

Case Study: Väätsa Agro AS Financial Distress

Väätsa Agro AS is a company located in Estonia, Järva County and it is involved in dairy farming. On the 1st of September 2009 its owners have hired an international consultancy firm which has an office in Estonia. The firm's representative Karl Kukk is responsible for fulfilling the contract for evaluating the company's financial situation and providing solutions to its problems. Mr Kukk is aware that despite the company's successful past, the company had suffered a loss in 2008 and he had heard rumours that in 2009 this trend had continued. In order to fulfil the obligations set in the consultancy contract, he first needs to go through all the details on the company's operations during the previous years and determine its status as at the end of August 2009. Company's CFO has gathered detailed information about company's ownership changes, financials and activities. Mr Kukk's assistant has gathered additional information on industry trends and has structured all the materials received for Mr Kukk to review. According to the consultancy contract Mr Kukk first has to present an honest unbiased evaluation of the company's financial situation and its causes to its owners. Following that he is required to develop alternative plans of action that could be used for solving the problems faced by the company. What would you say and suggest if you were in Mr Kukk's shoes?

Company History

Väätsa Agro AS is located in Estonia in Järva County. It started its operations in 1996 following the privatisation of former collective farm named 9th May. During Soviet times this collective farm was one of the best in Estonia. Since 1954 it was managed by Endel Lieberg (born in 1927) who also became its biggest shareholder following the privatisation (as was the case with many other collective farms where the former managers bought the holdings from other shareholders). (Rozentel, 2006)

The company focused mainly on dairy farming, but historically had been involved in other types of agricultural production. A more detailed overview on company's activities during 2003-2008 is provided under business activities.

Ownership Structure Changes

Väätsa Agro AS had gone through significant ownership changes starting from 2005. The summary of these changes occurring between 2005 and 2009 1st September is illustrated on Figure 1.

In 2005 several investors became interested in taking over the company. As a first step Trigon Capital acquired 9% stake in the company. However, by the end of the year this holding was sold to Urbanfors OÜ (owned 100% by Q Capital OÜ). Simultaneously Alo Lillepea (person behind Q Capital OÜ) along with his father Kalev Lillepea acquired 22% stake in the company. (Reiljan, 2011)

In 2006 Mr Lieberg thought about retiring and as the dairy farms needed ~6.3 mio EUR of investments to modernise their assets, he sold his shares along with his family members, company's CEO Tiit Tuuleveski and its Chief Engineer Toomas Hirbaum to Windmühle OÜ. (Rozentel, 2006) The total stake sold was 65% and the former shareholders received in total of 4.9 mio EUR for their shares. Windmühle OÜ financed the purchase with a 3 mio EUR loan from Swedbank AS (commercial bank) and 2.3 mio EUR loan from Hanseatic Capital Estonia OÜ (company providing mezzanine financing). (Reiljan, 2010) The prices paid for the shares at that time were influenced by the overall economic conditions in Estonia (see Appendix 1).

At the end of 2006 100% of Windmühle OÜ was bought by Urbanfors OÜ (by then 50/50 owned by Q Capital OÜ and GA Fund Management OÜ). By the end of 2006 74% of Väätsa Agro AS was controlled by Urbanfors OÜ and the company owned an option to purchase additional 24% holding from Alo Lillepea. (Urbanfors OÜ annual report 2006)

In March 2007 Windmühle OÜ was merged with Urbanfors OÜ. (Urbanfors OÜ annual report 2006) and by the end of 2007 98% of Väätsa Agro AS was owned by Urbanfors OÜ.

In 2007 the ownership changes affected Väätsa Agro AS balance sheet in the following manner (Väätsa Agro AS 2006 and 2007 annual report):

1. The loans in Väätsa Agro AS were reorganised so that Swedbank AS became the main bank of the company (previously it was SEB). With this step the loans that Swedbank AS had granted to Windmühle OÜ for the purchase of Väätsa Agro AS shares became part of Väätsa Agro's balance sheet.
2. The same reorganisation of loans affected the loans granted by Hanseatic Capital Estonia OÜ to Windmühle OÜ.
3. As a result of step 1 and 2, Väätsa Agro's balance sheet at the end of 2007 included 4.86 mio EUR loan from Swedbank (from this 511 th EUR was due by 25 Dec 2009 and the rest due by 25 Dec 2012) and 2.5 mio EUR loan from Hanseatic Capital Estonia OÜ (due by 2 May 2011). Loan from Hanseatic Capital Estonia OÜ remained sub-ordinated to the Swedbank loan.
4. As the above-mentioned loans were connected to the purchase of shares, there appeared a 6.1 mio EUR receivable from the parent company Urbanfors OÜ (due 31 Dec 2008). This loan had no collaterals.

At the end of 2007 the company's real estate had been pledged in favour of Swedbank AS (total pledge 7030 th EUR) and Hanseatic Capital Estonia OÜ (total pledge 1917 th EUR). There was also a 1917 th EUR commercial pledge in favour of Swedbank and 1278 th EUR commercial pledge in favour of Hanseatic Capital Estonia OÜ. Urbanfors OÜ holding in Väätsa Agro AS was pledged in favour of Hanseatic Capital Estonia OÜ.

At the end of 2008 the company was still owned 98% by Urbanfors OÜ. By 31 December 2008 Urbanfors OÜ should have repaid the loan it had received from Väätsa Agro AS for the purchase of the latter's shares, however, it could not make that payment. When the share purchase was financed, the idea was to merge Urbanfors OÜ and Väätsa Agro AS (then the receivable/payable would disappear from the merged company's balance sheet). However, the process did not reach that stage.

Since October 2008 Väätsa Agro AS had overdue leasing payments and since January 2009 overdue loan payments (Oja, 2009). As Hanseatic Capital Estonia OÜ had not received timely payments, it cancelled its loan contract and in May 2009 it organised a public offering of Väätsa Agro AS shares that were owned by Urbanfors OÜ (where previously pledged in favour of Hanseatic Capital Estonia OÜ). In the course of the offering the best bid was made by Hanseatic Capital Estonia OÜ who acquired 94% stake in Väätsa Agro AS for 639 EUR. (Reiljan, 2010)

1 Sept 2009 94% of the company was owned by Hanseatic Capital Estonia OÜ which is a company providing mezzanine financing to companies located in Emerging Europe with a focus on small and medium-sized companies (<http://www.hanseaticcapital.net/>).

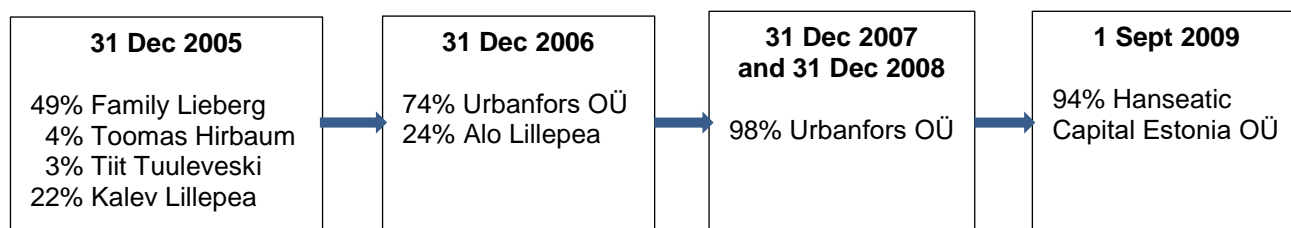


Figure 1. Väätsa Agro AS ownership changes 2005-2009

Source: compiled by the author

Business Activities

At the end of 2008 Väätsa Agro AS employed 165 persons, owned 1721 ha of agricultural land and rented additional 2493 ha for its main activities. (Väätsa Agro AS 2008 annual report) Figure 2 presents the company's land usage during the period 2002-2008 and the key statistics on company's agricultural production are presented in Table 1. Silo was used for feeding the cattle and grain was also mostly used for the same purposes. The grain that was not needed by the company was sold and its sales on most years had been less than 10% of the total crop with the exception of 2006 and 2008 when the sales were 42% and 20% of total crop respectively.

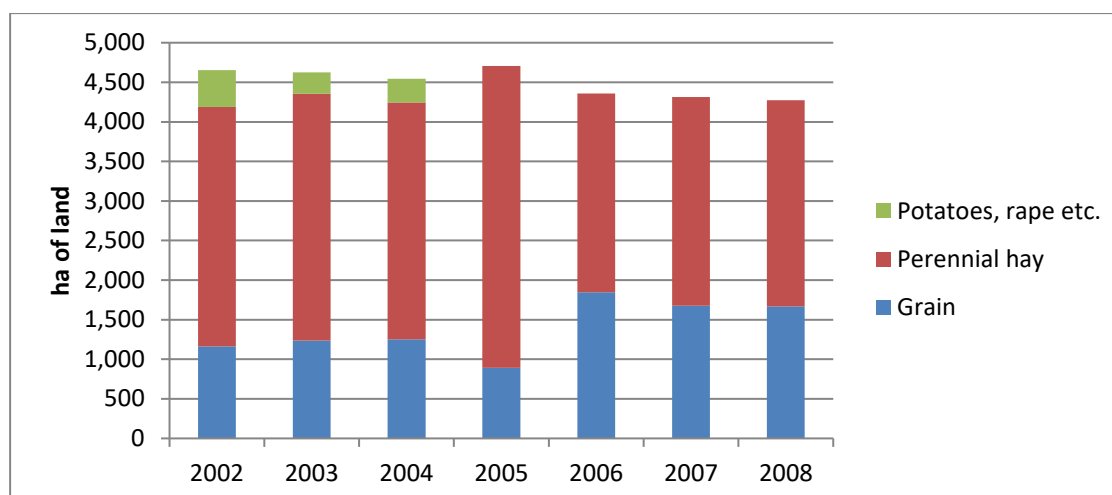


Figure 2. Agricultural land use by Väätša Agro AS during 2002-2008

Source: Väätša Agro AS annual reports 2003-2008

Table 1. Väätša Agro AS agricultural production statistics 2002-2010

	2002	2003	2004	2005	2006	2007	2008
Grain (dry weight tons)	3 821	2 528	3 118	4 327	3 758	3 486	6 563
Grain (centner/ha)	26	22	27	35	30	39	36
Silo (tons)	17 578	27 114	35 143	35 117	22 343	40 802	35 629
Organic fertilizers (tons/ha)	13	12	12	9	11	12	9
Mineral fertilizers (kg/ha)	115	118	120	87	104	86	84

Source: Väätša Agro AS annual reports 2003-2008

Company's livestock had previously included cattle and pigs; however, starting from 2009 the company gave up raising pigs. This decision was made as the price level of pork was low and the company's main supplier of young pigs had reduced its production. Figure 3 presents the developments in livestock.

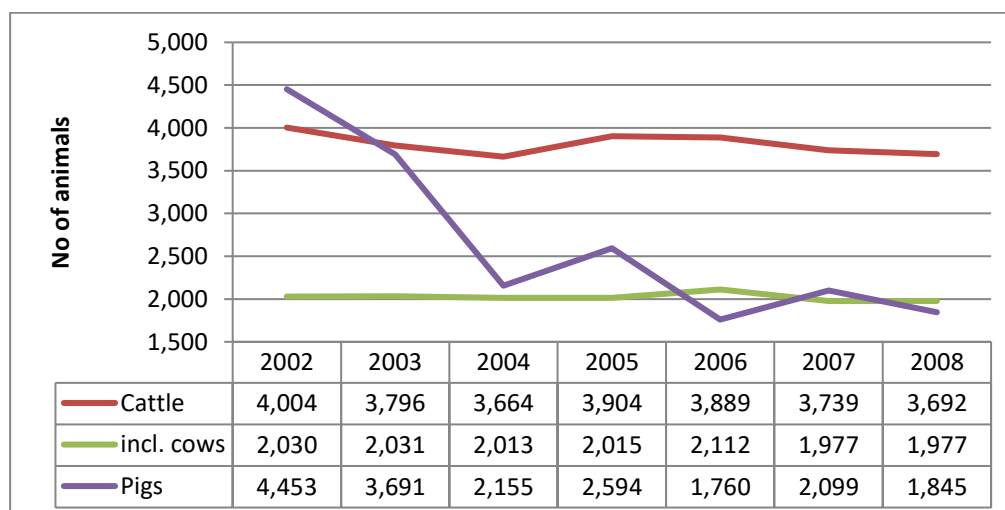


Figure 3. Väätša Agro AS livestock 2002-2008

Source: Väätša Agro AS annual reports 2003-2008

The numbers presented on Figure 3 represent the year-end results, but during the year the number of animals had fluctuated significantly, especially in case of pigs. Pigs were raised only for fattening. Cows were used to produce milk, 1-2% of cattle each year were sold as livestock and the rest of the cattle were mostly fattened and sold as beef. Since 2005 the meat had been processed in company's own slaughterhouse and sold by the company directly to customers. This alternative was more profitable than selling live pigs and cattle to meat processing plants.

Since 2002 over 60% of Väätsa Agro AS sales each year had originated from sale of milk and by the end of 2008 milk sales had increased to 75.5% of company's total sales followed by the sale of beef and pork. In 2008 the company's milk production was 15.2 mio tons and it was estimated to be around 13 mio tons in 2009. Figure 4 presents an overview of company's milk production.

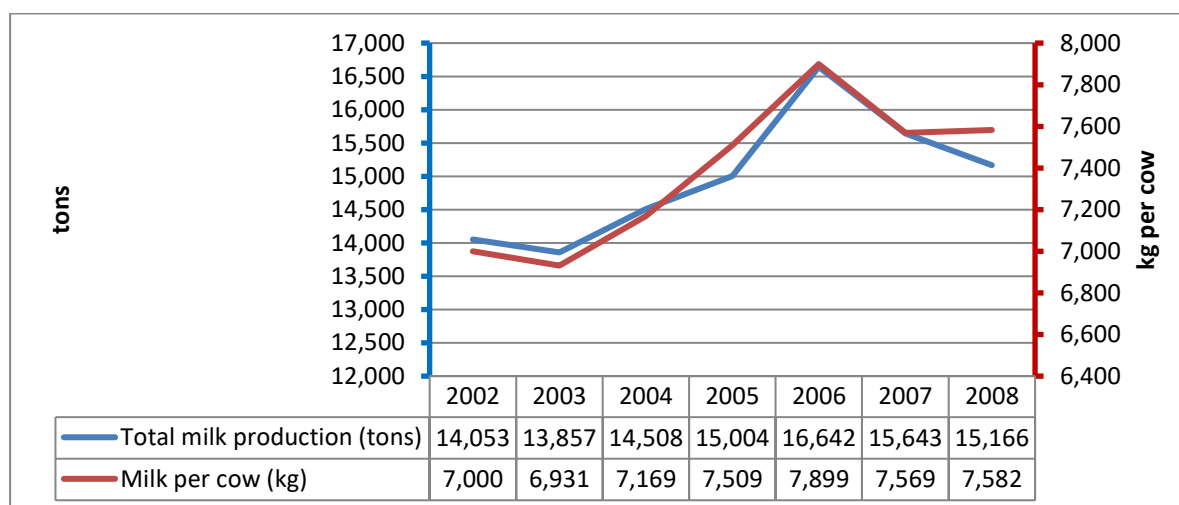


Figure 4. Väätsa Agro AS milk production 2002-2008

Source: Väätsa Agro AS annual reports 2003-2008

Since 2004 Väätsa Agro AS had sold all its produced milk to TÜ Laeva Piim which is a commercial association formed by the dairy farms. It purchases the milk from producers and sells it to big dairy industries. (<http://www.lpiim.ee/>) The use of this body enables milk producers to get better prices for their product compared to when they would negotiate with the dairy industry on their own, but the overall price level does remain dependent on the price changes on global markets.

Industry Overview

Since 2004 Estonia is part of the European Union meaning that milk production in the country is limited by the quotas agreed with the EU. The total quota agreed for Estonia for 2008 April to 2009 March was 659.3 mio kg. This quota was divided between 1261 producers and it had not been breached on previous years. (<http://www.epkk.ee/3120>) Väätsa Agro AS was the biggest of them with a quota of 16 mio kg in 2008 (representing 2.4% of total) and only five other producers had quotas above 10 mio kg. (Riikoja, 2008) Appendix 2 presents an overview of the company's main 4 competitors in Estonia (defined based on the size of quotas) along with their financial data.

The overall milk production in Estonia had stabilised, but productivity had been increasing (see Figure 5).

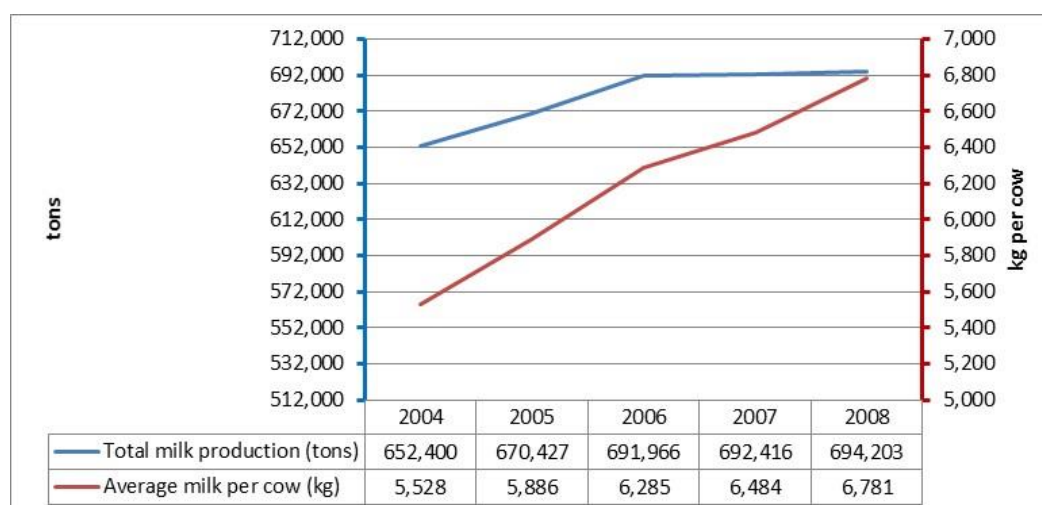


Figure 5. Total milk production in Estonia 2002-2008

Source: Statistic Estonia <http://www.stat.ee/>

Raw milk produced in Estonia was processed mainly in local dairy industries. In 2008 in total of 187 tons of milk products were produced (excluding milk-powder). 44% of production was drinking milk, 19% cheese, 18% acidified milk and the rest was cream and butter. Most of the milk products were consumed in Estonia and the biggest export article was cheese with 39% of the total production. Only 5% of drinking milk was exported. Dairy industries also produced milk powder which had been mostly exported. (Statistic Estonia <http://www.stat.ee/>)

Milk Prices

The price that Väätsa Agro AS had received for milk had steadily increased since 2002, however, the 2009 decrease in global market prices had also reduced the price the company had been able to get. Figure 6 presents the change in prices received for milk by Väätsa Agro AS compared to the overall milk market trends. Compared to 2008 August the spot price in EU had decreased 25%. It was believed that market had reached the bottom and prices would begin to slowly stabilise from 2009 September forward.

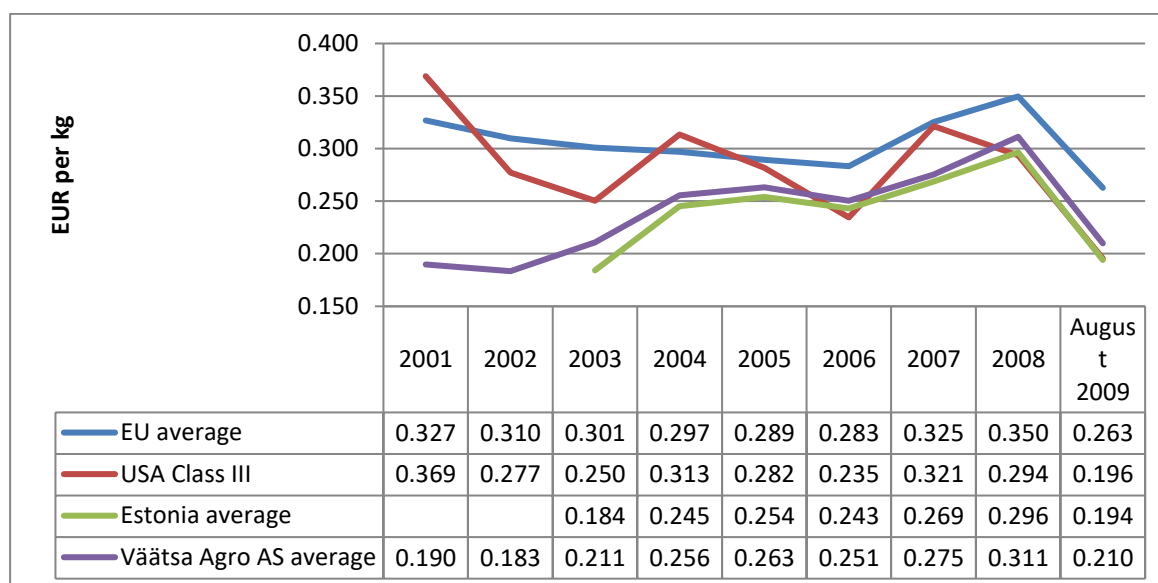


Figure 6. Annual average milk price 2001-2008 and spot price in August 2009

Source: EU average and US Class III: LTO International Milk Price Comparison (<http://www.milkprices.nl>); Estonian average from Statistics Estonia (<http://www.stat.ee/>) and Väätsa Agro AS average (annual reports 2002-2009)

Company Financials

Decreasing milk prices had adversely impacted Väätsa Agro AS 2008 net profit (see Appendix 3). As the decrease in prices had continued in 2009, it had led to further deterioration in company's revenues and operating profits. According to the latest milk price estimates the company's CFO had prepared a forecast for 2009 profit and loss. This forecast is presented in Appendix 3 next to the actual income statements of previous years. This forecast indicated that the operating loss for 2009 could be 4 times bigger than in 2008. If the milk market situation were to improve and cost cuts take effect, the CFO expected the 2010 EBITDA to reach 900 th EUR and based on a discounted cash flow model he expected the value of the firm to be ~7 mio EUR.

Big change in the company's balance sheet (see Appendix 4) had occurred in 2007 when the loans used by Windmühle OÜ for the purchase of Väätsa Agro AS shares were transferred to Väätsa Agro AS (for additional information see the previous section on ownership changes). As a result of these events, there appeared loans from Swedbank AS and loans from Hanseatic Capital OÜ on the obligations side (at the end of 2008 their total balance was 8 mio EUR). The same loan restructuring led to the appearance of receivable from Urbanfors OÜ under current assets (as at the end of 2008 its balance was 7 mio EUR). The receivable from Urbanfors OÜ was due on 31 Dec 2008, but by the 1st of Sept 2009 this loan had not been repaid and there remained a very high likelihood that the owners of that company would not be able to meet this obligation. Company's auditor had already suggested that the receivable from Urbanfors OÜ should be fully written off.

Since October 2008 Väätsa Agro AS had overdue leasing payments and since January 2009 overdue loan payments (Oja, 2009). This had raised the concerns of creditors and Hanseatic Capital Estonia OÜ had pre-maturely cancelled their loan agreement. As at the end of August 2009 Väätsa Agro AS had in total of 127 creditors, but only 4 of them had claims greater than 191 th EUR. Table 2 presents an overview of these claims. It was estimated that the remaining 123 claimholders total claims could be ~500 th EUR.

Table 2. The biggest claimholders of Väätsa Agro AS as on 31 August 2009

(in th EUR)	Principal amount	Amounts overdue	Interest on late payment
Swedbank AS	5 454	190	219
Hanseatic Capital Estonia OÜ	3 059	3 059	127
Swedbank Liising AS (leasing provider)	835	168	39
Maaelu Edendamise Sihtasutus (state aid provider)	486		

Source: Estonian Supreme Court's decision <http://www.nc.ee/?id=11&tekst=RK/3-2-1-25-11>

The overall balance sheet structure at the end of August 2009 was similar to 2008 year-end situation. According to the experts the market value of company's assets (in case of a sale) was between 5 and 7 mio EUR (Reiljan, 2011). It indicates that the value of assets could be somewhat lower than indicated on company's balance sheet.

Although the 2008 end cash flow statements (see Appendix 5) looked normal, it was clear that something needed to be done in order to maintain the company's ability to continue its operations.

Legal Considerations

Mr Kukk is aware that since 26 Dec 2008 there existed a new Law of Financial Restructuring that provided an alternative for companies facing financial difficulties in addition to the possibility of declaring bankruptcy (regulated by the Bankruptcy Law). Table 3 presents the main differences between these two legal options.

Table 3. The main differences between bankruptcy and financial restructuring in Estonia

Characteristics	Bankruptcy	Financial restructuring
Objective	Satisfying claims of claimholders	Improving company's solvency
Insolvency	Permanent	Temporary
Company's operations	Will usually end	When possible to be continued
Claims satisfied	With receipts from sale of assets according to the order determined in Bankruptcy Law: firstly claims with a pledge and then other claims	Mainly from company's operating cash flows according to the financial restructuring plan
Claims' reduction	Can be done through the bankruptcy process if company is cured	Allowed, claims (incl. those of banks) can be postponed, reduced, replaced with shares and partitioned
Extent of claims usually satisfied	10-30%	Over 50%
Who remains in control in the process	Trustee	Owners

Source: Bank (2009), Bankruptcy Law (<https://www.riigiteataja.ee/akt/751863?leiaKehtiv>), Law of Financial Restructuring (<https://www.riigiteataja.ee/akt/13091531?leiaKehtiv>)

Financial restructuring was a process that could be undertaken only if there existed a possibility that the company could continue its operations as a result of activities to be undertaken during the financial restructuring process. The initiation of this process needed approval from existing claimholders, required preparation of financial restructuring plan and also court approval to the initiation of this process and to the restructuring plan. Even if the company selected financial restructuring, prepared a financial restructuring plan that was approved and followed it, the company could still face bankruptcy if it failed to

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fulfil it. The Bankruptcy Law had previously allowed for the distressed companies to reach an agreement with the claimholders (curing the company), but his alternative had not been attractive as it required company to go through the bankruptcy process.

Concluding Remarks

Väätsa Agro AS had historically successfully operated its dairy farms and milk production remained the main activity of the company providing 75.5% of its revenues. In 2006 the company had went through significant ownership change that changed the company's capital structure starting from 2007. Starting from 2008 the milk prices on global markets had significantly decreased and these developments had affected the prices that Väätsa Agro AS received for its milk. As a result the company had suffered a loss in 2008 and the financial situation had continued to deteriorate in 2009 8 months. The company's owners hired consultancy firm to evaluate the financial situation of the company and to provide solutions to its problems. Mr Kukk as a representative of that firm had received a detailed overview of company's ownership changes, financials and activities and had to prepare and overview of company's financial situation, its potential causes and provide alternative plans of action for solving the problems faced by the company. What would you say and suggest if you were in Mr Kukk's shoes?

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APPENDIX 1. Estonia's economic indicators

Year	GDP per capita in Estonia		Real GDP year-on-year growth*		FDI intensity (average of inward and outward FDI divided by GDP)*		Loans granted by financial institutions to non-financial companies in Estonia***	
	Index 100 = EU 27 countries*	Estonia EUR per capita**	Estonia	EU 27 countries	Estonia	EU 25 countries	balance at the end of year (mio EUR)	year-on-year growth in balances
1996	38	2 570	5,9%	1,8%	0,0%			
1997	42	3 202	11,7%	2,7%	4,0%			
1998	42	3 630	6,8%	3,0%	5,2%			
1999	42	3 895	-0,3%	3,0%	3,4%			
2000	45	4 498	9,7%	3,9%	4,0%			
2001	46	5 110	6,3%	2,2%	5,9%	2,4%	1 783	
2002	50	5 724	6,6%	1,3%	2,9%	1,3%	2 114	18,5%
2003	55	6 441	7,8%	1,4%	5,5%	1,3%	2 496	18,1%
2004	57	7 178	6,3%	2,5%	5,1%	1,0%	3 185	27,6%
2005	62	8 307	8,9%	2,0%	12,8%	1,7%	4 641	45,7%
2006	66	9 967	10,1%	3,3%	8,6%	2,4%	6 818	46,9%
2007	70	11 977	7,5%	3,2%	10,1%	4,0%	8 694	27,5%
2008	69	12 161	-3,7%	0,3%	6,0%	2,3%	9 052	4,1%

Source: * Eurostat (<http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home>), ** Statistics Estonia (<http://www.stat.ee/>); *** Bank of Estonia (<http://www.eestipank.ee/>)

APPENDIX 2. Väätsa Agro AS main competitors

	Year	Väätsa Agro AS	OÜ Estonia	Aravete Agro OÜ	OÜ Põlva Agro	AS Tartu Agro
Quota (mio tons)	2008	16,0	15,0	13,5	12,2	10,2
Number of employees	2008	162	258	143	65	165
% of sales from milk	2008	75,5%	49,6%	80,9%	85,2%	55,5%

Financial data (th EUR)	Year	Väätsa Agro AS	OÜ Estonia	Aravete Agro OÜ	OÜ Põlva Agro	AS Tartu Agro
Revenues	2007	5 159	8 859	4 933	4 689	5 267
	2008	5 912	8 527	4 732	4 443	6 133
Subsidies received	2007	1 026	1 757	901	632	805
	2008	1 135	2 093	1 243	685	904
Net profit	2007	1 044	1 457	275	1 632	1 024
	2008	-575	-25	439	1 747	275
Current assets	2007	9 417	4 580	1 679	2 483	2 568
	2008	9 736	4 874	2 582	3 205	2 705
Total assets	2007	19 097	14 077	8 776	7 218	9 962
	2008	19 170	18 297	13 014	8 595	10 052
Current liabilities	2007	2 422	2 766	1 488	756	2 394
	2008	3 056	4 317	2 568	521	2 247
Short-term loans from banks incl. leasing obligations	2007	1 159	733	232	117	1 295
	2008	1 592	1 063	657	64	881
Long-term loans from banks incl. leasing obligations	2007	8 404	1 696	2 077	88	3 100
	2008	8 474	2 361	4 651	182	3 062
Total equity	2007	7 999	6 846	4 593	6 462	4 468
	2008	7 424	6 464	5 033	8 074	4 743

Financial ratios	Year	Väätsa Agro AS	OÜ Estonia	Aravete Agro OÜ	OÜ Põlva Agro	AS Tartu Agro
Current ratio	2007					
	2008					
Loans to total assets	2007					
	2008					
Equity ratio	2007					
	2008					
ROA	2007					
	2008					
ROE	2007					
	2008					
Net profit margin	2007					
	2008					

Source: Väätsa Agro AS, OÜ Estonia, Aravete Agro OÜ, OÜ Põlva Agro and AS Tartu Agro annual reports 2008; quota numbers from <http://www.epkk.ee/3120>

APPENDIX 3. Väätsa Agro AS income statements

(in th EUR)	2005	2006	2007	2008	2009 forecast
Sales	4 749	5 499	5 159	5 912	3 400
Subsidies	626	840	1 026	1 135	900
Other revenue	49	67	114	157	0
Total revenue	5 424	6 406	6 300	7 205	4 300
Change in inventories	222	-248	544	298	-500
Profit/loss from biological assets	565	233	729	-272	-300
Capitalised investments into fixed assets	1 145	144	221	80	0
Goods and services	-3 914	-3 359	-3 695	-4 398	-2 200
Operating expenses	-148	-175	-341	-272	-200
Personnel expenses	-1 608	-1 608	-1 674	-1 977	-1 700
Depreciation	-486	-645	-845	-935	-800
Other operating expenses	-22	-16	-21	-40	0
Total operating expenses	-6 178	-5 803	-6 576	-7 622	-4 900
Operating profit	1 179	732	1 218	-312	-1 400
Interest expenses	-115	-152	-477	-849	-500
Other financial income	1	5	304	609	500
Other financial expenses	-1	0	-1	-23	-200
Profit before taxes	1 064	584	1 044	-575	-1 600
Income tax	-15	-29	0	0	0
Net profit	1 049	555	1 044	-575	-1 600

Source: Väätsa Agro AS annual reports 2005-2009

APPENDIX 4. Väätsa Agro AS balance sheets

(in th EUR)	31.12.2005	31.12.2006	31.12.2007	31.12.2008
CURRENT ASSETS				
Cash and bank accounts	51	20	9	22
Accounts receivable	535	488	605	322
Receivables from (former) parent company Urbanfors OÜ	0	290	6 289	6 995
Other receivables	234	196	222	184
Inventories				
Raw material	475	424	635	355
Goods in process	119	117	140	187
Finished goods	398	412	979	1 218
Biological assets	612	405	535	451
Goods for sale	3	3	2	2
Total inventories	1 609	1 362	2 292	2 214
TOTAL CURRENT ASSETS	2 429	2 356	9 417	9 736
NON-CURRENT ASSETS				
Long term investments into securities	5	5	3	3
Fixed assets				
Land and buildings	4 915	5 072	5 526	5 627
Equipment and machinery	3 830	3 951	4 382	4 875
<i>incl. leased equipment and machinery</i>	<i>803</i>	<i>891</i>	<i>1 000</i>	<i>1 427</i>
Other tangible fixed assets	28	34	36	39
Biological assets	2 307	3 054	3 949	4 034
Depreciation	-3 549	-3 928	-4 254	-5 167
Construction in progress	28	2	39	22
Total fixed assets	7 560	8 184	9 677	9 430
TOTAL NON-CURRENT ASSETS	7 565	8 189	9 681	9 434
TOTAL ASSETS	9 993	10 545	19 097	19 170
CURRENT LIABILITIES				
Short-term loans (overdraft)	0	0	415	415
Current portion of long-term loans	393	459	744	1 177
<i>incl. Swedbank AS</i>	<i>0</i>	<i>0</i>	<i>511</i>	<i>884</i>
<i>incl. financial lease</i>	<i>150</i>	<i>160</i>	<i>227</i>	<i>287</i>
Trade payables	318	248	916	1 070
Taxes payable	104	136	100	137
Payables to employees	197	199	226	227
Other accrued expenses	63	2	21	30
TOTAL CURRENT LIABILITIES	1 075	1 045	2 422	3 056
NON-CURRENT LIABILITIES				
Long-term borrowings	2 106	2 210	8 404	8 474
<i>incl. loan from Hanseatic Capital Estonia OÜ</i>	<i>0</i>	<i>0</i>	<i>2 500</i>	<i>2 968</i>
<i>incl. Swedbank AS</i>	<i>0</i>	<i>0</i>	<i>4 346</i>	<i>4 154</i>
<i>incl. financial lease</i>	<i>309</i>	<i>368</i>	<i>767</i>	<i>859</i>
Prepaid expenses	315	335	272	216
TOTAL NON-CURRENT LIABILITIES	2 421	2 544	8 676	8 690
EQUITY				
Share capital	1 936	1 936	1 936	1 936
Statutory legal reserve	208	208	208	208
Retained earnings	4 353	4 811	5 855	5 281
TOTAL EQUITY	6 496	6 955	7 999	7 424
TOTAL LIABILITIES AND EQUITY	9 993	10 545	19 097	19 170

Source: Väätsa Agro AS annual reports 2005-2008

APPENDIX 5. Väätsa Agro AS cash flow statements

(in th EUR)	2005	2006	2007	2008
Cash flows from operating activities				
Profit before tax	1 064	584	1 044	-575
Adjustments:				
Depreciation	486	645	845	935
Profit/loss from sale of tangible fixed assets	-811	-299	-841	228
Income from target financing	-46	-62	-63	-56
Other corrections	114	147	175	263
Change in receivables and prepayments	36	81	-141	322
Change in inventories	-100	299	-754	-19
Change in biological assets	0	-172	-252	-260
Change in obligations and prepayments	315	-34	806	193
Total cash flows from operating activities	1 058	1 190	819	1 031
Cash flows from investing activities				
Proceeds from sale of non-current assets	48	66	139	45
Purchased non-current assets	-395	-467	-573	-16
Investments into construction in progress	-1 124	-144	-221	-92
Financial investments	0	-288	0	0
Change in loans granted	0	0	-3 091	-140
Interest received	1	7	0	43
Total cash flows from investing activities	-1 469	-825	-3 745	-160
Cash flows from financing activities				
Loans received	1 662	697	5 996	704
Loans repaid	-988	-598	-2 359	-528
Repayment of leases	-170	-237	-302	-344
Dividends paid	-48	-97	0	0
Income tax paid	-15	-29	0	0
Target financing received	25	20	0	0
Interests paid	-115	-152	-419	-690
Total cash flows from financing activities	349	-396	2 916	-858
Total cash flows	-62	-31	-11	13

Source: Väätsa Agro AS annual reports 2005-2008