

Investment offer

Confectionary producer

Ernst & Young represents the interests of the Republic of Belarus's National Agency of Investment and Privatization in the privatization of the confectionary producer Konfa (the Company), which specializes in production of gingerbread, cookies, marshmallows and other confectionary products. The National Agency is authorized to sell 50% + 1 share to a strategic investor. Please consider this offer and contact our office for further information.

Executive summary

Shares are distributed between the State and 358 individuals including employees of the Company.

Almost 60% of the Company's products are distributed in Minsk and Minsk region.

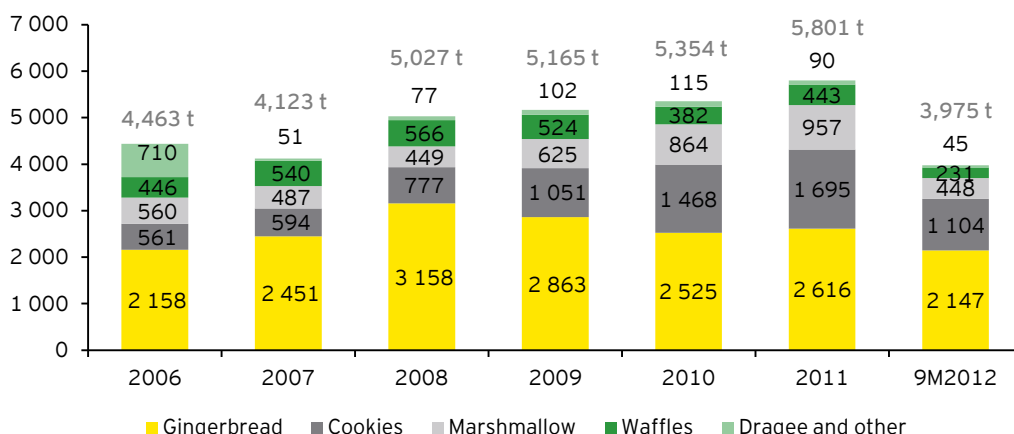
The Company receives 40% of its revenues from wholesale trade (State trade and cooperatives) and 60% from retail trade.

The Company produces gingerbread, cookies, marshmallows and other confectionary products. Konfa's primary sales market is Belarus, while 5% is exported to neighboring countries (Russia, Lithuania) and other countries (Germany, Canada).

Konfa's market share is 4% of the national production. In 9M2012 the Company produced 3,975 tons of 160 different confectionary products, all with registered trademarks.

The production process is maintained in compliance with ISO 9001:2007 and with national standards (GOSTs).

The Company's production capacities allow for production of 7.2 ths t of confectionery. Output dynamics are as follows (tons):



The Company also provides transportation and storage services. During 9M2012, these services accounted for 3% of revenue, or USD 0.2 mln.

Key investment highlights

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- ▶ The Company produces high quality products at competitive prices. The products are made using unique recipes, which do not contain preservatives. This increases customer loyalty;
- ▶ The Company has a diversified product portfolio and well-known trademarks;
- ▶ The Company has a reputation as a reliable partner among distributors and suppliers in Belarus, Russia and the EU;
- ▶ The Company has potential to increase exports to neighboring countries after acquiring the necessary permits and certificates.

Business overview

At the end of 2012, the Company's headcount came to 435 people.

36% of the staff have higher and special secondary educations; 28% have professional technical educations; and 36% have secondary educations.

Average salary for 9M2012 was USD 295.

Sugar, flour, molasses, various fats (margarine, confectionery fat, spreads) and apple sauce for marshmallow production are the main raw materials the Company uses. Share of Belarusian raw materials is about 90%.

The Company was established in 1954. Its production capacities were successfully renewed in 1968, 1988, 1995 and 2002-2003.

The Company's production facilities are located in the town of Molodechno, Minsk region (73 km from Minsk), on two sites. The first site includes two production buildings: one for gingerbread production and one for marshmallows and dragee production. There are also an administrative building, warehouses, a boiler operating on natural gas and departments that service the main production process.

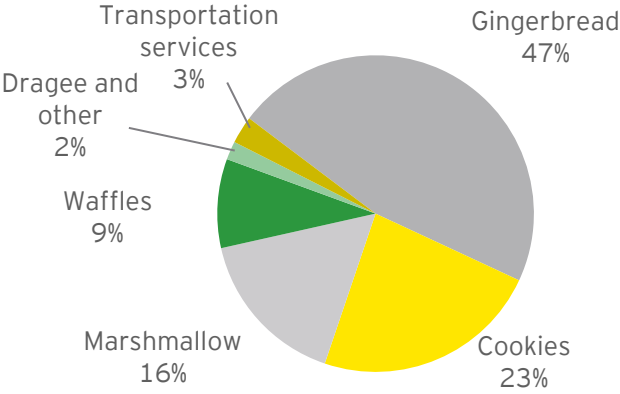
The second site includes cookie and waffle production, as well as warehouses for the main raw materials that are required (flour and sugar).

The total production building area is 3,720 sq m. Production facility airspace is 23.5 thousand cu m.

The Company operates at 90% capacity loading. Production capacities are as follows:

- ▶ Gingerbread - 4 ths t of products annually;
- ▶ Cookies - 1.6 ths t annually . The production line operates at full capacity; during high demand periods, however, capacity loading exceeds 100% due to the use of gingerbread production capacity;
- ▶ Marshmallows - 0.7 ths t annually;
- ▶ Waffles - 0.7 ths t annually;
- ▶ Dragee and other confectionary - 0.2 ths t annually.

The Company's revenue breakdown for 9M2012 is as follows:



The Company operates on a competitive market. Its main competitors are the companies that make up the state concern Belgospisheprom, companies that are of national importance. These include:

- ▶ Spartak (Gomel) - the largest producer of cookies, waffles and candies in Belarus, with production volume of 25 ths t;
- ▶ Kommunarka (Minsk) - the leading producer of candies and waffles, in Belarus with production volume of 18 ths t;
- ▶ Krasnyi pishewik (Bobryisk) - large producer of marshmallows with production volume of 17 ths t.

Financial results

The Company undergoes financial statements audit according to national accounting standards.

The Company remained profitable on the operational level for three years despite a threefold devaluation of the Belarusian currency in 2011 and 2012. The Company does not depend significantly on foreign suppliers, which evens out the impact of exchange rate fluctuation.

Financial results prepared according to IFRS are provided below (in USD thousand).

Item	2010	2011	9M2012
Revenue	7,659	10,443	6,796
Gross profit	2,072	2,511	1,467
EBITDA	781	833	339
Net income	272	136	-9
Gross margin	27.1%	24.0%	21.6%
EBITDA margin	10.2%	8.0%	5.0%
Net income margin	3.6%	1.3%	-0.1%

Development plans

The Company's strategy for 2013 focuses on ensuring production that meets the highest quality requirements and satisfies consumer needs in volumes that generate stable profits and expand sales markets.

To increase sales volume and improve the quality of its products, the Company plans the following investment activities.

- ▶ Rebuilding the raw materials and finished goods warehouses;
- ▶ Building a marshmallow workshop extension;
- ▶ Replacing the obsolete and inefficient furnace with a modern and less energy-intensive one;
- ▶ Modernizing the marshmallow dryers by installing desiccants;
- ▶ Acquiring a decorator for the marshmallow glazing line;
- ▶ Acquiring a vertical packaging machine to replace an obsolete one;
- ▶ Replacing the steam boiler.

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