there were positive changes in the revenue structure. Revenue growth outstrips cost price growth. Together, both of these factors had a positive impact on the amount of gross financial result. On the other hand, the cost of goods in 2017, 1 RUB revenue accounted for 87 kopeks, while in 2019, the indicator was higher and equaled 92 kopeks. To sum up, this means that the cost of goods become higher which negatively affected revenue.

Selling, general and administrative expenses of MTS decreased. In 2019 compared to 2017, their amount decreased by 5.7%, or from 95 186 million rubles in 2017 to 90 796 million rubles in 2019. This means that the change in the number of administrative expenses had a positive impact on the change of financial result. Depreciation and amortization results increased from 2017 to 2019 by 17%, which negatively impacted the final financial outcome.

The dynamics of changes in operating profit show positive results during the analyzed period. In 2018 the operating profit increased by 12%, or by 12 921 million rubles. The same

positive outcome was in 2019, and it increased by 5 167 million rubles, or in relative value 5%. The main effect on profit during the analyzed period affected an increase in finance cost. The following graph shows the dynamic of the ratio of operating profit to finance cost.

Graph 12. Dynamics of operation profit and finance cost



Source: author

The finance cost of MTS Company between 2017 to 2019 increased from 26 064 million rubles to 47 368 million rubles, which is in relative result 55%. According to the graph, it is obvious that finance costs grow faster than the operating profit. This factor adversely affected the overall financial results of the company. Profit in 2018 increased by 5 134 million rubles or by 8% in relative changes. Despite that, in 2019, it decreased from 61 724 million to 51 123 million, which is 20.7% less. Overall, profit during the analyzed period decreased by 5 467 million rubles, or by 9.7%. This result indicates a deterioration in the financial position of the company.

5.4 Assessment of the financial performance of the company according to vertical analysis of income statement

Based on the vertical analysis mentioned in table 15, we can draw the following conclusion. As a result of the analysis, the share of profit in revenue increased in 2018 from 12.7% to 13.6% and decreased in 2019 from 13.6% to 10.7%.

Despite the growth in the share of income from sales of goods and services within three years from 11.7% to 14.54%, there was an increase in the share of financial costs, such as expenses for servicing credits, loans, and bond issues, from 5.7% to 8.9% in 2018, and from 8.9% to 9.9% in 2019.

The share of selling, general and administrative cost such as costs of administrative and management personnel, transportation costs, services of third-party companies, rent, costs associated with the sale of products, marketing costs, transportation costs for the delivery of products, decreased from 27.9% in 2017 to 24.1% in 2019. The share of operating profit also increased in 2018 from 21.69% to 24.14% or by 2.45 percentages, and in 2019 it decreased by 0.16 points. Share of finance income such as the company's income from deposits, issued loans, and credits, as well as from financial investments, decreased from 2017-2019 by 0.34 percentage points. This led to a decrease in the share of profit before tax in the revenue structure from 17.06% in 2017 to 14.04% in 2019, while the share of net profit decreased from 12.7% to 10.73%.

5.5 Bankruptcy Analysis

In the final part of the bachelor thesis, the author would like to analyze the probability of bankruptcy of MTS Company during the analyzed period following the Altman Z-score model. The formula consists of a combination of 4-5 key financial ratios, and the result characterizes the financial position and performance of an enterprise. Every ratio is mentioned in **Appendix 5**.

$$Z\text{-Score} = 1.2(A) + 1.4(B) + 3.3(C) + 0.6(D) + 1.0(E)$$

Table 16. Altman Z-Score model analysis of MTS Company

	2017	2018	2019
A	-0,01931	-0,02897	-0,18675
B	0,217987	0,07126	0,040135
C	0,137128	0,084192	0,081165
D	0,29097	0,092512	0,045634
E	0,803729	0,492871	0,577862
Z-Score	1,712847	0,89121	0,705172

Source: author

Based on Accounting tools, a “Z score of greater than 2.99 means that the entity is safe from bankruptcy. A score of fewer than 1.81 means that a business is at considerable risk of going into bankruptcy, while scores in between should be considered as a red flag for possible problems.”. According to the made Altman Z-score model of MTS Company between 2017 and 2019, we can see:

- Result in 2017 (1,712857) is less than 1.81
- Result in 2018 (0,89121) is less than 1.81
- Result in 2019 (0,705172) is less than 1.81

Hence, each of the years considered above could become a period of bankruptcy for the company.

5.6 The main factors influencing the profit

To sum up after conducting horizontal and vertical analysis of balance sheet and income statement, income ratio analysis of MTS Company from 2017 to 2019 the main factors influencing the profit are as follows:

- High dependence on borrowed funds, both short-term and long-term
- Low solvency of the company
- A small percentage of equity capital
- Increase in the cost price
- An increase in financial costs, but at the same time a decrease in financial profit

Besides, the situation within the industry influences the profit of the company. The basic difficulties in the Russian telecommunication system are:

- the inability of an operator, operating in a constant price war with competitors, create a new kind of data transmission services, adapt existing services, and generate additional profit
- the industry carries about strategic importance for the security of the country, and therefore the activities of telecommunication companies strictly regulated by the legislative framework
- according to analysts, as the subscriber base increases, the market growth rate will slow down, and in the medium term, the three largest mobile operators - MTS, VimpelCom, and MegaFon - will face a decline in profits, as the cost of attracting new subscribers grows, penetration increases, and the cost of new subscribers for communication will decrease.

6. Conclusion

Financial analysis is a process of researching the financial condition of a business. It investigates the outcome of an enterprise's fiscal activities simultaneously. It helps to identify reserves to increase its market value and ensure its further effective development. The results of financial analysis are crucial because it helps to determine a developing strategy for improvements. Therefore, financial analysis is an integral part of financial management. My bachelor thesis aimed to make a financial analysis for the chosen Russian company. Assets, equity and liabilities, expenses, and income reflect the most significant changes according to financial statements.

The telecommunication services market in the Russian Federation is in a mature stage of development. The telecommunications market in Russia is one of the fastest growing. In the field of telecommunications, reforms, and transformations are constantly being carried out. All that contributes to the creation of favorable conditions for the activities of organizations providing communication services. The highest market share in Russia belongs to three companies: MTS, Beeline, and MegaFon. The author selected a telecommunications company MTS for the analysis. MTS is the largest cellular operator in Russia, Eastern, and Central Europe in terms of the number of subscribers. For the analysis, the author considered the period from the year 2017 to 2019.

In conformity with the knowledge gained in the theoretical background, the author conducted an analysis of the financial health of MTS Company in the practical part. Based on the results of the theoretical and practical research of financial analysis stated in the materials of MTS, the author makes the following conclusions.

The analysis of assets and sources of their formation showed that the structure of the balance sheet is unsatisfying since current liabilities exceed current assets. MTS is a highly financially dependent company from borrowed sources. To finance its current activities, the company must raise long-term and short-term borrowed funds, which leads to an increase in financing costs. It is known that a financially stable company forms at least 50% of the company's property from its sources. Considering MTS, in 2017, it was 22,5%, in 2018 – 8.46%, and in 2019 – 4.41%, which shows financial instability and changes during the analyzed period to the negative direction.

The analysis of financial performance through vertical and horizontal analysis of income statements showed that with an increase in revenue, there is a decrease in the efficiency of activities. The main reason for the decline in operating efficiency is the excess of the growth rate of the cost of sales compared to the growth rate of revenue and the high rise of financial costs, which negatively affected the received profit from sales.

According to the liquidity ratio analysis of MTS, we can conclude that the company's balance sheet during the analyzed period remained illiquid. In terms of cash, quick and current ratio, the norm was not fulfilled from 2017 to 2019. At the end of the thesis, the author conducted the Altman Z-score model analysis, which shows the probability of bankruptcy. The results illustrated that MTS Company in the period from 2017 to 2019 had a bankruptcy risk.

To summarize, during the analyzed period, the company MTS was financially unstable, and the results in 2019 became worse than in 2017. The company had financial problems because its balance sheet during the analyzed period remained primarily illiquid. In addition, the profit decreased from 56 590 million rubles in 2017 to 51 123 million rubles in 2019. Finally, the company experienced problems with working capital, and the probability of bankruptcy was high.

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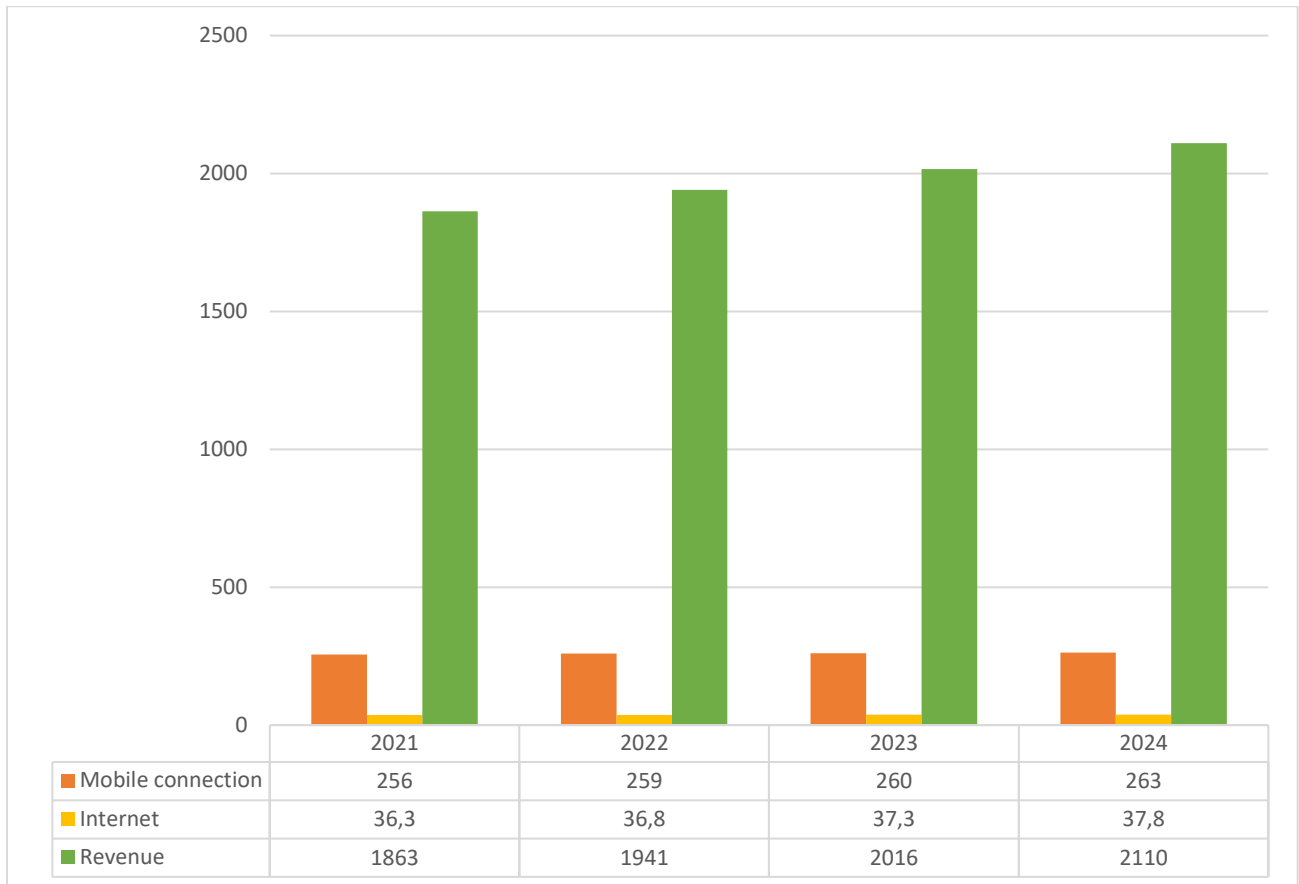
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8. Appendixes

Appendix 1 Prediction of telecommunication industry in Russia



Appendix 2 Balance sheet of MTS Company between 2017 to 2019

(Amounts in millions of RUB, except share amounts)	2017	2018	2019
NON-CURRENT ASSETS:			
Property, plant and equipment	263063	276 443	265 479
Investment property	407	2 177	2 986
Right-of-use assets		149 007	138 817
Intangible assets	113678	135 069	118 404
Investments in associates	9452	10 735	6 450
Deferred tax assets	5545	11 190	9 975
Income tax assets		-	-
Other non-financial assets	2048	5 038	4 981
Other investments	1953	16 873	11 195
Accounts receivable, related parties	2	2 545	10 787
Bank loans to customers and interbank loans due from banks		30 653	53 472
Other financial assets	8890	7 329	6 776
Total non-current assets	405038	647 059	629 322
CURRENT ASSETS:			
Inventories	9995	18 654	15 515
Trade and other receivables	28017	34 543	35 595
Accounts receivable, related parties	11358	6 385	5 872
Bank loans to customers and interbank loans due from banks		32 385	39 370
Short-term investments	50757	47 863	25 618
VAT receivable	7165	7 415	9 350
Income tax assets	2838	3 887	4 301
Assets held for sale	1276	2 694	497
Advances paid and prepaid expenses, contract and other non-financial current assets	4040	5 546	5 842
Other financial current assets		25 487	14 558
Cash and cash equivalents	30586	84 075	38 070
Total current assets	146032	268 934	194 588
Total assets	551070	915 993	823 910
EQUITY:			
Equity attributable to owners of the Company*	120126	65 274	33 068
Non-controlling interests	4079	12 291	3 326
Total equity	124205	77 565	36 394
NON-CURRENT LIABILITIES:			
Borrowings	239096	365 072	271 573

Lease obligation		144 740	140 080
Deferred tax liabilities	23773	24 439	17 866
Provisions	2309	3 391	4 761
Bank deposits and liabilities		2 633	1 805
Other financial liabilities	1048	481	955
Other non-financial liabilities	3968	2 201	2 019
Total non-current liabilities	270194	542 957	439 059
CURRENT LIABILITIES:			
Borrowings	64474	3 063	71 746
Lease obligation		15 812	15 228
Provisions	9852	70 911	11 526
Trade and other payables	47314	53 623	71 808
Accounts payable, related parties	1102	1 301	558
Bank deposits and liabilities		108 821	136 147
Income tax liabilities	1150	1 792	784
Other financial liabilities	3036	4 648	1 424
Other non-financial and contract liabilities	29743	35 500	39 236
Total current liabilities	156671	295 471	348 457
Total equity and liabilities	551070	915 993	823 910

Appendix 3 Income statement of MTS Company between 2017 to 2019

(Amounts in millions of RUB, except share and per share amounts)	2017	2018	2019
Service revenue	390 761	382 698	406 839
Sales of goods	52 150	68 768	69 267
Total revenue	442 911	451 466	476 106
Cost of services	-123 779	-104 929	-114 995
Cost of goods	-45 623	-63 253	-63 889
Selling, general and administrative expenses	-95 186	-83 427	-90 796
Depreciation and amortization	-79 912	-95 386	-96 279
Other operating income / (expenses)	-1 746	900	-690
Operating share of the profit of associates	3 210	3 799	4 583
Impairment of non-current assets	-3 775	149	148
Provision for investments in distressed Ukrainian banks			
Impairment of goodwill in Armenia			
Operating profit	96 100	109 021	114188
Finance income	5 548	5587	4356
Finance costs	-26 064	-36988	-47368
Currency exchange gain or loss	1 301	-4043	2106
Other income / (expenses)	-1 318	3542	-6409
Profit before tax	75 567	77119	66873
Income tax expense	-18 977	-15395	-15750
Profit for the period from continuing operations	56 590	61724	51123

Appendix 4 Information for Ratio Analysis

	2017	2018	2019
Current Assets	146032	268934	194588
Current Liabilities	156671	295471	348457
Cash and cash equivalent	30586	84075	38070
Account Receivables	39375	40928	41467
Marketable securities	1276	2694	497
Net Income	56590	61724	51123
Depreciation	-79912	-95386	-96279
Total Liabilities	426865	838428	787516

Appendix 5 Altman Z-score model

A	Working capital / Total assets [Measures the relative amount of liquid assets]
B	Retained earnings / Total assets [Determines cumulative profitability]
C	Earnings before interest and taxes / Total assets [measures earnings away from the effects of taxes and leverage]
D	Market value of equity / Book value of total liabilities [incorporates the effects of a decline in market value of a company's shares]
E	Sales / Total assets [measures asset turnover]

Source: Accounting tool