

“In Terra” – Investment in the Agricultural Resources of Ukraine

The agricultural company from the South of Ukraine is looking for a financial partner to invest in an agricultural project. The local partner, “In Terra” is a company specialising in the cultivation of soybeans with the use of irrigation technologies.

The business idea of the project is to improve the crop yield via expansion of the irrigation system on a 2200 hectare area.

The company is located in the Southern Ukraine (Kherson region), benefiting from the best black soils in Europe, existence of system of branchy irrigation channels, and favourable climate.

The use of the irrigation system ensures stability and the high level of

Key Figures

Year of Investment	2013-14F
Investment Total, thousand USD	3 886
Exit Year of Project	2018F
Investor's Cash Flow, thousand USD	6 091
Investor's IRR	23,5%
Investor's ROI	156,7%

Investment Attractiveness Factors

High yield... The cultivation of soybeans allows to earn an EBITDA margin in a range of 44-49% , which will provide the investor with 23-27% IRR depending on the volatility of global commodity prices and currency rates.

Local partner... Isan agricultural company cultivating 2200 hectares of land in Southern Ukraine, has a complete production base and relevant workforce. Local partner (In Terra) has previous experience with execution of large scale projects. The company launched a production of mineral water and became a regional market leader.

Improvement of crop yield capacity... The average crop capacity of soybeans without the use of irrigation systems counts 1.2-2.38 tons per hectare, with a variation coefficient of 37%. Irrigation increases the average crop capacity to 3.46-4.86 tons per hectare. In addition, irrigation decreases the annual variation of crop capacity to 17%, doubling the harvest and improving its stability.

Favorable location... The company is located in the Southern steppe region of Ukraine, famous for having the best black soils and climate conditions for soybean cultivation. A close location to export seaports insures easy access to the market and favourable sales prices.

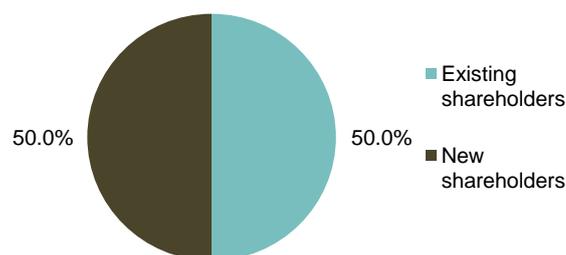
Attractive taxation... Agricultural companies in Ukraine are released from value-added tax and income tax. Instead of the income tax, agricultural companies pay a Fixed Agricultural Tax – 4.12 USD per hectare (as of 2012 rate).

The best soils in Europe... Ukraine is the leader among European countries in the high-quality level of its fertile soils. Two-thirds of Ukraine's territory is covered with black soils (chernozem). According to the United States Agency for International Development (USAID) the thickness of humus layers in Ukrainian soils are between 40-60 centimeters in depth, while the thickness of humus layers in average European soils reach 10-30 centimeters.

The growth of the global population, and consequently the growth of food consumption... The estimated global population growth rate till 2050 is predicted to reach 20% - a total of around 9.4 bln people, which will affect the growth of demand for food, especially for such crops as soybeans. In the global structure of oil producing crops – soybeans hold 60%.

Exit strategy for investor... The base scenario for the project assumes exit through the MBO or purchase of the shares by local partner with a use of funds from other business or redistribution of the local partner's profit share in favour of the investor. Price of the repurchase option can be agreed in advance. Local Partner proposes to buy back 50% of the equities by equal stakes over the 5 years.

Structure of Ownership Post-Money



Financial Figures of the Project

Thousand USD	2014F	2015F	2016F	2017F	2018F
Income	3 414	3 754	3 748	3 742	3 737
Cost of Goods Sold	1 855	1 952	1 850	1 937	2 027
EBITDA	1 512	1 752	1 850	1 757	1 658
<i>EBITDA margin, %</i>	44,3%	46,7%	49,4%	46,9%	44,4%
Net Income	1 286	1 527	1 648	1 554	1 455
<i>Net Income margin, %</i>	37,7%	40,7%	44,0%	41,5%	38,9%

For investing matters, please address:

LLC “PRO-Capital Group”
11 Predslavynska str.
Kyiv, Ukraine 03680

Tel.: +38 044 591 52 52
Fax: +38 044 591 52 62
www.pro-capital.com.ua

Dmytro Oliynyk
Cofounder, Managing Partner
d.oliiynyk@pro-capital.com.ua

Antonina Gapchenko
Director, Capital Markets
a.gapchenko@pro-capital.com.ua

Market Overview

The global population reached 7 bln people in 2012, and population's growth is predicted to reach 9.4 bln people by 2050. Thus, demand for food should double by 2030, and 20% of this growth tendency depends on the growth of population. The growth of the population is the only factor that affects the development of the Food Crisis. More and more land are falling under the construction of infrastructures, which causes a decrease of croplands, and therefore the predicted growth rate of croplands from 2005 till 2055 will reach only 9.4% of the total area of land resources.

Due to the growth in the demand for food products, consumption of soybeans shall grow as well. Soybeans are one of the most popular crops in the world. As of today, the share of soybean usage in the world production of oilseeds almost amounts to 60%. According to data of the USDA*, as of 2012 world production of soybeans has increased by 1.5 times compared to 2000, and by 2015 will exceed 290 mln tons. It is also worth regarding that the total area of the planted crop amounts to 96 mln hectares, which is equal to 0.2% of the world's total area of land used for agricultural needs.

It is important to notice that according to the predictions of specialists, by 2015 the world market of soybean products will reach \$42.3 bln. Since the dynamics of soybean production in Ukraine exceed similar growth rates of the global market, Ukraine has all realistic chances in taking over 2-3% of the following global soybean market.

Product Description

A constant interest into soybean cultivation and its use in the world is also explained by its rare chemical composition – soybean seeds contain 38-40% of proteins, 20% of fats, and 25-30% of carbohydrates, as well as minerals, enzymes, vitamins, phyto chemicals, and other substances. Soybeans are a strategic crop, it holds the fourth place in the world in planted area and production capacity after wheat, corn, and rice. In the structure of the world's oilseed production, soybeans hold 58%, rapeseed – 13%, cotton – 10%, peanuts – 8%, sunflower – 7%, palm kernel – 3%, copra – 1%.

Consumption

As previously mentioned, the global consumption of soybeans has a growth tendency. This season's demand for the crop was 256 mln tons, which was 8% greater than the previous season, and at the same time exceeded the average annual indicator for the past 10 years by 21%. The result to the growth of output became the growth of the global trading activity. The predicted exports for 2013 are expected to reach 99 mln tons. Thus, the share of soybean exports to consumption will equal to 39%. The structure of the global soybean exporters is distributed the following way: USA – 44%, Brazil – 33%, Argentina – 11%, Paraguay – 6%, Canada – 3%. The greatest consumer of the crop as of today is China, it imports 60% of all exported soybeans. Regarding the fact of fast growth rates of the country's economy and policies of improving domestic consumption, we can make a conclusion that the future consumption of the crop will only increase.

Potential of Increasing Crop Capacity

Current State of Production and Crop Capacity

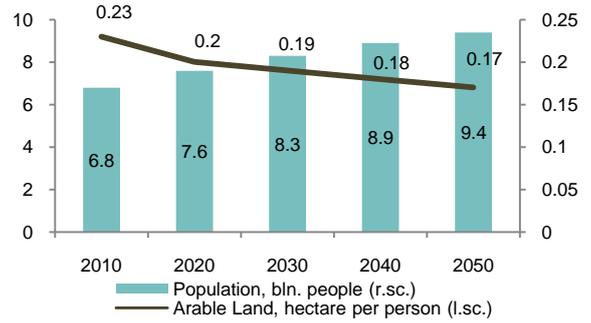
As was previously mentioned, the global soybean market facilitates the increase of cultivation on the Ukrainian market. Therefore, during the previous years, Ukraine has viewed a tendency of growing planting area for the crop.

If in 2005 soybeans were grown on a total area of 422 thousand hectares, then in 2011 the overall area expanded to 1 129 thousand hectares, and the gross harvest grew to 2.2 mln tons. This level of soybean production brings Ukraine to leading positions among the EU and CIS nations, which also allows Ukraine to position itself in the top ten global soybean producing nations.

The crop capacity has a tendency to growth as well – if in 2006-2007 the crop capacity was 12.4 centners per hectare, then in 2011-2012 the crop capacity grew by 40%, and as of today reaches 20.7 centners per hectare.

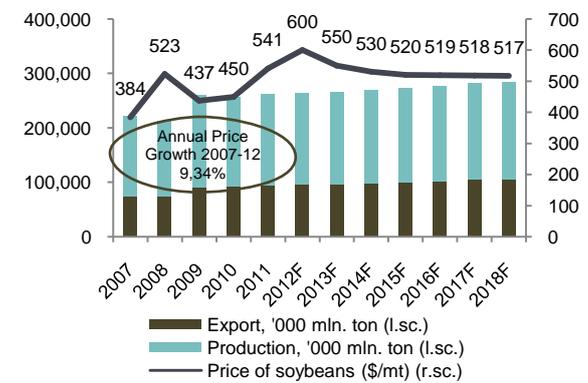
* 2012 Outlook of the U.S. and World Corn and Soybean Industries 2010-2020

Global Population / Concentration of Arable Land



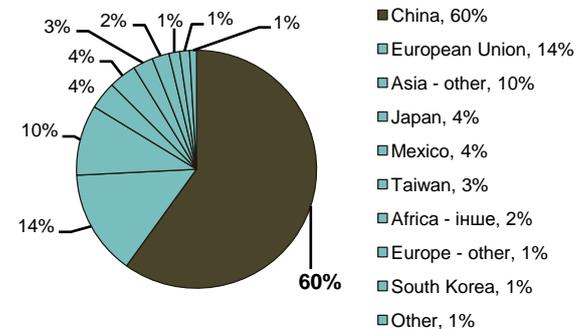
Resource: FAO

Production and Price of Soybeans



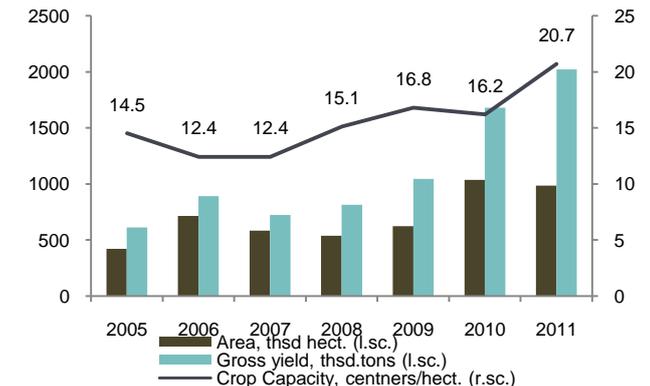
Resource: Worldbank

Main Global Importers of Soybean



Resource: FAPRI

Dynamics of Ukrainian Soybeans Production (without irrigation)



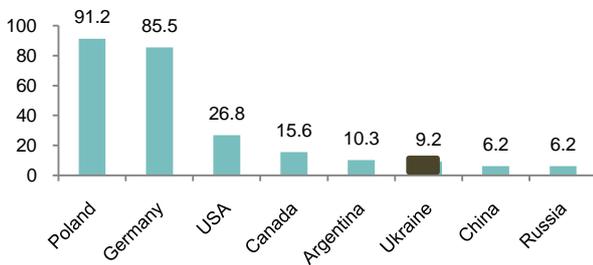
Resource: Ukrainian National Committee of Statistics

Agricultural Machinery and the Use of Fertilizers

An important factor to the growth of crop capacity is the availability of technical equipment in the industry and the quality of land processing. It is worth mentioning that the level of mechanization in Ukraine is far behind other countries. The highest level of mechanization is in Poland – the level is higher than the EU average by 1.75 times and 10 times higher than the level present in Ukraine. The growth of tractor usage will benefit the agricultural sector by raising the rate of processed land, and as a result would improve the crop capacity.

Another significant factor in increasing the crop capacity is the usage of mineral fertilizers. According to this indicator, in 2010 Ukraine was behind the EU average indicator by 5 times, and almost by 4 times behind Poland. It is worth mentioning the tendency to lowering the usage of fertilizers. Germany is the leader among the EU countries in lowering fertilizer usage (105.8 kg of fertilizers per hectare). Germany uses 6 times more fertilizer than Ukraine (18.1 kg per hectare), and in the meantime Ukraine provides a higher crop capacity than Germany and even Poland.

Amount of Tractors '000s per hectare



Resource: FAO

The Effect of Irrigation on Crop Capacity

An additional efficiency stimulating measure of agricultural production in the Southern Steppe region is irrigation. The average crop capacity of soybeans in Ukraine without irrigation equals 1.2-2.38 tons per hectare, with a variation coefficient of 37%. Irrigation provides an average increase in crop capacity to 3.46-4.86 tons per hectare. In addition, with the use of irrigation systems the variation coefficient of crop capacity lowers to 17%, meaning that the possibility of achieving a harvest increases by double. Therefore, with the help of watering technologies, the regulation of soil's water regimes assists in achieving greater efficiency in soil and climatic natural resource usage by the given crop.

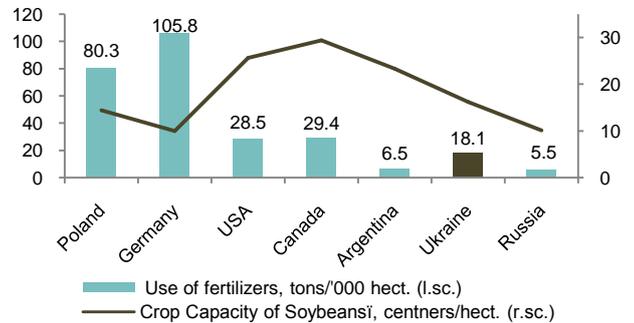
The Benefits of Ukraine's Agricultural Sector

The previous section reviewed Ukraine as a potential European leader in cultivating soybean crops, thus, it is important to review the key factors that would provide such high growth rates of production in more detail.

Land

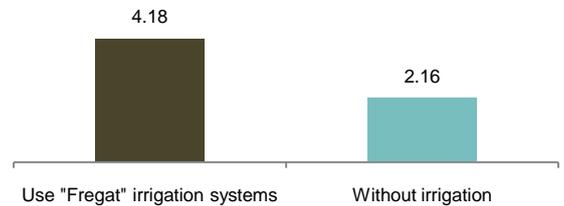
Ukraine is the largest by area country which is located in whole in Europe. The greater portion of the territory consists of fertile steppe and high plains. The total agricultural area amounts to 42 mln hectares, Ukraine's croplands amount to 32 mln hectares – 22% of Europe's total croplands.

Amount of Fertilizer Used in Soybean Cultivation, 2010



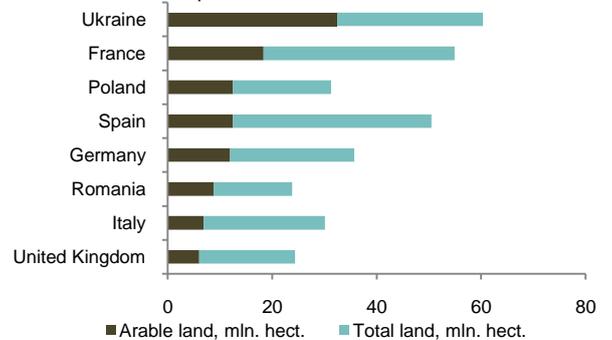
Resource: FAO

Average Crop Capacity, tons per hectare



Resource: USDA

Arable Lands of Europe

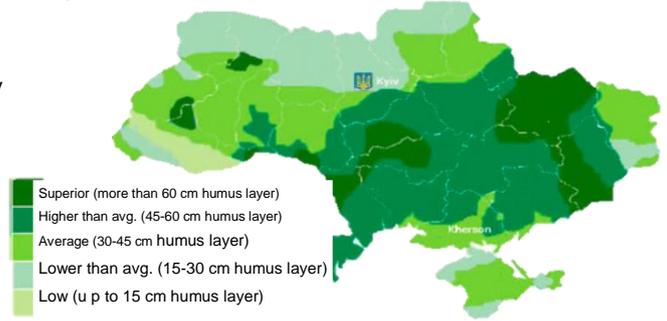


Resource: FAO

Soil

Land relief of Ukraine: 95% consist of plains and only 5% of mountains. Thus, Ukraine has extraordinarily favorable conditions for agriculture: around 60% of agricultural lands are flat, and another 35% are located on slopes with an angle range of 1 to 3 degrees. Ukraine – is a leader among European countries in the level of high-quality fertile soils, where two-thirds of Ukrainian territory is covered with black soils (chernozems). According to the data of the United States Agency for International Development (USAID), the thickness of humus layers in Ukrainian soils equals 40-60 centimeters in depth, while the average European index reaches only 10-30 centimeters. Such conditions will support high crop capacity of soybeans.

Map of Ukrainian Black Soils



Resource: SINTAL

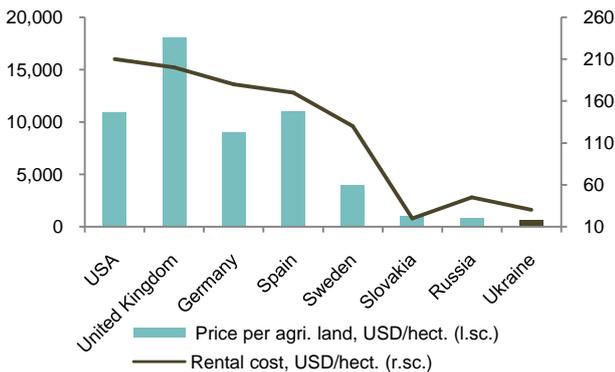
Low Cost of Land and Wage Expenses

An important factor of impact is the cost of land. As of today the price per 1 hectare of Ukrainian agricultural land fluctuates between 200-500 USD*, depending on their location, quality, and productivity. It is worth mentioning that by 2015 the price per 1 hectare of land may reach a level of around 1200 USD due to the lifting of the existing moratorium on land sales. At that point the rental price of 1 hectare may reach around 80-85 USD.

As for wage expenses it is worth noticing that the average monthly wage for agricultural staff was the lowest compared to other industries of the economy, and consisted only 46% of the overall average monthly salary in all industries (15.8% of the employed population work in the agricultural sector). The share of the payroll in the gross expenses amounts to only 13%, and at some entities 7-8%. Compared to other countries of the world, Ukraine has an extraordinarily low level of wages in the agricultural sector. The average wage in the agricultural sector of Ukraine equals 345 USD, which are 8 times lower wages in comparison with European countries and the USA.

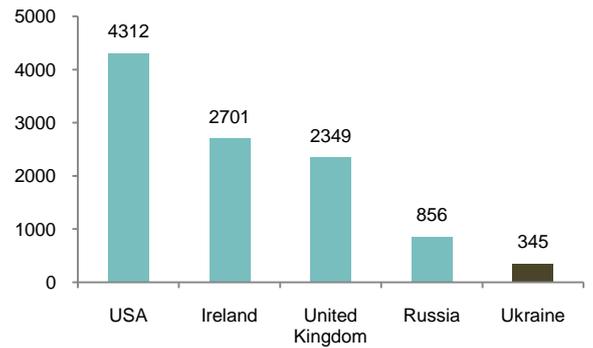
**The cost of agricultural land in Ukraine is considered the “entrance fee” payment for long-term rental (more than 10 years), equaling 200-500 USD per hectare.*

Price of Agricultural Land Compared to Expenses, 2008-2009



Resource: FAPRI

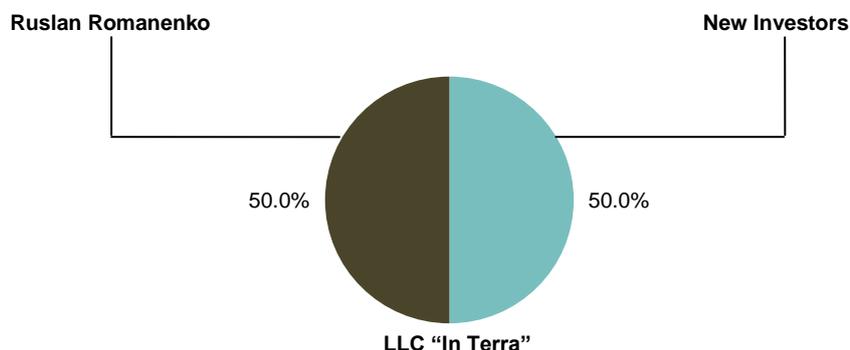
Wages per Month in the Agricultural Sector of Different Countries, 2011 (USD)



Resource: FAPRI, Eurostat

Agreement Structure

Investors are offered to invest into LLC "In Terra". Ruslan Romanenko holds 100% ownership of the company. The future structure of the ownership of stockholder equity after investment shall be: 50% - new investor, 50% - current owner. The main activity of LLC "In Terra" is – cultivation of soybeans. The main objective of involving foreign investments is – expansion of the entity's current activities. The proposed investment capacity of the future expansion of LLC "In Terra" equals \$4.34 mln in exchange for 50% of the stockholder equity.



Before attraction of investments:

1. 2200 hectares of land under rental
2. Production base
3. Partially operative irrigation system (purchased equipment for the irrigation of 350 hectares)
4. Staffed personnel

After attraction of investments:

1. 2200 hectares of land under rental
2. Production base
3. Staffed personnel
4. **New and efficient irrigation system for a territory of 2200 hectares**
5. **New technical equipment capable of ensuring the entity's needs**

Project Initiator

Name, Surname	Ruslan Romanenko
Age	39 years-of-age
Education	Higher
Business experience	In 2001, as a founder and executive launched a successful project in the production and distribution of mineral waters of the "Kahovka" TM, which became the regional leader in sales. In 2010 launched a new project in the agricultural business which targets a goal to building a modern farm, specialized in soybean cultivation with the use of irrigation systems.



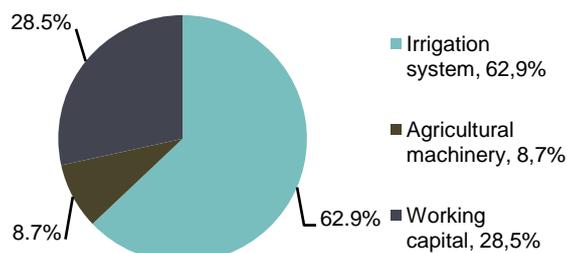
Investment Usage

The main objective of involving foreign financing is to renovate the irrigation system. The target use of invested funds: purchase of irrigation equipment and pipelines.

Other important directions of using investments are purchasing additional agricultural machinery, and the replenishment of required floating assets for covering the expenses of an operational cycle.

New investments, USD	
Equipment (irrigation machinery)	776 471
Pipelines and tubing	2 763 271
Agricultural machinery	403 412
Additional equipment	83 529
Working capital (cash & equivalents)	1 394 742
Total	5 421 425

Direction of Capital Usage



Investments by Source of Origin

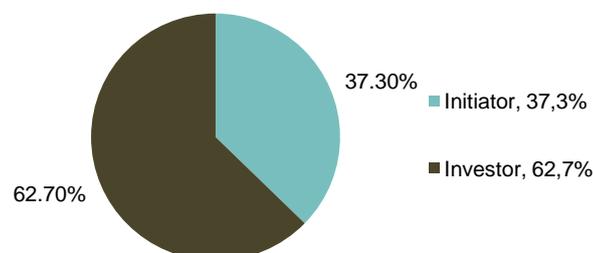
The project anticipates the use of new investments and a portion of the already existing assets of the entity, namely rental rights for the land, production facilities, and equipment.

Investor contribution equals - \$3.9 mln.

Project initiator's contribution equals - \$2.3 mln.

Source of Investments, USD		
<i>Initiators Contribution</i>		
Cash & Equivalents	1 411 765	22,8%
Land	660 000	10,7%
Buildings	117 647	1,9%
Equipment (irrigation machinery)	123 529	2,0%
<i>Investors Contribution</i>		
Cash & Equivalents	3 886 130	62,7%
Total	6 199 071	100,0%

Investments by Source of Origin



Scope

The project anticipates the cultivation of soybeans in the south of Ukraine in the Kherson region.

Land area – 2 200 hectares. Land plots are located in one whole farm residing under rental.

Soils – kastanozems, humus levels – 25-27 cm.

Days with temperature levels higher than +10°C – 180-190.

Average temperature during winter season is - -3°C.

Average temperature during summer season is - +23°C.

Average annual precipitation is – 300-400 mm.

Having conducted an analysis of the region's soils and climate conditions it can be concluded that there is high potential in crop capacity of soybeans. As support to the conclusion, there is a large presence in amount of entities in the following region which are also engaged into soybean cultivation.

Land	
Total land, hectares	2 200
Land to be irrigated, hectares	1 760
Land not to be irrigated, hectares	440
Percentage of irrigated land,%	80%

The cultivation of soybeans is planned on irrigated land (80% of area).

Wheat will be cultivated on land plots without irrigation systems (20%).

Most efficient method of irrigation for most agricultural crops is – overhead irrigation by far-reaching sprinkling machinery. More than 70% of irrigation in the world is carried out by such kind of equipment.

The irrigation technology foresees the movement of the sprinkling machine around the center of the irrigated field in a circular axis.

Irrigation System		
Sprinkling machine "Fregat"	Quantity	44
	hectares per machine	50
Irrigated area		
Total land under irrigation	hectares	2 200

A peculiarity of the circular overhead irrigation machines is that efficient irrigation covers only the inner circle of the field. Therefore, a part of the field should be used for cultivating crops that do not require irrigation.

The average crop capacity of Ukrainian soybeans without irrigation makes 1.2-2.3 tons per hectare with a variation coefficient of 37%. Irrigation provides an average increase of crop capacity to 3.4-4.8 tons per hectare. Besides that, due to irrigation, the annual variation of the crop capacity decreases to 17%, thus the stability of crop capacity increases by double.



Efficiency of irrigation

Figures	Crop Capacity, tons per hectare		Increase from irrigation	
	Without irrigation	Irrigated land	Tons per hectare	%
Average	2,17	4,01	1,84	84,8%
Minimum	1,20	3,46	2,26	188,3%
Maximum	2,38	4,86	2,48	104,2%
Variation coefficient	37%	17%		

Resource: Farming Institute of the South RegionUAAN



Irrigated territory
80% of field

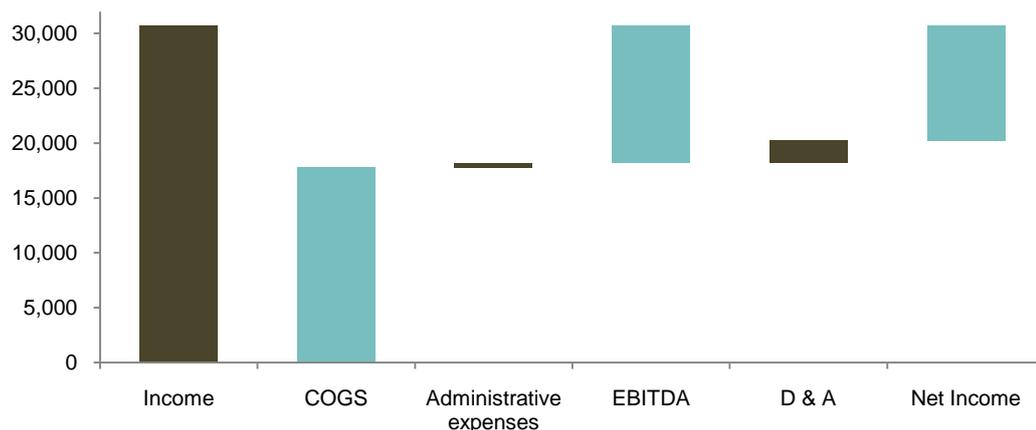
Territory without
irrigation 20% of field

Financial Indices

In the basis of the project's financial forecast is formed by the experience and results of the entity's operations in 2012. The preconditions and assumptions are exposed in separate points further in the text.

Income Statement Summary, USD	2014F	2015F	2016F	2017F	2018F
Income	3 413 657	3 754 208	3 747 857	3 743 177	3 736 826
Cost of Goods Sold	1 854 606	1 952 054	1 850 355	1 936 770	2 027 463
Gross Profit (excldepreciation)	1 559 052	1 802 154	1 897 502	1 806 407	1 709 363
<i>Gross Profit margin, %</i>	45,67%	48,00%	50,63%	48,26%	45,74%
Administrative expenses	47 402	49 772	47 035	49 387	51 856
EBITDA	1 511 650	1 752 382	1 850 467	1 757 021	1 657 507
<i>EBITDA margin, %</i>	44,28%	46,68%	49,37%	46,94%	44,36%
D & A	225 366	225 366	202 829	202 829	202 829
Operating Income	1 286 284	1 527 016	1 647 638	1 554 192	1 454 678
<i>Operating Income margin, %</i>	37,68%	40,67%	43,96%	41,52%	38,93%
EBT	1 286 284	1 527 016	1 647 638	1 554 192	1 454 678
<i>EBT margin, %</i>	37,68%	40,67%	43,96%	41,52%	38,93%
Income Tax expenses	0	0	0	0	0
Net Income	1 286 284	1 527 016	1 647 638	1 554 192	1 454 678
<i>Net Income margin, %</i>	37,68%	40,67%	43,96%	41,52%	38,93%

Structure of Income



Margin level of project's EBITDA equals 43-49% throughout the realization of the project.

Income Forecast

Harvest

In the forecast of indices of the entity's activities it was taken into consideration the average indicators of crop capacities under the condition of using irrigation systems. A lowered indicator of crop capacity in the first project year is induced due to cautious forecasts on the stage of working through all of the processes related to the launch of the new irrigation system.

The capacity of the harvest to be sold is lowered from the overall yield by 5%, which is induced due to the decrease of the overall weight resulting from the damage of grains/beans during the gathering of the harvest.

Crop Capacity, tons per hectare	2014F	2015F	2016F	2017F	2018F
Irrigated soybeans	3,5	4	4	4	4
Winter wheat	4	4	4	4	4

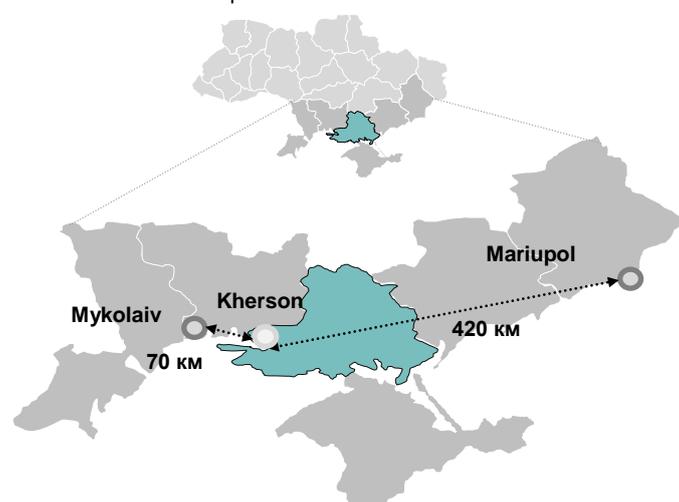
Weight	2014F	2015F	2016F	2017F	2018F
Weight percentile, %	95%	95%	95%	95%	95%
Soybeans, tons	5 852	6 688	6 688	6 688	6 688
Wheats, tons	1 672	1 672	1 672	1 672	1 672

Clients

The entity's strategy overlooks the realization of the gathered harvest to the largest traders specialized in crop exports of the Ukrainian market. The given choice is stipulated by the following benefits:

- Immediate access to seaports – most traders offer higher bid prices for the purchase of crops in ports due to lower transportation expenses for delivery – allows sale at higher prices.
- The realization oriented on exporting companies allows sale prices to be associated with global soybean prices and to exporting currencies. Thus, without taking upon the risks of the exporters, we receive the possibility to reach global prices at the active currency exchange rate.
- Absence of the risks associated with exporting – governmental quotas, handling custom house arrangements, additional work with foreign partners.

Distance to Nearest Seaports



Largest Ukrainian wheat traders for the 2012/2013 MY

Company	Exports (thousand tons)	Share in Overall Exports (%)
Nibulon	627.4	12.4
AlfredC. Toepfer International (Ukraine)	566.7	11.2
Louis Dreyfus UkraineLtd.	374.4	7.4
Kernel	369.3	7.3
Serna (Glencore)	303.6	6.0

Resource: GrainUkraine

Price

In the valuation of future income we used the price forecast on soybeans and wheat made by the World Bank. During the past 5 years, the price for Ukrainian soybeans was an average of 5% lower than world prices. Therefore, the World Bank's forecast for Ukraine was lowered by 5%. It is worth mentioning that the World Bank's forecast is rather pessimistic and anticipates a price decrease from \$600 per ton in 2012 to \$517 per ton in

Average Annual Price	2014F	2015F	2016F	2017F	2018F
Global soybean price (USD/ton)	530	520	519	518	517
Soybean price deviation, USDWorld-Ukraine 5%	27	26	26	26	26
Ukrainiansoybeanprice(USD/ton) (EXW)	503	494	493	492	491
Ukrainian wheats price (USD/ton) (EXW)	280	270	270	271	271

Resource: World Bank

2018. During 2007-2012 we observed an annual price growth of 9.34% from \$384 per ton to \$600 per ton.

Taking into consideration the previously mentioned facts and tendencies to global price growth of foods – the project has additional unaccounted potential to raising profitability in case of global price increases.

Sales Proceeds

Since the prior focus of the project relies in its realization – the export of soybeans is associated with the global prices, the income valuation took into consideration the fluctuations of the currency exchange rates. The chosen exchange rate is an average rate of Ukrainian and foreign forecasts. A greater devaluation of the Ukrainian hryvnia will additionally increase the income of the project.

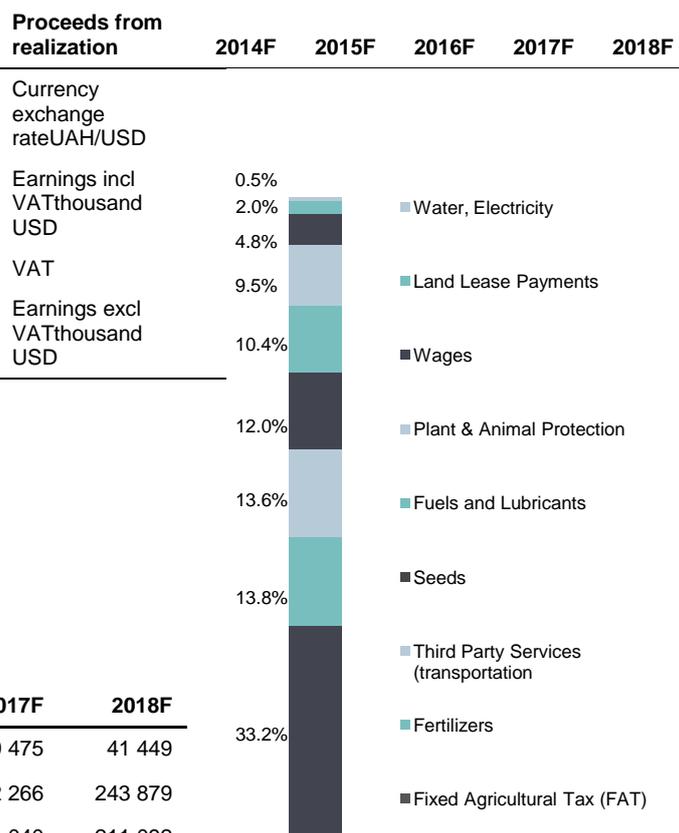
According to the active Ukrainian legislation concerning national agricultural producers, there exists a special taxation regime. Further detail on the mentioned is disclosed in paragraph "Taxation".

Production Costs

Considering that the entity deals with the cultivation of soybeans with the use of additional methods for increasing crop capacity, it is worth mentioning that the greatest portion of the expenses will be taken upon by the exploitation of the irrigation system.

An increase in production costs is pledged in the project on a range of no less than 5% annually. The growth of expenses is based on the World Bank's forecasts of increasing prices on consumer and industrial goods.

Cost of Goods Sold, USD	2014F	2015F	2016F	2017F	2018F
Fertilizers	37 889	39 783	37 595	39 475	41 449
Plant & Animal Protection	222 933	234 080	221 206	232 266	243 879
Fuels and lubricants	192 962	202 610	191 467	201 040	211 092
Seeds	176 000	184 800	174 636	183 368	192 536
Wages	252 780	270 137	260 943	267 888	275 137
Land Lease Payments	256 667	269 500	254 678	267 411	280 782
Water, Electricity	616 628	647 460	611 849	642 442	674 564
Thrid party services (transportation)	89 833	94 325	89 137	93 594	98 274
Fixed Agricultural Tax (FAT)	8 913	9 359	8 844	9 286	9 751
Total costs incl in the COGS	1 854 606	1 952 054	1 850 355	1 936 770	2 027 463



Managerial and Operative Staff

It is known that the best crop capacity results are achieved in entities that are better equipped with highly qualified operative staff – machine operators, agronomists, and specialists with higher and average specialized education. Thus, the staff strategy foresees the establishment of wages on an above average to the market level for the key operative employees. This strategy will allow to retain existing operative staff and to expand their quantity when needed.

Staff	
Administrative personnel	7
Operative personnel	29
Total	36

Project's Executives

Position	Name, Surname	Age	Education	Experience, years
Director	Ruslan Romanenko	39	Higher	21
Chief accountant , CFO	Iryna Pischanska	38	Higher	16
Lawer	Tatyana Goncharova	31	Higher	9
Agronomist	Petro Pastushenko	38	Higher	15

The present management of the project foresees the formation of managerial structures with direct participation of investors.

Working Capital

A peculiarity of an agricultural business is that it needs to cover expenses during a long-term operating cycle.

With the use of previous experience, a detailed expense schedule has been developed, and a forecast has been modeled showing the required floating assets needed to ensuring liquidity.

The volume of floating assets required in 2014 will somewhat differ from other periods because the expenses for property rental payments will arise only after the realization of the harvest, thus will be paid out of the period's income.

Working Capital, thousand USD	2014F	2015F	2016F	2017F	2018F
Working Capital	1 395	1 828	1 727	1 813	1 904
Working capital provisions*	73%	91%	91%	91%	92%

*Workingcapitalprovisions=Working capital /((Annual operative expenses + Annual administrative expenses)

Taxation

A resident of Ukraine, who engages into entrepreneurship in the field of agricultural business may choose a special taxation regime.

An agricultural business does not pay income tax. Instead of income tax the entity pays a Fixed Agricultural Tax (FAT) of 0.15% from the normative monetary assessment of one hectare of agricultural land (in 2012 – \$4.12 per hectare).

According to the special taxation regime, the total VAT charged to the agricultural entity to the amount of realized by him goods/services (except excisable goods) does not fall under jurisdiction of payment to the tax authorities and is left for the entity's disposal to compensate the tax amount paid by the supplier for the amount worth the goods/services purchased by the agricultural entity for use in production of agricultural goods.

Tax	Ordinary Entity	Agricultural Entity
Income Tax	19%	Fixed Agricultural Tax (FAT) 0.15% of the normative monetary value of 1hectare of agricultural lands (2012 – 4.12 USD/hectare)
		0%
VAT	20%	An agricultural entity may choose a special taxation regime According to the special taxation regime, the sum of the value added tax is not to be paid to the budget and is completely under entity's disposal for operative measures

Resource: Ukrainian Taxation Law

Investment Offer and Exit Strategy

The basic project scenario anticipates a MBO of invested capital. The management buyout is offered to take place during the 5 years in equal portions of 10% of the capital annually. The value of 50% of the capital is 3 886 thousand USD – investment total.

The profits from the project will be distributed corresponding to the percentile ownership of the entity.

The investor's IRR is planned to be no less than 23.5%, this forecast considers a pessimistic development of the global soybean market (refer for more detail in paragraph Price).

Investment Plan of New Investor

Year of Investment	2013-14F
Amount to be Invested, thousandUSD	3 886
Exit Year of Project	2018F
Investor's Cash Flow, thousandUSD	6 091
Investor's IRR	23,5%
Investor's ROI	156,7%

Key reasoning to forecast:

- Investments will be received in 2013-2014
- The forecast is prepared with a predicted dollar exchange rate to the Ukrainian hryvnia of: 2014-15 – 9; 2016-18 – 10.
- The project's exit strategy is assessed with the value of 50% of the entity's capital at – 3 886 thousand USD.

Schedule of Investor Repayment Plan

Year	Investor's Share in Capital	Investor's Share in Profit Activity, thousandUSD	MBO Payment, thousandUSD	Investor's Income, thousandUSD
2014F	50%	643	777	1 420
2015F	40%	611	777	1 388
2016F	30%	494	777	1 271
2017F	20%	311	777	1 088
2018F	10%	145	777	922
TOTAL		2 205	3 886	6 091

Investment Attractiveness

1. The estimated global population growth rate till 2050 is predicted to reach 20% - a total of around 9.4 bln people, which will affect the growth of demand for food, especially for such crops as soybeans. In the global structure of oil producing crops – soybeans hold 60%.
2. Ukraine is the leader amongst European countries in the high-quality level of its fertile soils. Two-thirds of Ukraine’s territory is covered with black soils (chernozem). According to the United States Agency for International Development (USAID) the thickness of humus layers in Ukrainian soils are between 40-60 centimeters in depth, while the thickness of humus layers in average European soils reach 10-30 centimeters.
3. Agricultural companies in Ukraine are exempt from VAT and income tax and pay instead a fixed agricultural tax - USD 4.12 per hectare per year (as of 2012 rate).
4. The company is located in the Southern steppe region of Ukraine, famous for the best black soils and climate conditions for soybean cultivation. A close location to export seaports ensures easy access to the market and favourable sales prices.
5. The average crop capacity of soybeans without the use of irrigation systems counts 1.2-2.38 tons per hectare, with a variation coefficient of 37%. Irrigation increases the average crop capacity to 3.46-4.86 tons per hectare. In addition, irrigation decreases the annual variation of crop capacity to 17%, doubling the harvest and improving its stability.
6. The agricultural company cultivating 2200 hectares of land in Southern Ukraine, has a complete production base and relevant workforce. Local partner has previous experience with execution of large scale projects. The company launched a production of mineral water and became a regional market leader.
7. The cultivation of soybeans allows to earn an EBITDA margin in a range of 44-49% , which will provide the investor with 23-27% IRR depending on the volatility of global commodity prices and currency rates.

The growth of the global population, and consequently the growth of food consumption...

The best soils in Europe...

Attractive taxation...

Favorable location...

Improvement of crop yield capacity...

Local partner...

High yield...

Project’s Risks

As any economic activity, the agricultural sector has its own certain risks immanent to the cultivation of one or the other crop, and those common to the sector. To the main groups of effecting factors can be attributed to macroeconomic, financial, and operative. The entity has means and capabilities in decreasing the operative and financial risks, or if possible, their complete elimination. As the entity has no influence on the macroeconomic risks, the project does not review them.

Risks	Effect on the Entity	Risk Management
Operative Risks		
Change of market demand	Decrease in demand	The risk if decreasing demand can be mitigated by the lowering of prices for the crop. However, in regard to global tendencies – around 60% of global imports are directed to China, fast growth rates of the Chinese economy, the growth of consumer income, and FAO forecasts of the growth of consumption. We believe the following risk is unlikely.
Change of global soybeans prices	Global prices have direct influence on prices of soybeans in Ukraine	The forecast was formed in regard to a decreasing price scenario for soybeans for 2012-2018, from \$600 to \$517 per ton, considering an average growth rate of 9.34% during 2007-2012.
Natural pests	Risk of crop capacity decrease due to negative influence of pests	The entity takes all needed measures and has the resources for the protection of the harvest from pests – around 10% of the annual production costs are allotted for the purchase of means against pests.
Cost growth of energy sources and water supplies	Water, electricity, fuel are used for production and delivery of products	Water and electricity costs have the greatest effect due to the cultivation of soybeans with the use of irrigation systems. In addition, 10% of the total production costs are allotted for fuel. The formation of the forecast model included an annual price increase on electricity of 5%.
Weather conditions	Climate has great influence on the crop capacity	Temperate climate (sunny weather and sufficient amount of precipitation) allows creating favorable conditions for the cultivation of soybeans. The use of additional irrigation technologies will allow increasing the crop capacity of soybeans in comparison to the average Ukrainian rate: average crop capacity of soybeans without the use of irrigation is 1.2-2.38 tons per hectare. The use if irrigation systems will provide an average crop capacity of 3.46-4.86 tons per hectare.

Financial Risks		
Liquidity risks	A deficit of funds for the realization of payments	The entity has a determined in detail budgeting and cash flow prognosis for the duly provision of payments. The volume of working capital covers 92% of the annual needs in floating capital.
Currency risks	Impact of changing currency exchange rates	This minimization of risks takes place at the expense of the foreign final consumer. The cultivation of soybeans is aimed at exporting through agricultural commodity traders who will be settling the accounts in a hryvnia equivalent of the global prices.