

BUSINESS PLAN

Project title:

Construction and Exploitation of logistic centers under the project “The Silk Road”

MOSCOW 2005

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INTRODUCTION

The objective of this business plan is to study the profitability of construction and use of logistic centers under the project “The Silk Road”.

The software product “Projekt” was used for calculations.

The Business Plan contains information on financial, economic and organizational aspects of the project.

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1. PROJECT DESCRIPTION

Project Objectives

- Building a complex system of logistic connections between manufacturers in Russia, Europe and South-Eastern Asia with end consumers on the territory of Russian Federation.
- Building a system of civilized wholesale and retail trade based on modern principles and technologies.
- Building an effective model of management for logistic and trade systems.

Project preconditions (politics)

Political preconditions for the project is the trend for Russian to enter WTO and its integration into world trade system, development of beneficial and neighborly relations with countries of Europe and Asia, decrease of country-specific risks.

Project preconditions (economy)

- Lack of efficient logistic system in Russia considerably restrains the development of trade turnover between Russian Federation and its main trade partners and creates considerable commercial risks for all participants.
- Building a complex trade and logistic instrument of connecting manufacturers with end consumers within a single project provides a reliable guarantee system for manufacturers and credit institutions for investment returns owing to 100% control over cash flow.

- Joint network of logistic and trade centers on the territory of Russian Federation may increase profitability of the business by lowering costs and increasing the speed of capital turnover.
- The proposed project may become the basis for the model of strategic analysis of prospects for multilateral economic cooperation.

ZAO “Korporatsiya “YeMSTS” is the initiator of this project.

The financial plan is aimed at **five-year** perspective. The calculations level is split into time periods (planning periods), each being analysed on the basis of capital inflow and outflow. Main criteria for performance and financial solvency of the project are based on flows of capital.

Calculations are made in US dollars, considering inflation (Table 1).

Table 1

Asset	Inflation, %				
	1 year	2 year	3 year	4 year	5 year
Sales	0	10	9	8	7
Direct costs	0	10	9	8	7
General expenses	0	10	9	8	7
Salary and wages	0	10	9	8	7
Property, plant and equip	0	10	9	8	7

Dollar was chosen as the currency of calculations because cost indexes of the project are established in dollar equivalents.

Stages and terms for implementing the project.

Division into stages and direction of development in different cities is defined by the following factors:

- Investment and organizational abilities to simultaneously implement the project in various regions;
- Investment potential of the cities;
- Location of the cities;
- Specific competition in various regions.

Considering the above mentioned factors, we offer the following division of the project into stages.

Preliminary stage (2005-2006).

Developing the project, agreeing on the list of participants and forms of participation, preparation of a complex business plan. Building the organizational structure for managing and developing the project.

The first stage of implementing the project (2006-2007).

Construction and launch of first series of 3 logistic centers in Moscow and 2 in St.-Petersburg. Establishing transportation company.

The second stage of implementing the project (2007-2008).

Construction and launch of first series of logistic centers in millionaire cities: Tyumen, Kazan, Ufa, Naberezhnye Chelny, Krasnodar, Rostov - na-Donu, Samara, Ekaterinburg, Tolyatti, Volgograd and Perm.

Functional and organizational structure of the project

- managing company, which is responsible for general management of the project and owns all functional companies;
- construction company, which is responsible for construction of all objects of the real estate under the project;
- property company, which owns and maintains objects of real estate under the project;
- logistic company, which supervises the work of logistic centers;
- transport company, which owns vehicles for this project and servicing cargo transportation;
- international company, which maintains effective contract relations with manufacturers (with branches in Europe, South-East Asia and Russia);
- trade companies – operators;
- international bank, which ensures financial support of the project and controls target use of investment resources;
- a Russian bank, financial operator of the project.

The basic directions of the project:

- safe-custody of the goods in quality warehouses with absolute caretaking guarantees;
- processing goods in warehouses: receiving, storing, repacking, assembling, palleting and distributing orders;
- transportation services. Delivery chain with processing goods on distribution warehouses and further delivery directly to the consumers;
- customs services.

Basic technical characteristics of objects.

For Moscow and St.-Petersburg:

- the proposed land lot for each centre is 15 hectares;
- logistic centers of "A" class with total area of 30,000 sq. m each, including: office premises with area of 4,000 sq. m., class "B";
- auxiliary technical premises with area of 2,000 sq. m.

For Tyumen, Kazan, Ufa:

- the prospective area of the land lot for each centre is 10 hectares;
- logistic centers of "A" class with total area 20,000 sq. m. each, including: - office premises with area 2 500 sq. m., class "B";
- auxiliary technical premises with area 1,500 sq.m.

For other millionaire cities:

- the prospective area of the land lot for each centre is 10 hectares;
- logistic centers of "A" class with total area 15,000 sq. m. each, including: - office premises with area 2,000 sq. m., class "B";
- auxiliary technical premises with area 1,000 sq.m.

Besides, the site is supposed to have the following maintenance services:

- communication systems, optic fiber, other types of communications;
- water pipes, water drain, electric power supply, gas supply, heat supply.

Area around Logistic Centre (LC) will be surfaced; access roads will be surfaced 10 m wide, and a railway branch-line is supposed to be constructed to the warehouses.

The structure of logistic centre may follow this scheme:

- heated warehouse - 70-75 % of total area of the warehouse;
- premises with the cool temperature mode - 10-15 %;
- storage of bulky goods - 10 %;
- temporary storage warehouse (customs regime) - 5 %.

The basic transport component in LC should become the Transportation and Forwarding Centre, including the following directions:

- small- and large-scale motor transportation: the motor fleet should have automobiles of "Gazelle" type with 15-20 cub.m. of transported cargo 15-20 and the weight of 3-5 tons, and automobiles with transported cargo of 30-50 m.cub. and weight up to 10 tons;
- air transportation on the basis of existing transport flights, by freight forwarding and delivery of cargo from the airports up to the doors of the client with the help of agencies of specialized companies;

- railway transportation on the basis of freight forwarding by available fleet of Russian RailRoads and its agents.

Total construction volume at this stage roughly amounts to **330,000 sq. meters**.

This business plan presupposes two ways of implementing the projects:

1) Variant 1. Internal funds cover 30 % of investments, 70 % is covered by a bank loan; all activities are independent.

2) Variant 2. Bank loan covers 30 % of investments; 70 % come from internal funds of the investor; all activities are independent.

Lending the constructed complex will not compensate itself over the estimated period, as the calculations have shown. That is why this variant is not analysed in the Business Plan.

2. MARKET ANALYSIS

Modern logistics has been in Russian for more than ten years, when first terminals (in present sense) appeared. In 1995 there were no quality warehouses and logistic services in Russia. Huge unorganized warehouses complexes not meeting modern requirements were spread all over the country. That was the time when large international companies entered Russian markets. These manufacturers and distributors had different requirements to warehouse services. The warehouse service was growing rapidly, and it needed new methods and specialists.

Western companies with considerable experience on international market and in Russia were looking for the same warehouse, transportation and logistic services as in Europe and America. The peculiarities of this country has made amendments to these needs. For example, our climate requires special structure of warehouses, and construction materials and climate control equipment must be of a higher quality.

Enormous territory and localization of businesses and trade turnover create certain difficulties for introducing European logistic schemes in Russia. Besides, issues of cargo safety in warehouses and in transport also call for specific approach. Thus, Russia has a number of uncertain factors, which can be handled only in partnership with "big players" on the market, at least, at the first stage of operations in the country.

We observe a high rate of profitability of logistics, and there is a large demand for premises for this activity. That is why there are limited offers of premises in Moscow, St.Petersburg and a number of other large cities. Analysts (e.g., analysts of "KIA-Centre") observe

high shortage of land in this segment of the market, more so than in any other segment, while Russia lags behind European countries in quantities of objects to offer, especially of 'A' class.

Russian developers provide for the growth of warehouse market. Acquiring land lots is not an issue for Russian companies, yet difficulties arise in financial aspect. That is why the maximum area for most projects of Russian developers does not exceed 20 thousand sq.m.

History of classification of warehouse complexes originates from low quality warehouses such as basements, civil defense objects, trade warehouses. However, current concepts of commercial warehousing have undergone some changes, which were triggered by the requirements of foreign industrial companies entering Russian market, whose demands were based on habitual European standards. Some norms were adapted in Russia, which allows experts and logists quickly estimate the quality of premises and coordinate it with the demands of the client. Modern warehouse which provides quality services of safe-custody is a monovolumetric building constructed from light metallic constructions and sandwich-type panels.

Classification of warehouse complexes

Modern warehouse is a complex object, both technically and in terms of administration. The need for warehouses exists at all stages of movement of material flows, starting from source of raw materials and finishing at the end consumer. This explains a large variety of warehouses of various purposes.

Classification of warehouses. The warehouses can be classified by various attributes:

- In relation to logistic aspects:
 - supply warehouses,
 - production warehouses,
 - distribution warehouses.
- In relation to the participants of logistic system:
 - warehouses of the manufacturers,
 - warehouses of trade, transportation, forwarding and logistic companies.
- On types of ownership:
 - own warehouses,
 - rented warehouses.
- On accessory:
 - warehouses of one enterprise (network),
 - warehouses of collective property.
- On functional purpose:
 - warehouses for long storage,

- warehouses перевалочные,
- distribution warehouses,
- special warehouses.
- On range of stored goods:
 - specialized warehouses ,
 - universal,
 - mixed.
- On the mode of storage:
 - warehouses not heated,
 - heated warehouses ,
 - warehouses - refrigerators,
 - warehouses with the fixed climatic mode.
- On technical equipment:
 - not mechanized warehouses ,
 - mechanized warehouses ,
 - automated warehouses ,
 - automatic warehouses.
- By form of warehouse buildings and structures:
 - ground storages,
 - platforms under a canopy,
 - closed warehouses.
- Type of warehousing:
 - warehouses with floor storage,
 - shelf storage
 - mixed storage.
- External transport communications:
 - warehouses with moorings,
 - by a railway and road entrance,
 - complex warehouses.
- On scale of activity:
 - central,
 - regional,
 - local.

Warehouses differ by the area of storage: a warehouse with the large area of storage (from 5 thousand sq.m.) is usually called terminal. There are customs warehouses, specially equipped

premises where the goods imported on territory of Russian Federation or objects for export from Russia can be stored. In customs warehouses goods are stored under the customs control, and then, according to the Customs Code of Russian Federation, they are placed under a certain customs regime. Customs warehouses are subdivided into warehouses of a temporary storage and customs warehouses in proper sense. The warehouse of temporary storage is a specially equipped room where goods and vehicles intended for export and import are placed under customs control, after they are presented before customs authorities and before they , except for a mode " a customs warehouse " .

Only imported goods are placed under the regime "customs warehouse " , which means that the imported goods are stored under the customs control without any duties, taxes or other economic measures during storage. Goods intended for export according to a customs regime of export, are stored under the customs control with stipulated privileges.

The class of warehouses is usually defined by classification from international consulting company "Knight Frank" .

Classification of warehouses

Class A

1. Modern one-storey warehouse from light metal and sandwich-type panels, preferably rectangular without columns or with a step of columns not less than 9 meters and with distance between spans not less than 24 meters.
2. Construction area 45-55 %.
3. Flat concrete floor with anti-dust covering, with loading not less than 5 tons / sq.m., at a level 1,20 m from ground.
4. High ceilings not less than 10 meters, which allows to install multilevel shelf equipment.
5. Adjustable temperature mode.
6. Ventilation system.
7. Fire signal and automatic fire-extinguishing system.
8. Security signal system and videosupervision.
9. Sufficient number of automatic gates of a dock type (dock shelters) with cargo handling platforms of adjustable height (dock levelers), (not less than 1 for 700 sq.m.).
10. Platforms for supersize automobiles and car parking.
11. Platforms for manoeuvres of supersize automobiles.
12. Office premises at a warehouse.
13. Auxiliary premises at a warehouse (toilets, showers, subsidiary premises, locker rooms for personnel).

14. Fiber telecommunications.
15. The territory is fenced and guarded 24 hours.
16. Next to the central highways.
17. Professional control system.
18. Skilled developer.
19. Control of access of the employees.
20. Independent power substation and thermal unit.
21. Railway branch-line.

Class A-

New warehouse premise(room) meeting mandatory 12 - 15 parameters for class "A"

Class B

Reconstructed building with ceiling height of 5-8 meters, equipped with all necessary communications and facilities. Often multi-storey building. Warehouse has office rooms. Warehouse of class "B" should meet 8-11 of the above mentioned criteria.

Class C

This category is represented by non-reconstructed industrial buildings, heated or non-heated hangars, meeting less than 7 of the above mentioned criteria.

At present competition in warehouses of class A is rather low, considering almost 100 % use of existing warehouses. In warehouse market demand exceeds offer, and all objects at implementation stage can be leased before the construction finishes.

In 2005-2006 the market of warehouse lease will continue its growth. Essential growth of demand on premises A and A- class is expected. Moscow still plays a dominant role as the business centre of the country, though many developers aspire to run business in other regions of Russian Federation.

Demand for quality warehouses considerably exceeds available amount. In 2004 the share of free areas of class A, according to "Blackwood", was 0 %, class B, 3 %, and class C, not more than 25 %. The basic customers of warehouses at present logistic operators, manufacturers of consumer goods, food and retailers. Experts estimate current demand at 1.5 mln. sq. m. as a whole, according to "Knight Frank" analysts, and demand (considering potential and latent demand) amounts to no less than 4,5 mln. sq. m.

Today there are about 1,5 mln. sq. m. of quality areas. Offer of warehouses class A was about 700 thousand sq. m; class B, 900 thousand sq. m.; class C, about 200 thousand sq. m. Offer in 2004 increased only by 250-350 thousand sq. m. instead of planned 500-600 thousand sq. m.

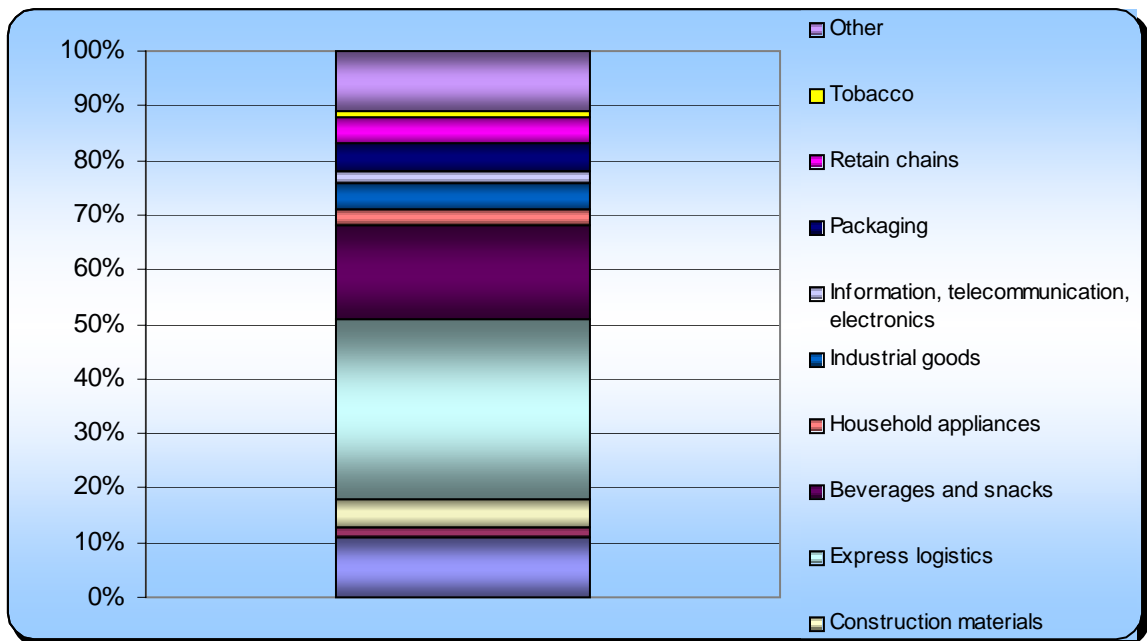


Fig. 1. Demand for warehouses (distribution by market segments)

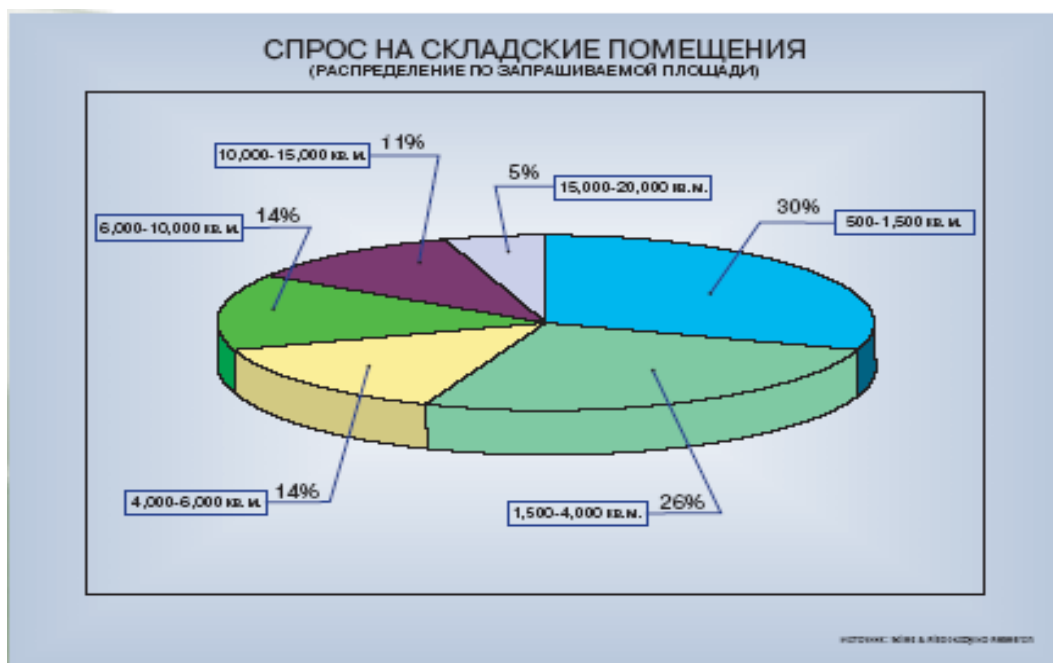


Fig. 2. . Demand for warehouses (distribution by area)

In 2005, when we expect the launch of large developer projects, the total area of modern warehouse premises may increase up to 1,2-1,3 mln. Sq.m.

Though the offer of warehouse premises in Russia is growing, the price level remains one of the highest in Europe. For example, price per square meter in Europe is about US\$ 65 - 90 years. The same areas to Moscow can cost US\$ 140 - 170. At present, only London rates are higher than Moscow. Such high rates do not guarantee international standards. That is the reason

that many Western exporters prefer to store goods abroad, and every time they sell a certain amount of goods, they allow the Russian importers / partners solve customs issues.

Review of warehouse market by federal districts

Central Federal District. The market of warehouses is waiting for growth of prosperity in the district. The warehouse premises here are represented in old industrial areas, and not only on the suburbs, but also at the historical centers. Food warehouses, factories, hangars and even garages -as used as warehouses: there is enough space from bankrupt industrial enterprises and empty industrial zones to ensure that there will be no shortage of warehouses in the next few years. As to the standards of these warehouses, they are sufficient for the customers, in the opinion of local realtors. As for large Western companies and domestic chains, they are forced to solve all logistic issues by themselves.

Northwest Federal District. St.-Petersburg, being the main "sea gate" of Russia, has a favorable site for developing modern logistic complexes, warehouses and industrial real estate. Nevertheless, in St. Petersburg there has been a lack of quality warehousing.

According to "Jones Lang LaSalle", on St. Petersburg warehouse market 100-150 thousand sq. m of areas can be classified as class "A" (2 % from total offer on the market), constructed on the scheme "built-to-suit". About 200 thousand sq. m. of warehouse complexes (4 % from total offer), according to "Colliers International" and "Jones LangLaSalle", are classified as class B and B-.

Today cost of lease in professionally equipped complexes reaches, by different estimations, \$100-140 for 1 sq. m. per annum. Cost of rent of heated warehouses is about \$50- 70 for sq.m. per annum. Not heated premises are rented at the price of \$12-45 for 1 sq.m.

Southern Federal District. Large seaports by the Black, Azov and Caspian seas influences the development of the warehouse market in Southern federal district. Among them are Tuapse, Astrakhan, Makhachkala, Azov and largest in terms of cargo turnover Russian port Novorossisk. It has become the residence for largest transport companies of the world - *Barwill, Laroute, SGS, Petrak, The Kerria Group.*

Ufa and Perm are considered perspective regions by "IKEA" and "Perekryostok". Besides, the city of Perm is attractive to retain chains "Spar", "Snezhnaya Koroleva ", "M Video". "Ramstor", "Metro" and "Mir" are planning to open its outlets in Ufa.

In both cities there is a shortage of warehouse premises. Representatives of the company "MVM" estimate the market of warehouse premises in Perm as very perspective.

Ural Federal District. The largest transportation and logistic units of the region are Ekaterinburg and Chelyabinsk. In both cities until recently there were no new warehouses. A

growing demand for warehouse premises was satisfied mainly by free areas of large enterprises, including military industry.

Siberian Federal District. There is hardly any warehouse construction today in Siberia. It is not necessary: a large number of such premises remained from bankrupt industrial enterprises. Therefore, it is easier to reconstruct an old warehouse than to build a new one. There are no warehouses of class A in Siberia, while there are many Western companies that need a high level of service

Investment climate in Russian regions.

The peculiarity of Russia as a country is the concentration of population of big cities compared to scarcely populated "interurban" spaces, unlike Western Europe. Today about three thirds of Russian population live in cities. All scientific and most business and financial activities take place in the cities. Life of Russian residents is concentrated not in abstract "regions", and in large cities - regional centers and largest industrial subregional centers.

The large cities for Russia are "points of growth" of business, and they influence the number of workplaces, increase of income and welfare of population. Therefore, favorable business climate in big cities is a primary factor of economic growth, social and political stability in the society.

It is obvious that the larger is the city and the higher is its administrative status, the attractive it is for business and population, the better is business environment and infrastructure, which is an additional factor for development of entrepreneurial and investment activity. In turn, the development of business affects workplaces, increase of income and welfare of the population, and investment of their monetary resources into interregional financial exchange.

Table 2 demonstrates investment rating of Russian cities based on a number of factors:

- population, population growth, share of elderly population;
- income per person and trade turnover;
- area per person;
- commissioning of buildings for residence and other purposes.

Rating of investment appeal of cities in Russian Federation

Table 2

City	Rating (conditional numbers)
1 group	
Moscow	14 524,18
Tyumen	5 382,29
St.-Petersburg	4 567,49
Kazan	3 331,64

Ufa	3 175,46
Naberezhnyhe Chelny	3 125,75
Krasnodar	3 013,26
Rostov - на-Дону	2 604,93
Samara	2 551,07
Ekaterinburg	2 429,04
Tolyatti	2 393,29
2 group	
Chelyabinsk	2 205,51
Krasnoyarsk	2 135,63
Nizhni Novgorod	2 092,61
Perm	1 940,12
Novokuznetsk	1 832,13
Novosibirsk	1 827,31
Voronezh	1 810,52
Volgograd	1 772,34
Saratov	1 748,96
Astrakhan	1 667,40
Omsk	1 630,15
3 group	
Khabarovsk	1 499,23
Lipetsk	1 479,08
Orenburg	1 418,43
Irkutsk	1 347,62
Yaroslavl	1346, 68
Izhevsk	1 300,08
Ryazan	1 213,74
Ulyanovsk	1 187,41
Vladivostok	1 158,69
Penza	1 099,53
Barnaul	913,45

Magazine "Expert" publishes the annual rating of investment climate in Russian regions (fig. 3).

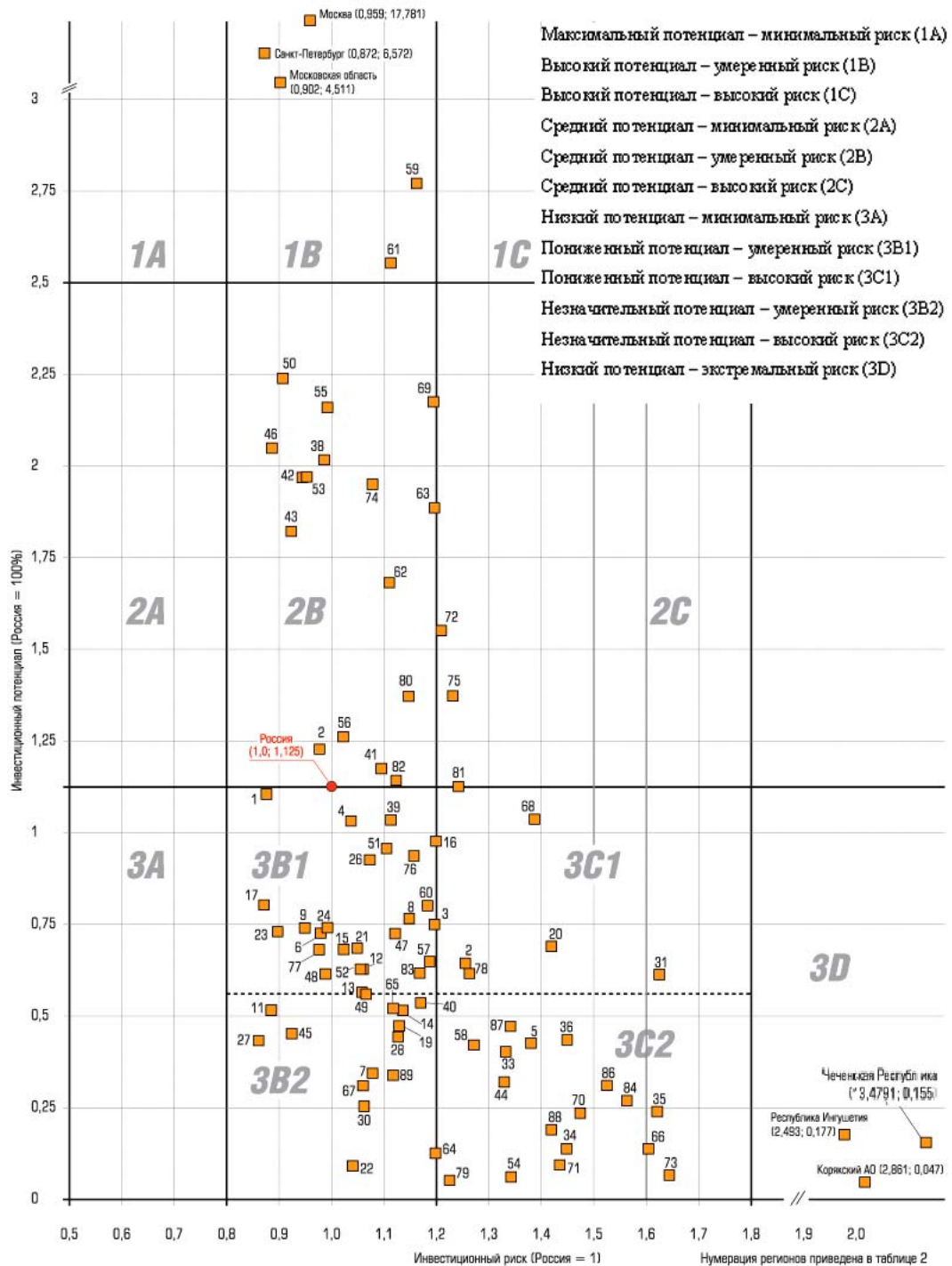


Fig.3 Investment climate in Russian regions in 2004-2005

- Maximum potential – minimum risk (1A)
- High potential – moderate risk (1B)
- High potential – high risk (1C)
- Average potential – minimum risk (2A)
- Average potential – moderate risk (2B)
- Average potential – high risk (2C)
- Low potential – minimum risk (3A)
- Reduced potential – moderate risk (3B1)
- Reduced potential – high risk (3C1)
- Insignificant potential – moderate risk (3B2)
- Insignificant potential – high risk (3C2)
- Low potential – extreme risk (3D)

Construction costs

Construction costs for one-storey warehouse (general construction operations, internal engineering networks) is about 300-600 US dollars per sq.m.

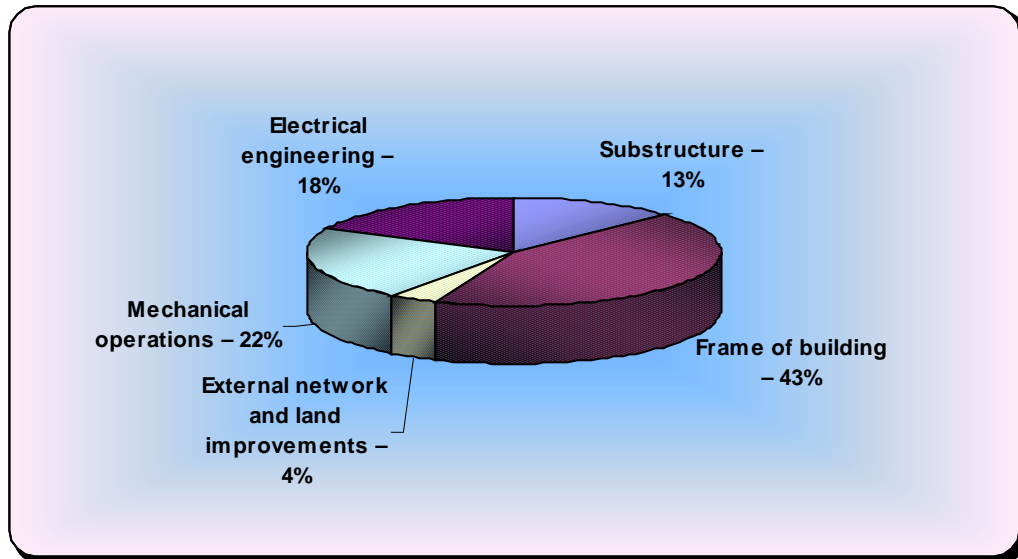


Fig. 4 Distribution of construction costs

The calculation is made on the sample construction of one-storey building with total area of 10,000 sq.m. with floor height 10 meters and columns gap 12x18 m. Cost of land, financing, preliminary approvals, equipment, external engineering networks, area preparation, planning, project management and taxes are not included into the above mentioned construction costs.

The Logistic Market

The difference of logistic approach from the traditional one is in the integration (technical, technological, information and economic) of separate parts of the chain in one system of "through" management of material and information flows, aimed at achieving the desirable result with the minimum time and resource expenses. The basic task of logistic centre is to increase coordination of work of different types of transport for mixed transportation; appropriate organization of complex transport services for clients; increase of range of services and quality improvement. Besides, the experts of logistic centre should work to attract additional orders for transportation of transit cargo; reduction of delivery time due to decrease of demurrage; expansion of international cooperation. The basic functions of logistic centre should ensure sales of new kinds of services and meeting the requirements for integrated approach and quality of service.

The market of logistic outsourcing remains little analyzed, as compared to Europe, Asia, USA, Canada and other regions, where there is a tendency to transfer a part or all logistic

functions to the "third party", and most companies use outsourced logistic services. " The Third party " in these relations are providers of logistic services, or *3PL providers*.

Combining logistic efficiency and tendency to concentrate enterprises on several basic activities ("key competence ") gives great opportunities for development of logistic outsourcing market and specialized logistic intermediaries.

The concept of logistic outsourcing claims that if there is no need to use internal resources of logistics if the company can delegate the services to external partner.

Logistic providers (LP), or providers of logistic services (PLS), or 3PL providers (Logistic Service Providers — LSPs, 3PLs, TPLs) are commercial organizations that provide logistic services in separate operations or complex logistic functions (warehousing, transportation, management of the orders, physical distribution and etc.), and managing logistic chains of client.

National logistic park is a new to Russia form of warehouse terminal organization. Russia has quality warehouses, but park guarantees not only safe-custody, but also a complete set of logistic services, which helps processing any complex cargoes up to the ready-for sale commodity stage.

It is possible to allocate five basic types of logistic providers (tab. 3).

Table 3

Types of logistic providers	Main services	Sample companies
Transportation providers with real assets	Dedicated logistics. Transportation, centralized trucking, servicing, routing	Schneider, Ryder, Hunt, Danzas, TNT, UPS, FedEx, Airborne, DHL
Transportation providers without real assets	Integrated logistics. Service-oriented logistics, focused on technology and engineering	CH Robinson, Mark VII, Ryder, UPS Worldwide, Menio, FedEx
Warehouse providers creating added value	Integrated and dedicated logistics. Technologies, warehousing and transportation	Caliber, DSC, Tibbett& Britten, GATX, Exel Logistics, Fiege Group, Menio
International expeditors outsourcing logistic functions (without real assets)	Integrated logistics with international forwarding	AEI, Circle, M SAS, Kintetsu
Software providers	Logistic software	Manugistics, I2/Intertrans, McHugh, Logility, Extricity, Manhattan

Integrated logistics is focused on planning and optimization of a part or the whole delivery chain; "dedicated logistics" specializes on providing certain assets (for example, lorries, warehouses, managers) to each consumer.

These companies in turn can be divided into two basic categories: the companies with real physical assets (asset based) and companies using outsourcing (non-asset based).

According to *Armstrong and Associates*, in 1999 more than one third of income was received by those logistic providers that provided services of warehousing and transportation and did not have their own assets. The market distribution of logistic services providers is illustrated on Fig. 5.

Structure of logistic providers market by types (on the basis of gross income in 1999)

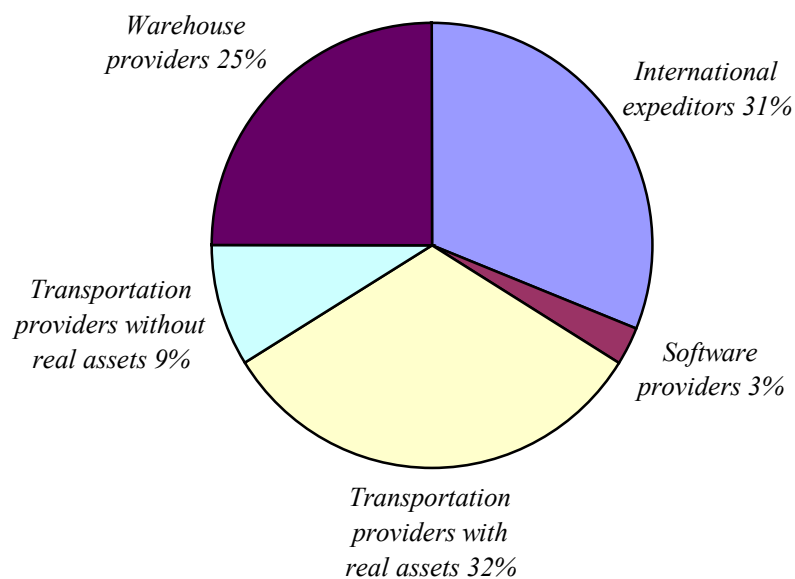


Fig. 5 " Structure of logistic providers market"

Use of logistic outsourcing is justified by the following advantages:

- Improvement of service;
- Increase of flexibility and synergetic effect;
- Lack of logistic knowledge and experience by the company itself;

Though the total share of companies using services of logistic providers remains stable year from year, share of their use differs from industry to industry. The most active users of services 3PL providers are computer industry and manufacturers of consumer goods (90 % and 85 % correspondingly). Automobile, chemical industry and retail trade are not active users of logistic outsourcing. In this research from 50 % up to 60 % of firms of these branches use services of logistic providers.

Logistic functions transferred to providers

Table 4

Logistic functions	Percentage of use			
	1998	1999	2000	2001
Direct transportation	63%	68%	49%	61%
Warehouse management	46%	44%	56%	59%
Consolidated dispatch	43%	40%	43%	49%
Forwarding			44%	45%
Transportation payments			43%	53%
Cargo tracking				33%
Customhouse broker			40%	41%
Information systems engineering				8%
Choosing carriers	32%	33%	29%	43%
Negotiating duties	26%	24%	29%	37%
Product return	25%	16%	21%	25%
Driving	25%	18%	21%	20%
Repackaging, stamping	19%	27%	21%	25%
Contract manufacturing			16%	10%
Managing orders	17%	16%	24%	33%
Consolidated dispatch	11%	11%	8%	10%
Managing stock	6%	7%	10%	4%
Managing orders	5%	9%	5%	8%
Spare parts	5%	11%	2%	10%
Consulting		37%	30%	25%
Materials supply				4%

It is possible to draw a conclusion from this ratio that there is a tendency to transfer to outsourcing strategically important logistic functions, activities focused on the buyer, and functions connected to information technologies. Last year's research defined these logistic activities as most perspective.

Technological progress over the last five years has changed the approach to designing delivery chains and increased consumer requirement for logistic outsourcing providers. These changes have created unprecedented opportunities for providers of logistic services, who can operate information on delivery chains as effectively as they initially operated physical assets.

The changes in the approach to managing logistic chains have affected providers in the following directions:

Increased expectations of the consumers and their clients. Requirements to logistic outsourcing providers have considerably changed over the last few years. Originally, clients regarded logistics as service that helps them to deliver "the necessary product in the necessary place in the necessary time ". However, today clients want to use logistic chains for greater

satisfaction of consumers and increase of competitive advantages. In fact, logistic providers become an extension of those enterprises that they service; therefore, clients expect individual logistic service to satisfy the requirements of their customers. This individual approach increases cost of service for the clients.

Integration of logistic services. Clients want providers to operate a growing number of distribution channels, growing range of goods and new geographical markets.

Integration of logistic chains. Logistic chains are becoming more and more complex. End consumers need international market penetration, wide range of goods, launch of new products and individual approach. As a result, logistic providers should process the orders received through various new sales channels (electronic commerce, electronic logistic systems, Internet commodity exchanges), also maintaining traditional logistic channels (ERP-systems, exchange under protocol EDI, client-oriented control systems of orders). Internet creates an opportunity to build direct distribution channels between manufacturer and consumer. In this connection, logistic providers need to support transit deliveries, in addition to servicing cargoes intended for other distributive channels and coming from the supplier.

Increasing demand for "the individual approach". Clients regard providers as extension of their organization and expect from them services tailored to their specific requirements.

Demand for more effective storekeeping. For more effective control of stocks the clients want providers to manage storekeeping of the client, storekeeping of the supplier, direct transportation and etc.

Information exchange in real time. Today information exchange in real time is a commonplace thing, and clients expect efficient and reliable information for themselves and their customers.

Closer cooperation with partners of logistic chain. Logistic providers should have sufficient knowledge and technical opportunities to successfully cooperate with various partners, offer new services and reduce expenses.

These tendencies have changed the initial purpose of 3PL providers as logistic intermediaries who are taking one or a few of client's functions.

Thus, on the basis of the above-mentioned tendencies, it is possible to conclude that the logistic market, and, in particular, logistic outsourcing has great potential both in Russia and abroad. Globalization processes, integration, cooperation, and growing requirements of the consumers motivate those companies that want to remain competitive in the market, and they apply logistic approach to their business and use logistic outsourcing.

3. INVESTMENT PLAN

The basic characteristics of objects.

For Moscow:

- 3 land lots 15 hectares each, Gorkov direction, in the territory of Mytishi and Domodedovo (lease for 49 years with an opportunity for subsequent purchase). Average cost *) 1 hectare of the ground areas on the given directions is 350 ,000 US dollars;

- centers of a class "A" by the total area 30,000 sq. m everyone, including: office premises by the area 4,000 sq. m of a class "B", auxiliary technical premises by the area of 2,000 sq. m.

For St.-Petersburg:

- 2 land lots 15 hectares each. Average cost *) 1 hectares - 200 ,000 US dollars;

- logistic centers of "A" class, total area 30,000 sq. m, including: - office premises, area 4,000 sq. m. of "B" class,

- Auxiliary technical premises, area 2,000 sq.m.

For other cities:

- for each centre, land lot with the area of 10 hectares. Average cost *) 1 hectare for all cities is 150 ,000 US dollars;

- logistic centers, class "A":

- Total area 20,000 sq. m (Tyumen, Kazan, Ufa), including: office premises, area 2 500 sq. m, class "B", auxiliary technical premises with the area 1 500 sq. m;

- Total area 15,000 sq. m (Naberezhnye Chelny, Krasnodar, Rostov - na-Donu, Samara, Ekaterinburg, Tolyatti, Volgograd, Perm), including: office premises, area 2,000 sq. m., class "A", auxiliary technical premises, area 1,000 sq. m.

*) average cost was determined researching sales of similar land lots in each city, and using the data of "Swiss Realty Group".

Calculation of **construction costs** was based on the marketing research among construction companies, and on the basis of the information from "Knight Frank". Average construction cost for 1sq.m. of warehouse complexes "A" class (considering building materials, wages, cost of building machines operations):

- for Moscow - 500 US dollars;

- for St.-Petersburg - 450 US dollars;

- for Tyumen - 400 US dollars;

- for Kazan, Naberezhnye Chelny, Krasnodar, Rostov - na-Donu, Samara and Tolyatti - 350 US dollars;

- for Ufa and Ekaterinburg - 320 US dollars;
- for Volgograd - 340 US dollars;
- for Perm - 330 US dollars.

Territory improvements

High quality warehouse terminals must have platforms for supersize automobiles, car parking and railway branch-line. Normally, surfaced area of adjacent site is equal to the construction area. Access roads are also a necessity. The terminals are supposed to be in the immediate proximity to the highways, therefore, in calculations the length of access roads is the same for each terminal, 1 km (width 10 m) for each terminal. The length of railway branch-line is also the same, 1 km.

Cost of surfacing 1 sq.m. of roads and adjacent territory was taken from the COMINT data base for 2005 and for various cities is from 695 roubles for Rostovs - na-Donu up to 1376 roubles for Tyumen.

Construction costs for 1 km of **railway branch-line** (includes all necessary operations) were taken from Reconstruction Costs Reference # 19, tables 1, 3, 7, recalculated from 1969, amounts to 145, 120 US dollars.

Besides, the following **communications** are essential:

- communication systems, fiber, other kinds of communication;
- water pipe, water drain, electrical power supply, gas supply, heat supply.

Research has shown that the cost of installing different means of communications amounts to (provided that the length is not more than 500 m) for Moscow 115 US dollars per 1 m, for St.-Petersburg - 100 US dollars, for millionaire cities, up to 182.5 US dollars for 1 m.

Cost of the necessary **equipment** (racks, cargo handling equipment etc.) was calculated from the analysis of the similar civil-engineering designs of warehouse complexes. For “A” class complexes financial resources for purchasing necessary equipment were calculated by the ratio 100 US dollars per 1 sq. m of the area of warehouse premises. The area of warehouse premises for Moscow and St.-Petersburg is 24,000 sq. m, for Tyumen, Kazan and Ufa is 16,000 sq. m, for other cities is 12,000 sq. m.

Cost of **software** is 1 mln. US dollars for each complex in Moscow and St.-Petersburg and 500 thousand US dollars for each complex in millionaire cities.

For offices of “B” class volume complexes financial resources for purchasing necessary **furniture and office equipment** were calculated by the ratio of 100 US dollars on 1 sq. m of the area of office premises. The area of office premises for Moscow and St.-Petersburg is 4,000 sq. m, for Tyumen, Kazan and Ufa – 2,500 sq. m, for other cities -2,000 sq. m.

The basic **transportation** component in logistic centers should be the Forwarding and Transportation Centre the motor fleet should have automobiles of "Gazelle" type with 15-20 cub. m. of transported cargo 15-20 and the weight of 3-5 tons, and automobiles with transported cargo of 30-50 m. cub. and weight up to 10 tons. Each complex should have up to 5 automobiles of “Gazelle”, “Bychok” and “ZIL” types, that is small tonnage. Investments for this car park should not be lower than 180 thousand US dollars for each object.

About 10-15 % of warehouse area will make cool temperature mode for storage at average from 0 up to +10 degrees and low temperatures up to - 25 degrees, when air temperature is up to +40 degrees, thus, the purchase of refrigerating machinery is necessary. Market research shows that the cost of equipment is 350 US dollars per 1 sq. m of **the given warehouse**. For Moscow and St.-Petersburg the area of a warehouse with the cool temperature mode is 3,600 sq. m, for Tyumen, Kazan and Ufa, 1, 600 sq. m, for other cities, 1,200 sq.m.

Scheme 1 and table 5 illustrates the basic stages of implementing the project.

Table 6

List of project stages				
Stage name	Duration	Start date	Finish date	Cost, \$US
Construction of warehouse complexes (Moscow, St.Petersburg)	365	01.01.06	31.12.06	72 000 000
Construction of warehouse complexes (millionaire cities)	365	01.01.07	31.12.07	65 315 295
Acquisition of land lots (Moscow, St.Petersburg)	1	01.01.06	01.01.06	21 750 000
Acquisition of land lots (millionaire cities)	1	01.01.07	01.01.07	16 500 000
Territory improvements (Moscow, St.Petersburg)	92	01.10.06	31.12.06	6 872 000
Territory improvements(millionaire cities)	92	01.10.07	31.12.07	11 298 925
Communications installation (Moscow, St.Petersburg)	92	01.10.06	31.12.06	272 500
Communications installation (millionaire cities)	92	01.10.07	31.12.07	491 269
Equipment (Moscow, St.Petersburg)	61	01.11.06	31.12.06	12 000 000
Equipment (millionaire cities)	61	01.11.07	31.12.07	15 652 529
Software	92	01.10.06	31.12.06	5 000 000
Software (millionaire cities)	92	01.10.07	31.12.07	5 954 780
Office equipment, furniture etc.	92	01.10.06	31.12.06	2 000 000
Office equipment, furniture etc.	92	01.10.07	31.12.07	2 544 315
Transportation (Moscow, St.Petersburg)	61	01.11.06	31.12.06	900 000
Transportation (millionaire cities)	61	01.11.07	31.12.07	2 152 223
Refrigerators	61	01.11.06	31.12.06	6 300 000
Refrigerators (millionaire cities)	61	01.11.07	31.12.07	5 434 906
Contingent expenses	730	01.01.06	31.12.07	2 045 045

4. PRODUCTION PLAN

The basic sources of income:

- safe-custody:
- processing goods in warehouses: receiving, storing, repacking, assembling, stacking and distributing orders;
- transport services;
- offices for lease.

Operation of the first set of complexes starts on 01.01.2007; the second set starts on 01.01.2008. At the first year of operation the occupancy of warehouse premises on all cities is expected at the rate of 75 % from the total area of a warehouse, in the subsequent periods, 100 %. Contracts on warehouse services are signed for long periods, helping to avoid demurrage.

Over 90 % of office premises are supposed to be leased.

Calculation of cargo handling is defined(determined) as follows. Practice has shown that there are 4 basic categories of the clients:

- 1 category carries out "movement" of the whole cargo 1 time every 3 months;
- 2 category carries out "movement" of the whole cargo 1 time every 2 months;
- 3 category carries out "movement" of the whole cargo 1 time every month;
- 4 category "movement" of the whole cargo 3 times every month.

Supposedly, each category of clients occupies 1/4 of warehouse areas.

Daily exploitation of automobile park is expected at the level of 2/3.

Most personnel will be employed from the neighboring areas. All personnel engaged at certain jobs has appropriate experience. Additional training is not required.

The basic taxes incorporated in calculations and their basis are listed in table 6.

Table 6

Taxes			
Tax	Tax base	Period	Rate
Profit tax	Profit	Month	24%
Value Added Tax (VAT)	VAT	Month	18%
Property tax	Assets	Quarter	2.2%
Uniform Social Tax	Salaries	Month	26%
Individual income tax	Salaries	Month	13%

Table 7 has the basic information for calculating income from the project.

Table 7

City	The rate of rent of a warehouse, dollars. USA / 1 pallet./day	Cost of cargo handling jobs, 1 pallet	The rate of rent of office, dollars / month	Cost of transport services, dollars / car/ hour
Moscow	0,35	3,5	300	10
St.-Petersburg	0,30	3,0	360	
Tyumen	0,35	3,6	360	
Ufa	0,27	3,2	288	
Kazan	0,29	3,2	324	
Nabarezhnye Chelny	0,29	3,2	324	
Krasnodar	0,27	3,5	336	
Rostov – na-Donu	0,27	3,5	336	
Samara	0,35	3,6	300	
Ekaterinburg	0,35	3,6	360	
Tolyatti	0,35	3,6	300	
Volgograd	0,27	3,2	300	
Perm	0,28	3	288	

This business plan presupposes two ways of implementing the projects:

- 1) Variant 1. Internal funds cover 30 % of investments, 70 % is covered by a bank loan; all activities are independent (table 8a).

Table 8a

Loans			
Date (DD.MM.YY)	Amount, \$US	Period	Interest
01.10.06	51 500 000	36 mths.	10,5
01.01.07	47 500 000	24 mths.	10,5
01.10.07	57 000 000	30 mths.	10,5
Other inflows			
01.01.06	77 000 000		

- 2) Variant 2. Bank loan covers 30 % of investments; 70 % come from internal funds of the investor; all activities are independent (table 8b).

Table 8b

Loans			
Date (DD.MM.YY)	Amount, \$US	Period	Interest
01.08.07	71 500 000	32 mths.	10,5
Other inflows			
01.01.06	165 000 000		

The total need for investments in both variants is **236,500,000 US dollars**.

5. CALCULATION OF PERFORMANCE CRITERIA FOR THE PROJECT

Calculation of the discount rate

Discount rate reflects scales of probable risk associated with operations in the market of the real estate and activity of the given object, and takes into account the opportunity of alternative investments of the capital.

Discounting factor takes into account both income (interest) from the invested capital, and return of capital.

The discounting rate is calculated from:

- riskfree income rate;
- premiums for risk;
- premiums for low liquidity of the real estate;
- premiums for investment management.

Riskfree income rate is used as base to which other components are added. For defining riskfree rate we used the data on income rates on bank deposits in the most reliable banks of Russian Federation, which at the point of calculation was 7 %.

The premium for investment management. The riskier and more complex are investments, the more competent management they require.

The premium for scope of territory. In various regions of Russian Federation risks differ for investments in the same project. For example, for Moscow and St.-Petersburg the risk is minimum, and for large regional centers the risk is lower than for small cities. One of key parameters for defining the level of risk is the investment appeal of cities and regions.

The premium for structure and sources of the capital. The premium takes into account narrow sources of financing and share of borrowed capital in total capital.

The premium for the level and forecasting of profits. Successful development of business depends on the company's ability to generate profit. The higher is profit in comparison with industrial average, the more attractive is the company to potential investors. However, high profits are not always sufficient. The investors also value stability of income and its predictability. If the company also meets this requirement, investor does not need additional impetus for purchase of the company as a premium for risk.

Thus, the discount rate is:

Table 9

The name of an investment asset	the rate of % annual	
	variant 1	variant 2
Risk free income rate	7,0	7,0
Total risks of the investors, including:	11,5	11,0
Investment management	3,0	3,0
Scope of territory	2,5	2,5
Structure and sources of the capital	3	2,5
Level and forecasting of profits	3,0	3,0
TOTAL minimal requirements to returns of the investments	18,5	18,0

In the tables 10a), 10b), 11a), 11b), 12a), 12b) the financial results of the project are reflected by month.

The tables 10a) 10b) - Report on profits and losses for Variant 1 and Variant 2 accordingly.

The tables 11a) 11b) - Report on movement of money resources (Cash Flow) for Variant 1 and Variant 2 accordingly.

The tables 12a) and 12b) - Basic financial parameters for Variant 1 and Variant 2 accordingly.

Tables 10a

Item	1qrt 2006y	2 qrt 2006y	3 qrt 2006y	4 qrt 2006y	1qrt 2007y	2 qrt 2007y	3 qrt 2007y	4 qrt 2007y
Sales revenues					11 335 142	11 608 474	11 888 398	12 175 071
Gross profit					11 335 142	11 608 474	11 888 398	12 175 071
Other taxes	119 585	119 466	119 346	312 357	767 382	755 185	742 988	899 899
Production expenses					1 409 485	1 443 473	1 478 281	1 513 928
Salary of administrative personnel					1 261 002	1 291 409	1 322 550	1 354 441
Total operating expenses					2 670 488	2 734 883	2 800 831	2 868 369
Depreciation	14 500	21 750	21 750	21 750	2 213 017	2 217 678	2 217 678	2 217 678
Interest expenses					2 260 781	2 767 734	2 767 734	4 263 984
Total non-operating expenses	14 500	21 750	21 750	21 750	4 473 798	4 985 412	4 985 412	6 481 662
Other revenues	77 000 000							
Other expenses	249 999	249 999	249 999	249 999	251 999	258 075	264 299	270 671
Profit before tax	76 615 915	-391 215	-391 096	-584 108	3 171 474	2 874 919	3 094 868	1 654 468
Taxable profit	76 876 792				3 171 474	2 874 919	3 094 868	1 654 468
Tax on profit					761 155	689 980	742 768	397 072
Net profit	76 615 915	-391 215	-391 096	-584 108	2 410 322	2 184 939	2 352 100	1 257 397

Item	1qrt 2008y	2 qrt 2008y	3 qrt 2008y	4 qrt 2008y	1qrt 2009y	2 qrt 2009y	3 qrt 2009y	4 qrt 2009y
Sales revenues	30 726 414	31 395 579	32 079 317	32 777 946	37 834 134	38 569 121	39 318 386	40 082 206
Gross profit	30 726 414	31 395 579	32 079 317	32 777 946	37 834 134	38 569 121	39 318 386	40 082 206
Other taxes	1 220 868	1 201 098	1 181 327	1 161 555	1 141 785	1 122 014	1 102 242	1 082 472
Production expenses	8 591 284	8 778 388	8 969 564	9 164 906	9 357 278	9 539 057	9 724 369	9 913 280
Salary of administrative personnel	2 453 294	2 506 723	2 561 314	2 617 095	2 672 028	2 723 936	2 776 853	2 830 797
Total operating expenses	11 044 578	11 285 110	11 530 879	11 782 000	12 029 306	12 262 994	12 501 221	12 744 078
Depreciation	3 594 732	3 594 732	3 594 732	3 594 732	3 594 732	3 594 732	3 594 732	3 594 732
Interest expenses	4 263 984	4 263 984	4 263 984	3 848 191	2 497 157	2 185 186	1 810 872	935 157
Total non-operating expenses	7 858 716	7 858 716	7 858 716	7 442 923	6 091 891	5 779 919	5 405 604	4 529 889
Other revenues								
Other expenses								
Profit before tax	10 602 248	11 050 654	11 508 395	12 391 467	18 571 153	19 404 194	20 309 318	21 725 768
Taxable profit	10 602 248	11 050 654	11 508 395	12 391 467	18 571 153	19 404 194	20 309 318	21 725 768
Tax on profit	2 544 540	2 652 157	2 762 014	2 973 952	4 457 077	4 657 007	4 874 236	5 214 184
Net profit	8 057 708	8 398 496	8 746 379	9 417 514	14 114 076	14 747 188	15 435 081	16 511 583

Item	1qrt 2010y	2 qrt 2010y	3 qrt 2010y	4 qrt 2010y
Sales revenues	40 829 075	41 525 558	42 233 923	42 954 371
Gross profit	40 829 075	41 525 558	42 233 923	42 954 371
Other taxes	1 062 701	1 042 929	1 023 159	1 003 387
Production expenses	10 097 998	10 270 255	10 445 450	10 623 634
Salary of administrative personnel	2 883 546	2 932 734	2 982 763	3 033 644
Total operating expenses	12 981 542	13 202 989	13 428 213	13 657 279
Depreciation	3 594 732	3 594 732	3 594 732	3 594 732
Interest expenses	374 063			
Total non-operating expenses	3 968 796	3 594 732	3 594 732	3 594 732
Other revenues				
Other expenses				
Profit before tax	22 816 036	23 684 907	24 187 820	24 698 974
Effect of operating with foreign currency				
Taxable profit	22 816 036	23 684 907	24 187 820	24 698 974
Tax on profit	5 475 848	5 684 378	5 805 077	5 927 753
Net profit	17 340 187	18 000 529	18 382 744	18 771 220

Tables 10b

Item	1qrt 2006y	2 qrt 2006y	3 qrt 2006y	4 qrt 2006y	1qrt 2007y	2 qrt 2007y	3 qrt 2007y	4 qrt 2007y
Sales revenues					11 335 142	11 608 475	11 888 398	12 175 071
Gross profit					11 335 142	11 608 475	11 888 398	12 175 071
Other taxes	119 585	119 466	119 346	312 358	767 382	755 185	742 988	899 899
Production expenses					1 409 485	1 443 473	1 478 280	1 513 927
Salary of administrative personnel					1 261 002	1 291 410	1 322 550	1 354 442
Total operating expenses					2 670 487	2 734 882	2 800 831	2 868 369
Depreciation	14 500	21 750	21 750	21 750	2 213 018	2 217 679	2 217 679	2 217 679
Interest expenses							1 251 250	1 876 875
Total non-operating expenses	14 500	21 750	21 750	21 750	2 213 018	2 217 679	3 468 929	4 094 554
Other revenues	165 000 000							
Other expenses	250 000	250 000	250 000	250 000	251 999	258 075	264 299	270 672
Profit before tax	164 615 915	-391 216	-391 096	-584 108	5 432 257	5 642 653	4 611 352	4 041 578
Taxable profit	164 876 792				5 432 257	5 642 653	4 611 352	4 041 578
Tax on profit					1 303 742	1 354 237	1 106 724	969 979
Net profit	164 615 915	-391 216	-391 096	-584 108	4 128 515	4 288 416	3 504 628	3 071 599

Item	1qrt 2008y	2 qrt 2008y	3 qrt 2008y	4 qrt 2008y	1qrt 2009y	2 qrt 2009y	3 qrt 2009y	4 qrt 2009y
Sales revenues	30 726 413	31 395 578	32 079 317	32 777 946	37 834 134	38 569 121	39 318 386	40 082 206
Gross profit	30 726 413	31 395 578	32 079 317	32 777 946	37 834 134	38 569 121	39 318 386	40 082 206
Other taxes	1 220 869	1 201 098	1 181 327	1 161 556	1 141 785	1 122 014	1 102 243	1 082 472
Production expenses	8 591 285	8 778 387	8 969 565	9 164 905	9 357 278	9 539 058	9 724 369	9 913 280
Salary of administrative personnel	2 453 294	2 506 722	2 561 314	2 617 095	2 672 028	2 723 936	2 776 853	2 830 798
Total operating expenses	11 044 579	11 285 110	11 530 879	11 782 000	12 029 306	12 262 994	12 501 222	12 744 077
Depreciation	3 594 733	3 594 733	3 594 733	3 594 733	3 594 733	3 594 733	3 594 733	3 594 733
Interest expenses	1 876 875	1 876 875	1 787 500	1 519 375	1 251 250	983 125	715 000	446 875
Total non-operating expenses	5 471 608	5 471 608	5 382 233	5 114 108	4 845 983	4 577 858	4 309 733	4 041 608
Other revenues								
Other expenses								
Profit before tax	12 989 358	13 437 763	13 984 879	14 720 282	19 817 061	20 606 255	21 405 189	22 214 050
Taxable profit	12 989 358	13 437 763	13 984 879	14 720 282	19 817 061	20 606 255	21 405 189	22 214 050
Tax on profit	3 117 446	3 225 063	3 356 371	3 532 868	4 756 095	4 945 501	5 137 245	5 331 372
Net profit	9 871 912	10 212 700	10 628 508	11 187 415	15 060 966	15 660 754	16 267 943	16 882 678

Item	1qrt 2010y	2 qrt 2010y	3 qrt 2010y	4 qrt 2010y
Sales revenues	40 829 075	41 525 559	42 233 923	42 954 372
Gross profit	40 829 075	41 525 559	42 233 923	42 954 372
Other taxes	1 062 701	1 042 930	1 023 158	1 003 387
Production expenses	10 097 998	10 270 255	10 445 450	10 623 634
Salary of administrative personnel	2 883 545	2 932 734	2 982 762	3 033 644
Total operating expenses	12 981 543	13 202 989	13 428 213	13 657 278
Depreciation	3 594 733	3 594 733	3 594 733	3 594 733
Interest expenses	178 750			
Total non-operating expenses	3 773 483	3 594 733	3 594 733	3 594 733
Other revenues				
Other expenses				
Profit before tax	23 011 348	23 684 907	24 187 820	24 698 974
Taxable profit	23 011 348	23 684 907	24 187 820	24 698 974
Tax on profit	5 522 724	5 684 378	5 805 077	5 927 754
Net profit	17 488 625	18 000 530	18 382 743	18 771 220

Repayment of debt				35 634 614	35 634 614	11 884 614	19 009 614	25 336 538
Interest paid	4 263 984	4 263 984	4 263 984	3 848 191	2 497 157	2 185 186	1 810 872	935 157
Net cash from financing activities	-4 263 984	-4 263 984	-4 263 984	-39 482 805	-38 131 771	-14 069 800	-20 820 486	-26 271 695
Cash at beginning of period	16 832 838	65 290 067	113 987 129	152 250 949	53 738 104	49 926 792	70 200 362	54 303 237
Cash at end of period	33 539 227	81 370 739	130 505 097	133 971 629	37 467 493	56 464 632	70 317 491	49 198 212

Item	1qrt 2010y	2 qrt 2010y	3 qrt 2010y	4 qrt 2010y
Cash receipts from customers	48 178 308	49 000 159	46 395 695	50 686 158
General expenses paid	11 915 637	12 118 901	11 474 755	12 535 889
Salary paid	2 074 493	2 109 881	1 997 736	2 182 478
Total operating expenses	13 990 131	14 228 782	13 472 492	14 718 366
Other inflows				
Taxes paid	12 780 700	13 109 494	11 985 588	13 547 778
Net cash from operating activities	21 407 477	21 661 885	20 937 615	22 420 015
Purchase of property, plant and equipment				
Other start-up expenses paid				
Net cash from investment activities				
Proceeds from debt				
Repayment of debt	21 375 000	7 125 000	19 009 614	
Interest paid	374 063	0	1 810 872	
Net cash from financing activities	-21 749 063	-7 125 000	-20 820 486	
Cash at beginning of period	47 723 545	54 577 274	70 200 362	179 308 823
Cash at end of period	47 381 960	69 114 158	70 317 491	201 728 838

Tables 11b

Item	1qrt 2006y	2 qrt 2006y	3 qrt 2006y	4 qrt 2006y	1qrt 2007y	2 qrt 2007y	3 qrt 2007y
Cash receipts from customers					13 375 468	13 698 000	14 028 309
General expenses paid					1 663 192	1 703 298	1 744 371
Salary paid					907 196	929 072	951 475
Total operating expenses					2 570 388	2 632 370	2 695 846
Other inflows	165 000 000						
Taxes paid		119 585	119 466	119 346	1 530 020	2 951 242	4 224 404
Net cash from operating activities	165 000 000	-119 585	-119 466	-119 346	9 275 060	8 114 388	7 108 060

Purchase of property, plant and equipment	39 750 000	18 000 000	18 000 000	51 344 500	32 249 927	16 129 716	16 518 663
Other start-up expenses paid	250 000	250 000	250 000	250 000	251 999	258 075	264 299
Net cash from investment activities	-40 000 000	-18 250 000	-18 250 000	-51 594 500	-32 501 926	-16 387 791	-16 782 962
Proceeds from debt							71 500 000
Repayment of debt							
Interest paid							1 251 250
Net cash from financing activities							70 248 750
Cash at beginning of period		125 000 000	106 630 415	88 260 949	36 547 104	13 320 237	5 046 834
Cash at end of period	125 000 000	106 630 415	88 260 949	36 547 104			

Item	4 qrt 2007y	1qrt 2008y	2 qrt 2008y	3 qrt 2008y	4 qrt 2008y	1qrt 2009y	2 qrt 2009y
Cash receipts from customers	14 366 584	36 257 167	37 046 782	37 853 594	38 677 976	44 644 278	45 511 563
General expenses paid	1 786 434	10 137 716	10 358 497	10 584 086	10 814 588	11 041 588	11 256 088
Salary paid	974 419	1 764 960	1 803 397	1 842 672	1 882 802	1 922 322	1 959 666
Total operating expenses	2 760 853	11 902 676	12 161 894	12 426 758	12 697 390	12 963 911	13 215 755
Other inflows							
Taxes paid	4 019 268	3 957 025	5 113 138	5 224 940	5 389 398	10 171 607	11 980 169
Net cash from operating activities	7 586 463	20 397 466	19 771 750	20 201 896	20 591 188	21 508 761	20 315 639
Purchase of property, plant and equipment	60 445 935						
Other start-up expenses paid	270 672						
Net cash from investment activities	-60 716 607						
Proceeds from debt							
Repayment of debt				6 809 524	10 214 286	10 214 286	10 214 286
Interest paid	1 876 875	1 876 875	1 876 875	1 787 500	1 519 375	1 251 250	983 125
Net cash from financing activities	-1 876 875	-1 876 875	-1 876 875	-8 597 024	-11 733 661	-11 465 536	-11 197 411
Cash at beginning of period	65 620 682	10 613 663	29 134 255	47 029 130	58 634 002	67 491 530	77 534 755
Cash at end of period	10 613 663	29 134 255	47 029 130	58 634 002	67 491 530	77 534 755	86 652 984

Item	3 qrt 2009y	4 qrt 2009y	1qrt 2010y	2 qrt 2010y	3 qrt 2010y	4 qrt 2010y
Cash receipts from customers	46 395 695	47 297 003	48 178 308	49 000 159	49 836 030	50 686 159
General expenses paid	11 474 755	11 697 670	11 915 638	12 118 901	12 325 631	12 535 888
Salary paid	1 997 736	2 036 545	2 074 493	2 109 881	2 145 872	2 182 478
Total operating expenses	13 472 491	13 734 215	13 990 130	14 228 781	14 471 503	14 718 366
Other inflows						

Taxes paid	12 267 067	12 558 581	12 851 013	13 117 306	13 334 200	13 547 778
Net cash from operating activities	20 656 137	21 004 207	21 337 165	21 654 072	22 030 326	22 420 015
Purchase of property, plant and equipment						
Other start-up expenses paid						
Net cash from investment activities						
Proceeds from debt						
Repayment of debt	10 214 286	10 214 286	10 214 286	3 404 762		
Interest paid	715 000	446 875	178 750			
Net cash from financing activities	-10 929 286	-10 661 161	-10 393 036	-3 404 762		
Cash at beginning of period	86 652 984	96 379 835	106 722 881	117 667 010	135 916 320	157 946 646
Cash at end of period	96 379 835	106 722 881	117 667 010	135 916 320	157 946 646	180 366 661

Tables 12a

Item	1qrt 2006y	2 qrt 2006y	3 qrt 2006y	4 qrt 2006y	1qrt 2007y	2 qrt 2007y	3 qrt 2007y
Current ratio (CR), %	54 035	31 027	7 973	14 211	30 600	1 452	279
Acid ratio (QR), %	54 035	31 027	7 973	14 211	30 600	1 452	279
Net working capital (NWC), \$ US	43 003 601	24 634 096	6 264 710	20 301 400	25 977 852	14 323 266	2 448 718
Net working capital (NWC), \$ US	43 003 601	24 634 096	6 264 710	20 301 400	25 977 852	14 323 266	2 448 718
Net working capital turnover (NCT)					2	3	19
Fixed assets turnover (FAT)					0	0	0
Total assets turnover (TAT)					0	0	0
Total debt to total assets (TD/TA), %	0	0	0	41	56	56	55
L-term debt to total assets (LTD/TA), %				41	56	55	54
L-term debt to fixed assets (LTD/FA), %				48	66	60	56
Total debt to equity (TD/EQ), %	0	0	0	68	129	126	123
Times interest earned (TIE), times					2	2	2
Gross profit margin (GPM), %					100	100	100
Operating profit margin (OPM), %					28	25	26
Net profit margin (NPM), %					21	19	20
Return on current assets (RCA), %	711	-6	-25	-11	37	57	246
Return on fixed assets (RFA), %	908	-3	-2	-2	6	5	5
Return on investment (ROI), %	399	-2	-2	-2	5	5	5
Return on shareholders' equity (ROE), %	399	-2	-2	-3	13	11	12

Item	4 qrt 2007y	1qrt 2008y	2 qrt 2008y	3 qrt 2008y	4 qrt 2008y	1qrt 2009y	2 qrt 2009y
Current ratio (CR), %	587	41	46	54	46	18	24
Acid ratio (QR), %	587	41	46	54	46	18	24
Net working capital (NWC), \$ US	23 025 824	-32 604 556	-40 526 724	-40 186 719	-52 283 038	-58 785 101	-59 654 761
Net working capital (NWC), \$ US	23 025 824	-32 604 556	-40 526 724	-40 186 719	-52 283 038	-58 785 101	-59 654 761
Net working capital turnover (NCT)	2	-4	-3	-3	-3	-3	-3
Fixed assets turnover (FAT)	0	1	1	1	1	1	1
Total assets turnover (TAT)	0	1	0	0	1	1	1
Total debt to total assets (TD/TA), %	65	64	62	60	55	42	36
L-term debt to total assets (LTD/TA), %	63	41	32	26	17	10	1
L-term debt to fixed assets (LTD/FA), %	72	45	37	32	21	10	1
Total debt to equity (TD/EQ), %	189	176	161	148	123	73	57
Times interest earned (TIE), times	1	3	4	4	4	8	10
Gross profit margin (GPM), %	100	100	100	100	100	100	100
Operating profit margin (OPM), %	14	35	35	36	38	49	50
Net profit margin (NPM), %	10	26	27	27	29	37	38
Return on current assets (RCA), %	18	141	97	75	84	452	313
Return on fixed assets (RFA), %	2	15	15	16	18	27	29
Return on investment (ROI), %	2	13	13	13	15	26	26
Return on shareholders' equity (ROE), %	6	36	35	33	33	44	42

Item	3 qrt 2009y	4 qrt 2009y	1qrt 2010y	2 qrt 2010y	3 qrt 2010y	4 qrt 2010y
Current ratio (CR), %	35	41	85	516	993	1 466
Acid ratio (QR), %	35	41	85	516	993	1 466
Net working capital (NWC), \$ US	-43 245 593	-23 496 905	-2 835 092	18 571 191	40 420 802	62 656 795
Net working capital (NWC), \$ US	-43 245 593	-23 496 905	-2 835 092	18 571 191	40 420 802	62 656 795
Net working capital turnover (NCT)	-4	-7	-58	9	4	3
Fixed assets turnover (FAT)	1	1	1	1	1	1
Total assets turnover (TAT)	1	1	1	1	1	1
Total debt to total assets (TD/TA), %	30	19	9	2	2	2
L-term debt to total assets (LTD/TA), %						
L-term debt to fixed assets (LTD/FA), %						
Total debt to equity (TD/EQ), %	42	23	10	2	2	2
Times interest earned (TIE), times	12	24	62			
Gross profit margin (GPM), %	100	100	100	100	100	100

Operating profit margin (OPM), %	52	54	56	57	57	58
Net profit margin (NPM), %	39	41	42	43	44	44
Return on current assets (RCA), %	263	403	439	313	164	112
Return on fixed assets (RFA), %	31	34	36	38	40	41
Return on investment (ROI), %	28	31	33	34	32	30
Return on shareholders' equity (ROE), %	39	38	36	35	32	31

Tables 12b

Item	1qrt 2006y	2 qrt 2006y	3 qrt 2006y	4 qrt 2006y	1qrt 2007y	2 qrt 2007y
Current ratio (CR), %	164 404	141 507	118 564	39 581	10 161	603
Acid ratio (QR), %	164 404	141 507	118 564	39 581	10 161	603
Net working capital (NWC), \$ US	131 003 601	112 634 096	94 264 710	56 801 400	15 994 886	6 443 779
Net working capital (NWC), \$ US	131 003 601	112 634 096	94 264 710	56 801 400	15 994 886	6 443 779
Net working capital turnover (NCT)					3	7
Fixed assets turnover (FAT)					0	0
Total assets turnover (TAT)					0	0
Total debt to total assets (TD/TA), %	0	0	0	0	0	1
L-term debt to total assets (LTD/TA), %						
L-term debt to fixed assets (LTD/FA), %						
Total debt to equity (TD/EQ), %	0	0	0	0	0	1
Times interest earned (TIE), times						
Gross profit margin (GPM), %					100	100
Operating profit margin (OPM), %					48	49
Net profit margin (NPM), %					36	37
Return on current assets (RCA), %	502	-1	-2	-4	102	222
Return on fixed assets (RFA), %	1 951	-3	-2	-2	11	10
Return on investment (ROI), %	399	-1	-1	-1	10	10
Return on shareholders' equity (ROE), %	400	-1	-1	-1	10	10

Item	3 qrt 2007y	4 qrt 2007y	1qrt 2008y	2 qrt 2008y	3 qrt 2008y	4 qrt 2008y
Current ratio (CR), %	1 728	338	168	157	157	166
Acid ratio (QR), %	1 728	338	168	157	157	166
Net working capital (NWC), \$ US	42 728 980	26 456 745	13 894 232	17 373 263	21 227 990	25 609 006
Net working capital (NWC), \$ US	42 728 980	26 456 745	13 894 232	17 373 263	21 227 990	25 609 006
Net working capital turnover (NCT)	1	2	9	7	6	5

Fixed assets turnover (FAT)	0	0	1	1	1	1
Total assets turnover (TAT)	0	0	0	0	0	0
Total debt to total assets (TD/TA), %	22	29	28	27	25	21
L-term debt to total assets (LTD/TA), %	21	25	20	15	11	7
L-term debt to fixed assets (LTD/FA), %	26	29	23	19	14	10
Total debt to equity (TD/EQ), %	28	41	39	37	33	27
Times interest earned (TIE), times	5	3	8	8	9	11
Gross profit margin (GPM), %	100	100	100	100	100	100
Operating profit margin (OPM), %	39	33	42	43	44	45
Net profit margin (NPM), %	29	25	32	33	33	34
Return on current assets (RCA), %	31	33	115	85	72	70
Return on fixed assets (RFA), %	8	6	18	19	20	21
Return on investment (ROI), %	6	5	15	15	16	16
Return on shareholders' equity (ROE), %	8	7	21	21	21	21

Item	1qrt 2009y	2 qrt 2009y	3 qrt 2009y	4 qrt 2009y	1qrt 2010y	2 qrt 2010y
Current ratio (CR), %	179	206	295	482	1 014	2 873
Acid ratio (QR), %	179	206	295	482	1 014	2 873
Net working capital (NWC), \$ US	32 756 750	42 732 400	61 257 205	81 529 140	102 413 609	123 852 878
Net working capital (NWC), \$ US	32 756 750	42 732 400	61 257 205	81 529 140	102 413 609	123 852 878
Net working capital turnover (NCT)	5	4	3	2	2	1
Fixed assets turnover (FAT)	1	1	1	1	1	1
Total assets turnover (TAT)	1	1	1	1	1	1
Total debt to total assets (TD/TA), %	18	14	11	7	4	1
L-term debt to total assets (LTD/TA), %	4	0				
L-term debt to fixed assets (LTD/FA), %	5	1				
Total debt to equity (TD/EQ), %	22	17	12	8	4	1
Times interest earned (TIE), times	17	22	31	51	130	
Gross profit margin (GPM), %	100	100	100	100	100	100
Operating profit margin (OPM), %	52	53	54	55	56	57
Net profit margin (NPM), %	40	41	41	42	43	43
Return on current assets (RCA), %	81	75	70	66	62	56
Return on fixed assets (RFA), %	29	31	32	34	36	38
Return on investment (ROI), %	21	22	22	23	23	23
Return on shareholders' equity (ROE), %	26	26	25	24	24	23

Item	3кв. 2010г.	4кв. 2010г.
Current ratio (CR), %	3 319	3 762
Acid ratio (QR), %	3 319	3 762
Net working capital (NWC), \$ US	145 702 490	167 938 482
Net working capital (NWC), \$ US	145 702 490	167 938 482
Net working capital turnover (NCT)	1	1
Fixed assets turnover (FAT)	1	1
Total assets turnover (TAT)	1	0
Total debt to total assets (TD/TA), %	1	1
L-term debt to total assets (LTD/TA), %		
L-term debt to fixed assets (LTD/FA), %		
Total debt to equity (TD/EQ), %	1	1
Times interest earned (TIE), times		
Gross profit margin (GPM), %	100	100
Operating profit margin (OPM), %	57	58
Net profit margin (NPM), %	44	44
Return on current assets (RCA), %	49	44
Return on fixed assets (RFA), %	40	41
Return on investment (ROI), %	22	21
Return on shareholders' equity (ROE), %	22	21

Calculation of total profitability

This parameter is applied:

- to show total profitability of the project;
- to compare profitability of the given project to alternative projects requiring investments.

For estimation of total profitability of any of the project the following three basic parameters are used:

- calculation of net discount cost - cost of the project;
- calculation of internal norm of profitability - this parameter expresses ultimate cost of alternative use of capital;
- break even period - defines the necessary number of years for return of investments.

The parameters of Efficiency of the investments on Variant 1 and Variant 2 are reflected in the tables 13 accordingly.

Tables 13

Criteria	Variant 1	Variant 2
Discount rate, %	18,50	18,00
Pay back period – PB, mths.	50	35
Discounted payback period – DPB, mths.	59	32
Average rate of return – ARR, %	27,32	38,21
Net present value – NPV, \$	5 971 222	107 162 647
Profitability index - PI	1,03	1,65
Modified rate of return – MIRR, \$	6,44%	22,43%

Net discount income from construction and operation of logistic centers under the project "The Silk Road " is roughly estimated at:

- for Variant 1: 6,000,000 US dollars. The investments pay off in 59 months, i.e. at the end of the analyzed forecasting period.
- for Variant 2: 108,000,000 US dollars. The investments pay off in 30 months, i.e. in middle of the analyzed forecasting period.

Sensitivity Analysis

Sensitivity analysis consists in defining key parameters that can be a drawback for the company performance. The basic parameters affecting net discount income of the project are investment amount, total costs and sales volume. Sensitivity analysis of cost of the project from the listed parameters is given in a fig. 6a), 6b), 7a), 7b) for variant 1 and variant 2 accordingly.

Sensitivity analysis NPV

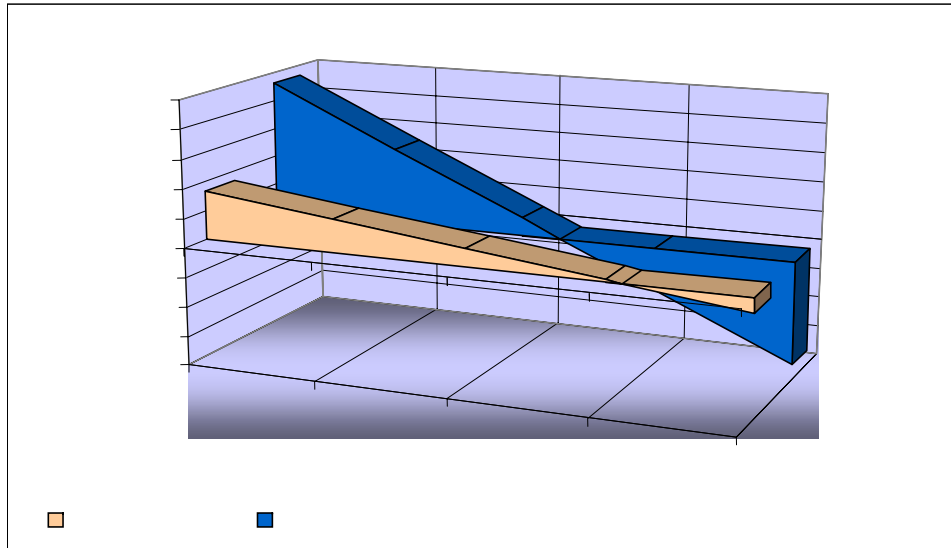


fig. 6a)

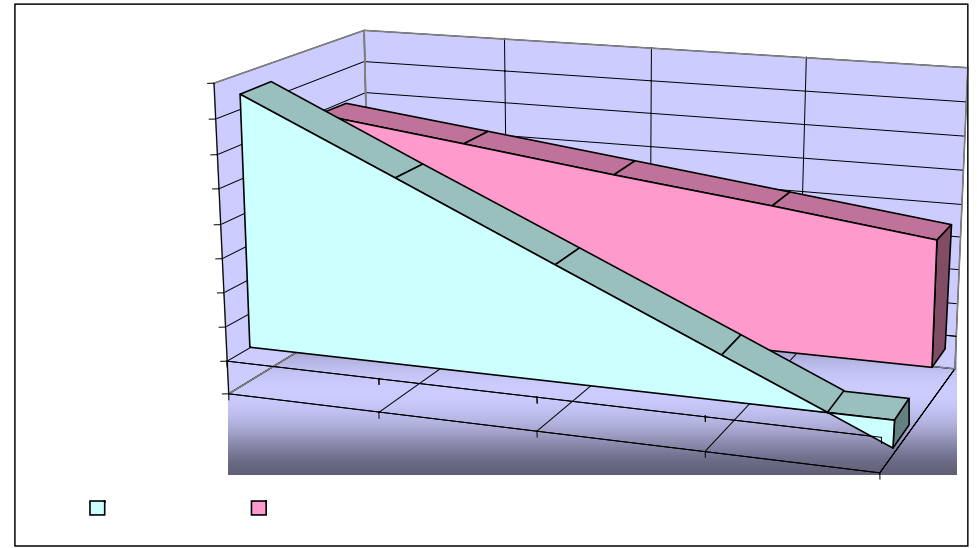


fig. 6b)

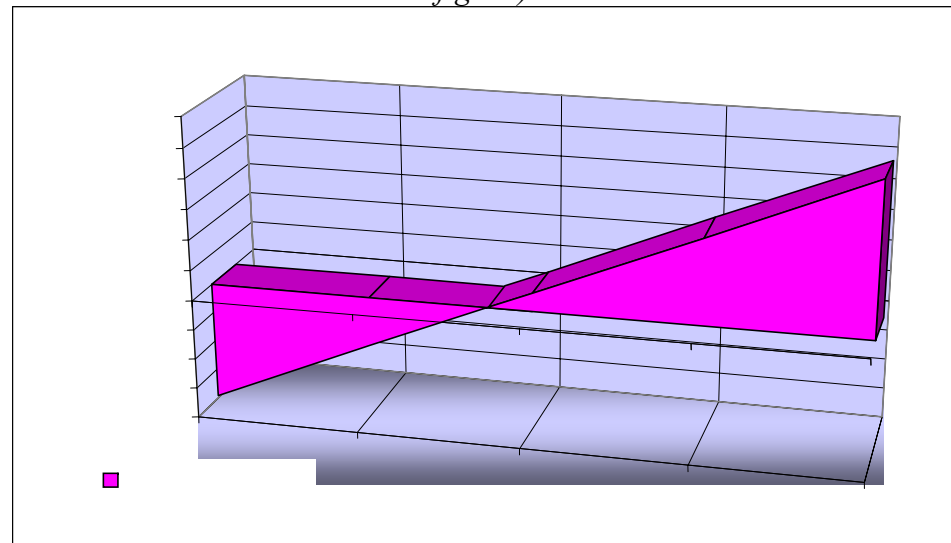


fig. 6a)

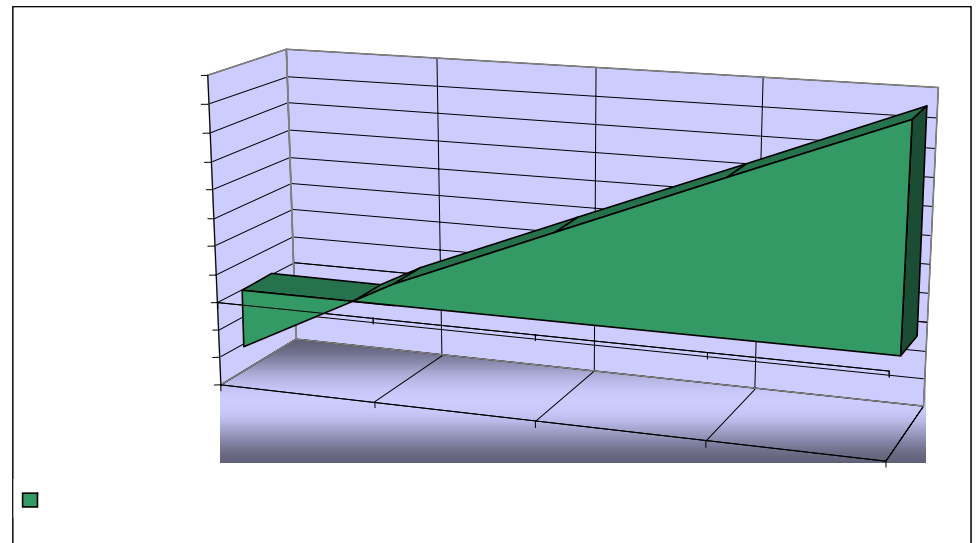


fig. 7b)

Conclusions:

Variant 1. Under given financial conditions the project may not survive a large increase of investments (survival up to 5 %), total costs (up to 5 %), decrease of sales to 5 %. These parameters characterize the project as financially solvent, but with a **high level of risk** (with the increase of time period to 7 years risk level is reduced).

Variant 2. Under given financial conditions the project may not survive double reduction of sales volume, increase in investments at 45 %, and increase of total costs by more than 60 %. It characterizes the project as financially solvent with a **low level of risk**.