

Indicative business proposal

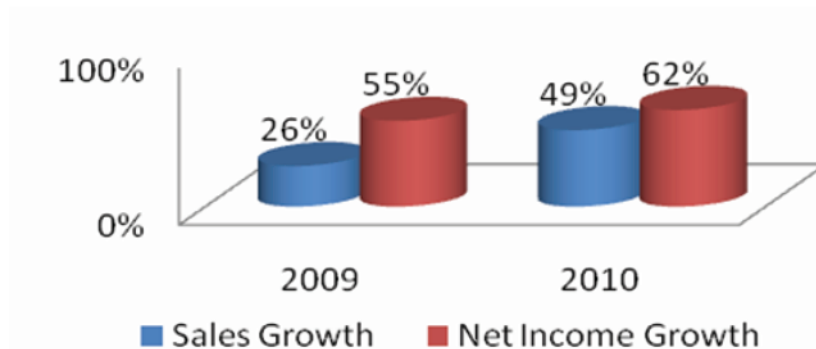
2011



About the company

S-TRANS LLC is a rapidly growing company that operates in the dairy market of the Eastern region of Ukraine (Kharkiv, Dnipropetrovsk, Donetsk, Poltava, Zaporizhya and Lugansk regions).

The company specializes in the manufacture of dairy products. The product range includes the following types: milk, cultured milk, curd and cottage cheese. The company is developing successfully, which is obvious by the steady growth of sales, sales coverage area and client base. Over the past two years the company's sales have grown by 89%, annual growth was as follows:



S-TRANS LLC owns three well-known in the operation area brands: KHUTOROK, SYESHKA and MOLOCHNAYA FERMA.

To run its operations the company has all the necessary production facilities, which allow manufacturing of up to 100 tons per day. Capacity utilization of the company today makes up 70-80%.

The owners of the company S-TRANS, are citizens of Ukraine – Kovalenko Yuriy Nikolaevich (50%) and Kutuzyan Samvel Vitalyevich (50%), natural persons, who acquired the company in 2003.

History

The company dates back to 1968. The company is situated in Zmiiv, Kharkiv region, which is 40 km from Kharkiv. The new owners of the company have contributed to the company's renovation and development. In September 2003 a decision was made to restructure and update production facilities. During the period from 2003 to 2010 the reconstruction of the main production premises has taken place, production equipment was significantly upgraded — the total investment in fixed assets during this period made up over 2 million EUR.

In December 2007, due to sharp sales increase and extension of retailer outlets and sales representatives, it was decided to set up Trading House MOLOCHNIY KHUTOR LLC. It deals with sales, customer relations, promotion.

The projects on development strategy and operation productivity were successfully launched in 2008.

Since 2010 the management systems based on international quality and food safety standards (ISO 9001, ISO 22000, HACCP) have been implemented.

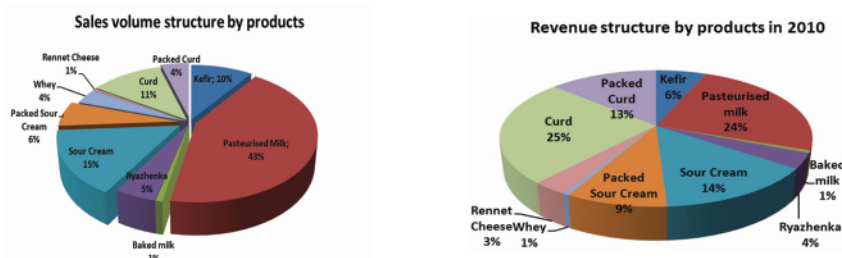
In 2011 the owners make the decision to enter capital market and create Inmilkco (Cyprus).

S-TRANS is represented with the following product range on the Ukrainian market:

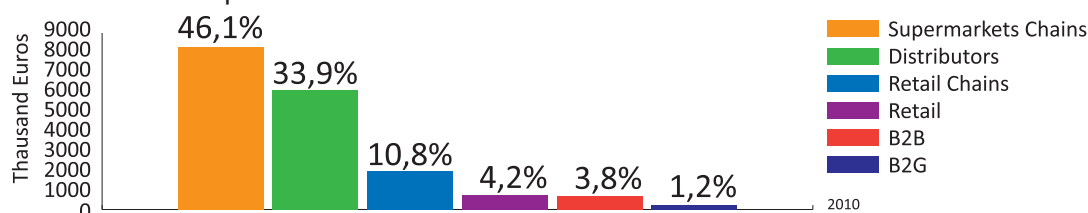
Nº	Description of Goods	Volume of sales in 2010, tons
1	Kefir: (fermented milk): Low-fat Fat content 1% Fat content 2,5% Fat content 3,2%	1 045
2	Pasteurized milk Fat content 1,5% Fat content 2,5% Fat content 3,2%	4 637
3	Baked Milk: Fat content 4%	593
4	Ryazhenka (fermented baked milk): Fat content 4%	
5	Sour cream: Fat content 15% Fat content 20%	2 307
6	Whey	404
7	Cottage cheese (rennet cheese)	49,3
8	Curd: Fat content 9%	1 216,5
9	Packed curd cheese and curds: with vanillin with raisin with dried apricots	
Total output for 2010		10 730 tons
Total profit from product sales for 2010		88 728 thousand UAH

Sales are carried out in Kharkiv, Dnipropetrovsk, Donetsk, Poltava, Zaporizhyya and Lugansk regions. The total population in these regions is 16 214 thousand which is 35.3% of the population of Ukraine.

The structure of the sales in 2010:



The company sells its products using several distribution channels. The main sells are carried out via the retail chain "supermarkets". In Kharkiv and Kharkiv region sales are carried out via retail outlets and supermarket chains.



Region sales (Donetsk, Luhansk, Dnipropetrovsk, Zaporizhyya regions) are carried out via distributors and national supermarket chains.

Positioning of the trade mark (TM) of the company

TM	Segment	Channel	Operation Area	Total sales (potential)
TM KHUTOROK	Low priced+	Retail , B2B, B2G Supermarket chains	Operation area	74, 8 %
TM SYESHKA	Low priced+	Retail , Supermarket chains	Operation area	13, 9%
TM MOLOCHNAYA FERMA	Low priced	Retail , Supermarket chains	Kharkiv and Kharkiv region	11, 2%

Market

S-TRANS pays much attention to the analysis and estimation of the current and perspective market conditions and factors which influence the company's operation.

Dairy market in Ukraine is characterized by the following major factors:

1. The market of the processed liquid milk tends to grow. In 2009 the market growth was 9.2%, in 2010-6.8%, the expected growth for 2011 is 7-8%.
2. Consumption of milk and dairy products in Ukraine has the potential to internal growth. Currently, per capita consumption is 65 kg/year compared to the European 89,3 kg;
3. Positive dynamics of Ukrainian dairy market in the long run is also predicted by the experts from American Institute of Food and Agriculture Policy Research Institute (FAPRI). They estimated that by 2019 the consumption of milk in Ukraine will have increased by 46% accounting on the basis of quantities
4. Due to the financial crisis during 2009-2010, there has been expansion of low-price segment at the expense of the reduction of more expensive segments. However, in the next 5 years a gradual increase in purchasing power is expected that allows to predict the expansion of the middle segment of the dairy products in the near future.
5. There has been a steady increase in production and sales of long-term storage products. Market experts point out the growth of the share of long-term storage milk on the market of packaged products. Annual growth rate of sales of long-term storage milk exceeds the rate of growth of the market of packaged milk by 5%.
6. Market of milk processing in Ukraine is represented by a large number of domestic and multinational companies (Russia, France, USA), which play an increasingly important role on the market of dairy products.
7. Competition is expected to increase at the market of dairy products due to the increasing presence of foreign companies, milk processors.
8. Investment attractiveness of Ukrainian agro-industrial complex (AIC) and the sector of dairy products, in particular, tend to grow. This trend is global due to the growing food shortages. International rating agency Fitch Ratings predicts the investment in agriculture of Ukraine in the period from 2010 to 2012 to be about 1870 million dollars. According to the experts from the analytical center "UkrAgroConsult" Ukrainian agricultural companies will attract at least 20-30 billion dollars through IPO in the next 5-10 years.
9. There is a steady growth of demand for high-quality raw milk from milk processors.
10. The tendency of diminishing of the total number of dairy cattle has not been overcome yet. It takes place both in small agricultural enterprises and in individual households. Nevertheless, agricultural farms with more than 1000 heads of livestock have demonstrated a slight increase in recent years. For the last years, these farms turned out to be more competitive in the market and have the greatest potential to expand their manufacturing capacity.

Competitors

Taking into account the high proportion of sales via national retail chains (S-TRANS sells 46,1% of output via this channel), the company carries out a detailed research of the competitors operating in price segment "low" and "low+" by the following categories:

- national competitors — Ukrainian companies and companies owned by overseas and multinational companies operating in Ukraine;
- regional competitors — companies, competing with S-TRANS in the operation area (Kharkiv, Dnipropetrovsk, Donetsk, Poltava, Zaporizhya and Lugansk regions).

The total number of manufacturers in Ukraine is over 380 enterprises. While more than 55% of the market is occupied by 8-10 largest companies with several production areas in different region of Ukraine. The total production output in 2010 was 812 thousand tons.

National manufacturers

National manufacturers produce the whole range of dairy products and represented in retail chains by the trade marks in low and low+ segment.

- "VBD Ukraine" PLC (TM "Romol", "Slavyanochka"); assets are controlled by Pepsi Co. It's market share in the S-TRANS operation area in the supermarket chain makes up 25%;
- "Molocha Fabrika" Rainford" Ltd (TM "Shchyodnya") market share is 5%;
- Lactalis Ukarine (TM "President", "Bilosvit", "Loktoniya") – is a subsidiary of the French Group Lactalis with the market share of 7%;
- Milk plant Danon Ltd (TM "Vesyoliy Pastushok") owned by Danon (France) with market share of 5%;
- Galichina Ltd (TM "Molochar", TM "Molochna Rodyna", TM "Molochni Korivki") with market share of 5%;
- AC "Komdinat Pridneprovskiy" PLC (TM "Zlagoda", "Lyubimchik") with market share of 11%.

Within the operation area "S-TRANS" share in retail makes up 15.41%.

S-TRANS in the retail chain "supermarkets" also competes with trade marks of supermarket chains such as ATB, Silpo and others. Supermarket chains try to expose high quality products at low prices and create additional competition on the shelf.

Regional manufacturers (retail chains)

Kharkiv region:

- Kupyansk milk and canning factory Ltd (TM "Zarechye") with market share of 31%.
- Balmoloko plus LTD with market share of 8%.
- Bogodukhov milk plant PLC with market share of 5%.
- Novovodolazhskiy milk plant PLC with market share of 5 %.

S-TRANS market share makes up 13%.

Lugansk region:

- Starodelskiy LTD (TM "Molochnay Veselka") with market share of 8%.
- MTC (TM "Stanystya") with market share of 40%.

S-TRANS market share makes up 10%.

Donetsk region:

- Ilyicha MC PLC (TM "Ilyicha") with market share of 5%.
- Volnyanskiy butter-making plant PLC (TM "Volnyanskiy butter-making plant") with market share of 5%.

S-TRANS market share makes up 12%.

Dnepropetrovsk region:

- AC Prydneprovskiy Complex PLC (TM "Zlagoda", "Lubimchik" with market share of 20%.
- Molagrobusiness" partnership (TM "Vedmedyk Charivnyk") with market share of 10%.

S-TRANS market share makes up 23%.

Zaporizhya region:

- MolokozaVod – Olkom private enterprise (TM "Olkom") with market share of 3%
- Molagrobusiness Ltd (TM "Vedmedyk Charivnyk") with market share of 10%
- AC Prydneprovskiy Complex Plc (TM "Zlagoda", "Lubimchik" with market share of 25%

S-TRANS market share makes up 20%.

The company's objectives for the medium term prospect of 2011-2015

For the period from 2011 to 2015 the company has set up the following objectives:

Strategic objectives

- to increase annual sales by 2013 by 135% , by 2015 - by 180%
- to increase market share at the operated segment up to 25% by 2015
- to create our own raw material base and form a vertically integrated holding structure - by 2015

Key operational objectives

- to expand the area of activity of the company by increasing the coverage of Eastern Ukraine and expand our activities to the territory of Central Ukraine – by 2013;
- to launch a new product range:
 - sterile Milk -by 2012;
 - butter, spreads -by 2012;
- to create a strong brand, positioned in the middle price segment, to carry out rebranding — by 2011
- to establish effective logistics able to cover areas of the company's activity in Eastern and Central Ukraine;
- to increase management efficiency;
- to reduce the risks of business activities in areas where it is possible to implement ;
- to complete the programs on implementation of quality management systems and production safety (ISO 9001, ISO 22000, HACCP) – by 2012;
- to expand the programs on the improvement of the operation efficiency.

The findings of our internal analysis

We see long-term opportunities for our business:

- steady growth in the consumption of dairy products in Ukraine;
- tendency towards growth of prices for food, including dairy products;
- high proportion of the market segment of our consumers 70%;
- rapid development of distribution channels (retail chains) and logistics on the Ukrainian market and increasing their expertise.

Key factors which can produce a negative effect on our business:

- absence of agro-industrial policy (raw materials, investments, subsidies and compensation);
- the high cost of bank credits in Ukraine and its short term nature;
- natural competition increase in the low price segment.

The main strengths of our business:

We see the main strengths of our business in the following;

- the ability to manage costs, which enables to keep profitability while at the lower price segment;
- the ownership of strong brands (TM) at the lower price segment
- 4-year successful experience on the national retail market at the segment of 'Private Label'
 - Smooth logistic system (warehouses, transport, processes) in the basic cities in the company operation areas.
 - High (in comparison to the most regional competitors) sales share in the supermarket chains;
 - The ability to set up strong partnership alliances with suppliers and retail chains;
 - A team of professionals which is able to provide high rates of sales growth, planning and implementing effective projects on improving operation of the company. This team is able to perform at the level comparable to the national competitors, leave behind regional competitors in logistics, efficiency and promoting.

Weaknesses

We clearly identify and realise the significance of weaknesses in our company, and constantly make efforts on their elimination.

- limited internal resources to maintain the planned growth rates;
- lack of production capacity for the planned expansion of output in (36 %);
- a high proportion of low-productivity equipment;
- absence of products and brands in the middle price segment;
- weak cooperative links with the producers of raw milk materials.

The need for investment

The necessary investment into the company S-TRANS LLC is estimated as the total of 6,85 million Euros, including:

- 2012** **1.85 million euros** for the development of production facilities;
- 2015** **5 million euros** for the construction of cattle-breeding complex.

Nº	Investment distribution plan	Amount, thousand of euros
I. Investment of 1.85 million EURO into the development of industrial base		
1	Capital construction and renovation of production facilities	350
2	Purchase of new production equipment for sterile packaging of milk	1 200
3	Investments in Working capital	300
II. An investment of five million euro into the construction of breeding complexes (1000 heads)		

Financial Forecast

Consolidated balance sheet of the company "S-TRANS" LLC in Thousands of Euros*.

Period ended	01.04.09	01.10.09	01.04.10	01.10.10
ASSETS	2 164	2 266	2 509	2 749
Long-term assets	1 660	1 877	1 936	2 152
Intangible assets	1	0	1	0
Construction in progress	5	55	1	114
Net Fixed assets	1 654	1 822	1 935	2 038
Current assets	504	389	573	597
Cash	22	11	35	19
Accounts receivable	247	235	335	361
Inventory	156	110	175	177
Other current assets	79	33	27	40
Liabilities and Equity	2 164	2 266	2 509	2 749
Equity	1 507	1 516	1 477	1 624
Authorized capital	7	7	7	7
Retained earnings	1 124	1 133	1 094	1 241
Additional equity	376	376	376	376
Liabilities	656	751	1 032	1 125
Long-term debt	384	417	681	747
Long-term bank loans	307	324	663	633
Other long-term debt	78	93	19	115
Current Liabilities	272	334	351	378
Accounts payable	179	239	251	275
Accrued waged	42	53	73	86
Accrued taxes	8	11	19	17
Short-term bank loans	43	31	8	0

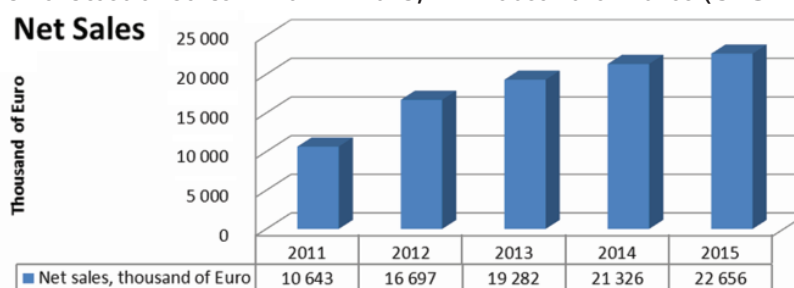
* Financial year starts from October to September.

Consolidated Income Statement of the company "S-Trans" LLC, in Thousand of Euros

Period ended	1.04.09 — 30.09.09	30.09.09 — 1.04.10	1.04.10 — 1.10.10
Net Sales	2 314	3 974	3 360
Costs of Goods Sold	1 656	3 077	2 233
Gross profit	659	897	1 127
Selling costs	334	491	546
Administrative costs	80	107	155
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)	244	298	426
Depreciation	27	34	29
Earnings before interest and taxes (EBIT)	217	264	397
Interest payments on bank loans	57	77	97
Earnings before taxes (EBT)	160	188	299
Taxes	15	28	31
Net profit from common activity	145	160	268
Extraordinary gains	-10	-17	-17
Net profit	135	143	251
Dividends and other payments to the founders	56	48	32
Additions to retained earnings	79	95	219

Financial Forecast

The Forecast of Sales in 2011 – 2015, in Thousand of Euros (CAGR = 27,38%)



Projected Income Statement of S-Trans LLC, in Thousand of Euros

Period ended	2011	2012	2013	2014	2015
Net Sales	10 643	16 697	19 282	21 326	22 656
Costs of Goods Sold	7 034	11 311	13 095	14 395	15 334
Gross profit	3 609	5 386	6 187	6 931	7 323
Selling costs	1 793,3	2 630,4	2 834,0	3 234,9	3 485,7
Administrative costs	314,0	462,8	472,7	509,7	549,6
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)	1 502	2 293	2 881	3 187	3 288
Depreciation	183	254	354	354	354
Earnings before interest and taxes (EBIT)	1 319	2 039	2 527	2 833	2 934
Interest payments on bank loans	155,9	169,3	129,2	44,4	0,0
Earnings before taxes (EBT)	1 163	1 870	2 398	2 789	2 934
Taxes	141,5	225,9	262,9	289,2	306,5
Net profit from common activity	1 022	1 644	2 135	2 499	2 627
Extraordinary gains	-10,6	-15,4	-15,8	-17,0	-18,3
Net Profit	1 011	1 628	2 119	2 482	2 609
Dividends and other payments to the founders	69,6	104,3	117,9	141,5	151,4
Additions to retained earnings	941	1 524	2 001	2 341	2 458

Projected Cash Flow Statement of S-Trans LLC, in Thousand of Euros

	2011	2012	2013	2014	2015
Cash, beginning of year	19	64,72	766,61	2 050,52	3 808,23
Cash Inflows	10 986	18 298	19 236	21 292	22 621
Operating activity	10 365	16 520	18 958	21 292	22 621
Proceeds from the sales	10 365	16 520	18 958	21 292	22 621
Financial activity	622	1 778	278	0	0
Increase in long-term debt	622	278	278	0	0
Other inflows form financial activity		1500			
Investment activity	0	0	0	0	0
Cash inflow from selling fixed assets					
Other inflows form investment activity					
Cash Outflows - Payments	10 940,67	17 596,24	17 951,82	19 533,99	20 168,93
Operating activity	9 449,14	14 846,73	16 969,35	18 635,48	19 717,53
Payments to suppliers	6 172,8	9 955,0	11 833,9	13 096,4	13 912,0
Other operating expenses	861,0	1 387,9	1 421,0	1 443,9	1 445,4
Payments for administrative expenses	1 793,3	2 630,4	2 834,0	3 234,9	3 485,7
Payments for selling expenses	314,0	462,8	472,7	509,7	549,6
Interest payments	155,9	169,3	129,2	44,4	0,0
Tax payments	141,5	225,9	262,9	289,2	306,5
Other payments	10,6	15,4	15,8	17,0	18,3
Financial activity	229,7	599,5	682,5	598,5	151,4
Decrease in long-term debt	160,2	495,2	564,6	457,0	0,0
Other payments – dividends	69,6	104,3	117,9	141,5	151,4
Investment activity	1261,8	2150	300	300	300
Fixed assets purchase	1061,8	1850	0	0	0
Other payments – construction	200	300	300	300	300
Cash, end of year	64,72	766,61	2 050,52	3 808,23	6 260,56