Tacis

TRACECA - Improvement of Road Transport Services, Central Asia

Final Report

Addendum II

March 1998

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For the attention of Mr. D. Stroobants

Dear Daniel

TRACECA: Improvement of Road Transport Services, Central Asia
Addendum 2
No. TNRREG 9402/P506

I am pleased to enclose our draft final report for Addendum 2 to the above project. I would be pleased to receive your comments for inclusion before completing and distributing the final report.

We believe we have had good successes in this project with Volvo developing a Service Centre in Tashkent with Tashharyuktrans, Scania setting up a facility with SVS and Maiak Logistics developing new business with European organisations.

It has been a privilege to work with Tacis and the partner organisations on this project and we hope GIBB can support you in other TRACECA initiatives in future.

Yours sincerely,

Daniel Giblin

Daniel A Giblin
General Manager, International Transportation

cc: Mr. N. Kessissoglou
Mr. Mike Simms

TRACECA
IMPROVEMENTS OF ROAD TRANSPORT SERVICES CENTRAL ASIA

Addendum No 2 to TA Contract No 96-0198-WW.94. 07/04.01/B003 Project No TNREG 9402/P506

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AUTOMATIC SUPPORT STUDY
SCANIA/SVS

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1 COUNTRY AND REGION POLITICAL AND ECONOMIC ANALYSIS

1.1 KAZAKHSTAN OVERVIEW

Kazakhstan economic recession is now reaching its trough and along with the other Central Asian economies are expected to experience positive economic growth is expected from 1997 on. Since the break up of the Soviet Union, GDP has fallen throughout the area which, together with price liberalisation and deep recessions within these transition economies has reduced enterprise development and the real value of earnings and savings. Structural shifts caused unemployment to grow cutting Government tax revenue and increasing social security payments. An underdeveloped banking system has undermined domestic savings. Since savings overall have fallen, funding for investment has been restricted, relying on foreign investment to spur economic recovery.

If traditional trading routes continue, future growth of the region would be heavily reliant on the recovery in Russia which has a heavy contribution to trade within Central Asia. Intra-Central Asian trade will also spur economic recovery although there may be a capacity constraint if infrastructure in not developed and resources are not managed more efficiently. There must also be a continued stream of foreign capital to fund new capital investment. For European trade to grow, transportation improvement in all areas must take place.

Economic indicators for Kazakstan are consistent with an economy undergoing transition. During the early 1990's there was a steady decline in: GDP; employment; industrial and agricultural production; and capital investment. Over the same period, however, international trade increased substantially, and continued to increase through the mid 1990's.

Kazakhstan's traditionally trading with Russia has been geared towards raw materials, both agricultural and mineral, with the country's main reserves being petroleum and natural gas. Kazakstan also produces 20 percent of the coal of the former Soviet Union. The agricultural sector is centred around grain and livestock; Kazakstan historically is the only former republic with an exportable grain surplus.

2.3.1.2 Energy

About 50 oil companies from all over the world are taking part in joint ventures in Kazakstan. In 1993 Chevron announced that is was taking a 50% share with the government in Tengizchevroil, which exploits the Tengiz field. Production is expected to eventually reach 700,000 barrels a day. Agip and British Gas are putting US $8 billion into developing the Karachaganak field. Another major focus for the oil companies is the exploitation of the Caspian Sea. The government of Kazakstan has also signed an oil swapping agreement with Iran which will permit another route for oil exports.

2.3.1.3 Metals and Mining

Kazakhstan's mining and metals sector saw its output stabilise in 1995, after a 48% decline in output between 1990 and 1994. Although enterprises are still facing a number of economic problems, the overall situation in the industry has started to slowly improve. Among the many challenges which the industry faces are the increasingly obsolete plant and equipment, lack of available funds for reinvestment, shortage of working capital, and increased costs for electricity, transportation, and raw materials.

2.3.1.4 Agriculture

Kazakstan exports significant amounts of meat to other regions of the former Soviet Union. Kazakstan is also a leading wool producer, accounting for a quarter of the CIS total. The food industry is fairly evenly distributed across Kazakstan. Almaty accounts for more than one-tenth of the total production. Other regions with relatively large production include Karaganda in the north-central portion, Kustanai in the north, and Zhambul and Chymkent in the south.

2.3.1.5 Manufacturing

The country's manufacturing base was orientated to supplying the FSU with machinery and some steel. Kazakstan also has the most significant light industrial base in Central Asia. This sector has become increasingly un-competitive due to lack of investment and increased energy prices.

2.3.1.6 Trade

Kazakstan appears to be moving away from its traditional trading partner, Russia, which used to account for 90% of external trading. Trade with China has increased dramatically since 1990. In the west Germany, Netherlands, UK and Sweden are its most prominent European trading partners.

2.3.1.7 Transport Sector

A high proportion of freight has historically been transported by rail, this was due in the main to: Soviet policy; the countries geography; and the type of product. The trucking industry has served an auxiliary role, trucks mainly being used in cities and within industrial enterprises. However, rail travel is generally slow, with equipment in a poor state of repair and has the additional hindrance of bureaucratic procedures. As a direct result, private haulage companies have cashed in on the railway's rigidity. Road travel also has problems with security in some parts of Kazakstan and roads that are generally in a poor state of repair. Although the extraction industry would benefit from trucking operations, this industry is situated in areas of low density population and so roads lack hard surfaces and the required vehicle support infrastructure.

Through GIBB studies it was found that the mix of trucks in Kazakhstan is out of line with requirements . The current stock of trucks is biased towards large trucks used to move bulk cargoes. It was found that 33% of the goods moved are raw materials and mineral fuels, these trucks have a limited flexibility and will become obsolete as the market becomes more segmented.

Vehicles designed for specific functions are rare. As a result, shortages of refrigerated trailers, livestock trucks and tankers inhibit the distribution of perishable goods. The shortage of refrigerated vehicles is particularly serious where food is concerned. This lack of diversity also contributes to the under-utilisation of capacity in truck transport. This was apparent in two particular cases in Kazakstan where there appeared to be a large demand for refrigerated trucks and specialised 30,000 litre plus compartmentalised oil tankers for local petrol stations.

There is a definite bias towards flatbeds and tippers, the current composition is inadequate to meet future demands. As well as not being able to satisfy local demands, the current fleet cannot meet specifications needed to enter Europe. This causes European freight forwarders, such as Danzas based in Bishkek, to use European trucking companies to deliver to Central Asia. It is evident that local haulage companies would have considerable cost advantages over European hauliers but are restricted by their access to suitable trucks. Local companies were found, through surveys to make only 5% of international trips from Kazakhstan to Europe.

2 INTRODUCTION

This report has been completed by the management of SVS in Kazakhstan and consultants from GIBB Ltd based in the UK. As part of the development of Scania trucks in central Asia SVS wish to become the representative dealership for Scania in Kazakhstan. The management of SVS through negotiation with AsiaScan and the technical assistance of GIBB Ltd have prepared a business proposal for consideration by Scania management.

2.1 Description of SVS

2.1.1 Current Business

SVS are currently running a successful road freight company operating from Almaty, Kazakhstan. The company also have a maintenance facility and warehousing space located within ten minutes drive of Almaty International Airport.

The company was formed in 1994, as with many central Asian trucking operators the company started as a trading import/export house. In 1995 SVS expanded into trucking operations and had purchased five trucks by the end of 1995 and by the end of 1996 SVS's fleet had expanded to 15 western manufactured trucks. The company has a policy of purchasing second-hand western trucks direct from the European market. The current fleet is made up of mainly rigid units but there are articulated vehicles in operation. The fleet at the end of 1996 consisted of trucks of the following manufacturer: Renault (x8); MAN (x4); Scania (x1); and Mercedes (x2).

As with many central Asian companies SVS has to over-come the problem of financing the purchase of it's vehicles. There is limited or no availability locally of leasing or debt finance and if there were an offer the interest rates would not be economic. SVS has over-come the financing problem by negotiating with European companies financing agreement using the European company as the l lease, with SVS making payments through this company. SVS has also made an agreement with a German trucking company allowing SVS to become owner of a number of their used trucks. SVS supplies the driver and local expertise and the German operator pays only his wages but collects the revenue from the operations. This revenue plus a final payment from SVS gives SVS ownership of the vehicle. These two examples show SVS to have a resourceful management who have found different ways in which to overcome the problems of financing truck purchases in a developing and high risk economy.

The maintenance facilities that SVS currently have allow for all minor mechanical and body work repairs and some 'capital' repairs although with the current level of equipment larger jobs are not possible. Where possible the company arranges for maintenance work to be completed in German where both the required maintenance equipment and the spare parts are readily available. Spare parts are also brought back from Europe on the companies trucks and using third parties making European journeys.

SVS is currently operating between Almaty and: China; Poland; The Czech Republic; Germany; Italy; Belgium; and France. They have a number of 'partners' in North Kazakhstan, Russia and Belarussia who supply fuel and have phone and fax facilities. Through these 'partners', SVS has guaranteed fuel supplies and can keep track of their vehicles. These arrangements allow the company to plan accurately the expected arrival date of their vehicles at the different destinations and to up date these times as the journeys are taking place.

2.1.2 Proposed dealership business

The airport location totals 7000m^2 and the SVS management feel this would be a good location for the dealership and Scania maintenance facility to be established. Initially SVS would use a 1000m^2 area of the building and two offices for the Scania operation, this could be increased as the business develops.

From the operations of the company and the use of different methods to overcome problems that arise in the central Asian market the management of SVS has shown it has both initiative and motivation to succeed in it's chosen business. The company management have also shown the ability to identify business opportunities, act on them and make a successful business out of them. They see the ownership of a truck dealership as a complimentary addition to their current business activities and builds on the experience they have gained as an operator within the trucking industry.

The main areas of concern that the SVS management have about the dealership agreement as discussed with AsiaScan:

1. the (high) expected level of sales over the first five to seven years, as stated during negotiations by AsiaScan.
2. the preference that Scania have for the dealership maintenance department only dealing with Scania vehicles
3. the expected/required level of investment by SVS in tools, equipment and spares at the business start up.

During discussions with the SVS management the following points were made concerning each of the concerns listed above:

1. The AsiaScan sales prediction for the Scania tractor units were 30,45,60 per annum for years 1,2 and 3 and 70 for year 4 and then on. When this is compared with the current level of annual sales, the expected growth is almost 10 fold.
2. the initial high set-up costs of the maintenance facility, the training requirements and bespoke area of SVS's Airport site, cannot be justified by the maintenance requirement for the forecast number of trucks in the market. In the first year of operation there would be in the region of only 300 to 700 hours of work on Scania trucks. The facility has the capacity for up to six vehicles to be worked on at one time and the aim would be to maximise the use of the space and equipment. The priority of the facility would be Scania vehicles with the excess capacity being filled with in order of preference:
   1. other western makes of vehicles; and
   2. Russian produced vehicles.

   It is expected that the 'other western makes' business will grow faster than the Scania business because of the large number of vehicles already in the market. This area of the SVS dealership business will therefore expand and then contract as the requirement for Scania maintenance increases. With the current maintenance capacity this part of the dealership operation will become solely Scania work sometime from year 8 onwards. This estimation only allows for the maintenance requirements of new Scania's sold into the market and does not allow for second hand Scania's coming into the region.

   There is also the rather important assumption that the central Asian owners will keep to the expected maintenance levels used in the forecasts of 75 hours per vehicle per year. From the experience of the Gibb consultants with local truck owner operators, many do not maintain their vehicles to a standard expected and required in western Europe.

In addition to the maintenance operation other areas of business activity that could be considered for the site were the sale of: lubricants; tyres; benzene; and TIR parking. For the forecast completed in this business plan only lubricants and tyres were included because of their direct relationship with the core business of the dealership.

3. Through discussions with AsiaScan the level of investment required from SVS would be 166,000 UD$ for maintenance equipment plus the stock of spare parts. In the forecasting model the stock level was set at 2 months sales for spare parts (Scania and other makes) and 1 month for other stocks (lubricants, tyres). This gives the stock levels for the Mid sales level forecast shown in table 2.1.1.

Table 2.1.1 - Average stock levels (Mid forecast), '000 US$

	Year 1	Year 7
Scania spare parts	5.8	32.3
Other makes spare parts	8.7	0.0
Lubricants	0.9	2.0
Tyres	4.3	10.8
Total	**19.7**	**45.1**

The level of initial investment was an area that SVS was not in agreement with and was an area that deeded direct negotiations between Scania and SVS. The SVS management felt that they would already be making a considerable investment by supplying the maintenance/warehousing facility and offices.

2.1.3 Start up fund generation

There is need to generate start up investment for SVS possibly through the EBRD in respect of:

- SME loans
- SME equity
- SME credit lines

GIBB has discussed these concepts with the EBRD in Almaty and Tashkent with the following bank representatives:

- Abbas Ofarinov
- Others

It was explained by Michael Marias, EBRD Almaty that the bank may be looking to support development in the road services sector. The bank will consider a business plan from SVS and other road service operators as a basis for building an investment strategy in the sector. It was explained to the EBRD that GIBB could identify 20 Kazak road service companies which are in need of loans and investment in infrastructure and equipment.

3 MARKET ANALYSIS

3.1 Market Segmentation

3.1.1 Introduction

1. Marketing
   The sales of new trucks must be the main objective of the management of the SVS dealership, other activities are necessary but the priority must be clear. Having accepted this the level of sales to be targeted must be agreed.

   Scania have set high expectations for the level of sales for Kazakhstan considering the current sales level and the market conditions. To achieve the level of sales forecast by Scania a well planned and extensive marketing campaign will be implemented. This would ensure that potential customers are informed of the equipment and services that are being offered by SVS.

3.2 Services Audit

The SVS dealership will offer the following services:

New truck sales, Scania:

- Part sales, Scania trucks. Original Scania manufactured parts imported from Europe.
- Maintenance and servicing, Scania trucks. Covering locally owned and transit Scania trucks, these will be given priority over other makes of vehicle.
- Maintenance and servicing, other makes. These are seen as a secondary source of income behind Scania vehicles. Work will only be carried out to utilise over capacity in the workshop.
- Lubricants sales, high quality materials will be used probably imported, much of the sales will be to vehicles being serviced by the dealership.;
- Tyres sales, through experience in the area, re-treaded tyres have, at present, a higher demand than new ones. The dealership will therefore source locally re-treaded tyres (using tyres of European origin) while ensuring they are of a suitably high standard. With the development of the market and the customers new tyres will be phased in.

Future possible sources of income:

- Fuel sales. Sale of both Diesel, for Western manufactured trucks and Benzene for most Russian trucks. The dealership will probably not attract cars into the petrol station and should specialise in the requirements of truck operators.;
- TIR parking, secure parking facilities that satisfy TIR requirements could be supplied at the Airport facility but would require development at the site to ensure the security and separation of the vehicles from the other operations. The would also be the need to supply the other facilities that would be required by drivers staying overnight at the site.

SVS will offer the following facilities and services available:

- Equipment and tool tooling, modern and specialised Scania supplies tools. The SVS dealership will have the capability to provide all servicing and mechanical repairs;
- Workshop, modern indoor. All workshops would be indoor, on hanger types buildings, characterised by large doors and concrete floors. There would be the capability for all year round working;
- Skilled and trained staff, mechanics with experience of working on SVS's own European manufactured vehicles, Scania will also carryout training of Kazak mechanics in Sweden on Scania vehicles.
- Back up facilities for truck operators buying new vehicles;
- Scania (quality) spare parts;
- Close to main roads leading to/from Almaty;
- Management experienced in trucking industry;

3.3 Competitor Analysis

3.3.1 Introduction

The competition to a Scania dealership can be split into 2 distinct groups:

Direct competition from, European and other western manufactured truck (bought locally or in Europe):

- New truck sales;
- Second-hand truck purchases.

And direct and indirect competition from Russian manufactured trucks (these can be seen as

- New truck sales;
- Second-hand truck purchases.

3.3.2 European and other western manufactured truck (bought locally or in Europe):

Other makes of European manufactured truck are operating in the Kazakhstan market with vary degrees of success. Although many of these are vehicles that have been bought second hand and brought back from Europe. The other European manufactured trucks seen in the area are mainly Turkish or Iranian owned in transit. This use of non-Russian trucks for long distance haulage is an advertisement for European trucks. Through GIBB's experience working with local truck operators and related business people throughout central Asia, there is a desire to purchase European trucks. This is stimulated by European trucks being seen in use, therefore a need exists to increase the number of vehicles in local ownership. To this end systems must be put into place such as: financing facilities; backup services; and promotional activity.

It is hard to accurately quote the level of sales of each supplier but Mercedes are seen as the main competitor. From discussions with local operators, consideration of the companies policy towards pricing and financing available to potential buyers, leasing facilities are vital to make a success of the Scania dealership and especially when considering the forecast level of sales.

3.3.3 Russian manufactured trucks

In the short and medium term these must be seen as a threat because they are extensively used throughout the region and have a CIS wide availability of spare parts and maintenance facilities. Kazakhstan has by far the largest fleet of trucks of the five central Asian republics. According to official 1996 figures of registered operable trucks there were:

- Russian Manufactured vehicles, 14,500 operational tractor units;
- Western European trucks, 267 units (Rigid and tractor units).

It should be considered that there were 29,400 operational units of CIS manufacture with capacity over 10mT and only 4,400 operational units with a capacity over 15 mT. This area of the market will increase as western practices in road haulage become more widespread.

In the long term, unless there are dramatic changes in the quality and price of CIS manufactured trucks they will not be a serious competitor. Studies completed by GIBB show that the decline in useable trucks and the very low level of replacement could produce reductions from 1994 levels of 52% by 1999 and 89% by 2004. This situation will of course greatly increase the requirement for replacement of government owned vehicles and the increasing reliance on private operators.

The need for CIS manufacturers to charge prices more inline with actual costs has priced these trucks out of the market, as even though vehicles can be 50%-60% of the price of a Western manufactured vehicle the quality, life and economy are way below what should be expected for the price.

The main threat posed by these vehicles in the short term is that the owners cannot afford to change to new vehicles and so continuing with their existing vehicle. This is one area where the use of marketing and the availability of suitable purchasing arrangements could expand the sale of Scania vehicles.

Although many CIS manufactured trucks are used for short haulage jobs, they are used between main cities and for longer distance haulage into other CIS countries. There are therefore opportunities to directly replace these vehicles with Scania units.

3.4 Analysis of Strengths, Weaknesses, Opportunities and Threats

3.4.1 SVS Dealership (specifically)

(a) Strengths

- Successful in current business. Establishing, managing and developing a profitable trucking operation in an unpredictable market.
- Experience as trucking operator. Having firsthand knowledge of the requirements and problems for truck owners operating in central Asia.
- Experience in Europe. Personal experience of operating their vehicles in Europe, and of negotiating truck purchase schemes with European companies.
- Existing mechanics and equipment (although not full Scania requirements)
- Existing facilities including inside work shop and warehouse allowing all year working operation.

(b) **Weaknesses**

- Length of time in business (3 years). Relatively short time in business during a high risk and high growth period, this does not mean that the management will be able to operate so successfully in a more developed market.
- Need to develop administrative and accounting systems that are up to the standard required and compatible to Scania's requirements.
- Possible clash of interest with trucking business (which they wish to continue). There are two potential problem areas that this could occur: firstly restricting vehicles sales to competitor truck operators; and secondly that one if SVS's main objectives might be to supply itself with cheaper vehicles than it could buy from another dealership.
- Amount of own cash to invest. Within this study the total amount that SVS was willing to invest in the dealership could not be finalised, this is an area that would have to be discussed at later negotiations. Through discussions with SVS management the level of initial investment was seen as a potential hurdle to establishing the dealership.
- Experience of truck sales, marketing and running a high quality business. Many central Asian entrepreneurs take each 'deal' in isolation with a very short term outlook, this is understandable in the current economic climate. The dealership must be seen as a long term business with a much more strategic outlook.

(c) **Opportunities**

- Growing potential market, although the market has developed considerably there is still a high level of potential for further growth. With the high growth potential comes a high associated risk which much be considered at the same time.
- Increasing volume of foreign transit traffic (From Europe and other CIS countries, and the existing trading countries of Turkey and Iran).
- Customer service support is an area that needs considerable improvement in general in central Asia. This must be an integral part of the dealership management and operations systems.

(d) **Threats**

- Dealers of other makes of European trucks, close monitoring would be required of the policies and actions taken by these companies that could reduce the competitiveness of the SVS dealership.
- Volatile economy, as stated above with high potential growth comes the associated high risk.
- Government actions including policy towards import duty, protection policies are a problem with support being given to CIS produced vehicles and spares by the use of high duties on imported goods.
- Neighbouring counties situation and stability could effect the economy of Kazakstan and the transit traffic.

3.4.2 SCANIA (in general)

(a) **Strengths**

- Quality equipment, the Scania name is known in Kazakstan as a quality organisation, this was discussed during meetings with local operators.
- Built to operate in Northern European weather conditions, they are therefore designed to work in low temperatures (fuel heating) and on rugged terrain. This is seen as a distinct advantage in central Asia.
- Financial packages available. Scania must be able to offer leasing deals for Kazak operators otherwise sales will remain uneconomically low. It could well be expected that without such facilities a Scania dealership would have a short life expectancy.

(b) **Weaknesses**

- New business in market, lack of experience in specific skills needed to establish and manage a dealership in central Asia
- High cost, relative to local incomes and the historic costs of Russian manufactured trucks.
- No servicing or spare parts network will be established, with only the Almaty centre this may not be a major problem as Almaty is the main centre for trade and transit traffic.

(c) **Opportunities**

- Growing market for imports, due to a number of reasons: increasing cost of Russian made vehicles; quality and reliability of western vehicles; the desire to operate in Europe;
- Increasing number of private companies who are able to reinvest profits back into the business and are dynamic in their business activities;
- Declining government owned truck fleet, there will be a need for the state to invest in new vehicles. GIBB studies carried out during 1996 showed that there is almost no truck replacement being carried out by the Kazak authorities, and that vehicle lives were being extended to compensate.

(d) **Threats**

- CIS manufactured trucks will stay as a competitor to some of the Scania range of trucks (at the smaller end of the range) if only because the present owners will not replace their trucks because of the relatively high cost of new vehicles;
- Other European manufacturers who have already established dealerships in the region and who have very aggressive marketing and sales policies;
- Economic, political and financial instability of the country and the surrounding region.
- Currency convertibility see section 3.4.3.

3.4.3 Currency convertibility

Negotiations would need to be held with Government officials to get agreement on how hard currency could be removed from Kazakhstan back to Europe for any trucks and other goods supplied.

Restrictions may exist on paying for vehicles in hard currency so making local operators pay in Tenge, this could then be exchanged for hard currency through official channels at official rates. Charges or restrictions may be enforced for money taken out of the country. the additional cost of these transactions and the associated administration costs have not been included in the financial forecasts but would have to be considered seriously before establishing the dealership agreement.

4 FINANCIAL FORECASTS, ANALYSIS AND INTERPRETATION

4.1 Introduction

Following discussions with AsiaScan, and further analysis by the SVS management, detailed financial forecasts were produced. The forecasts produced were developed into 4 main reports:

4.1.1 The financial documents produced consisted of :

1. Detailed sales analysis. This document splits sales into Scania and Other makes/suppliers, showing the makeup of each in detail. Scania sales are divided into Trucks, spare parts and maintenance. Other makes/suppliers is made up of Spare parts, maintenance lubricants and tyres. At a later stage this could be expanded to include sales of fuel, and provision of TIR parking.
2. Profit and loss account. This is constructed in the following way, Gross Margin less Indirect Costs less Overheads showing the Profit or Loss. The gross margin is shown in the same detail as the 'Detailed sales analysis' report described above.
3. Cash-flow statement, this report shows the in and out flow of the dealerships cash. The report contains the equity and debt requirements and the expected repayments of the debt principal. Total capital expenditure is also shown in this report.
4. Balance sheet. A summarised balance sheet is included for each of the four forecasts (see section 4.1.2 below).

4.1.2 Sales Forecasts

Four sets of sales forecasts were used to give an idea of the sensitivity of the dealership to fluctuations in the forecast financial result. The ranges are described as:

1. AsiaScan,
   The truck sales forecast put forward by AsiaScan and Scania;

2. MID,
   The SVS/GIBB estimated BASE level of sales of new trucks;

3. HIGH,
   120% of the SVS/GIBB MID estimate;

4. LOW,
   50% of the SVS/GIBB MID estimate.

4.1.3 Backup reports consist of:

- Revenue detailed makeup;
- Costs detailed makeup;

4.1.4 Sensitivity Analysis

Analysis was made of the MID forecast to ascertain the sensitivity of the dealership to fluctuations in the sales of Scania trucks. The sales volumes were flexed + and - 45% of the MID forecast, Table 4.1.1 shows the number of trucks sold for each scenario.

Table 4.1.1 - Sensitivity analysis, flexed MID Scania truck sales volumes

Change in Base	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
-45%	6	8	12	15	18	18	18
-30%	7	11	15	19	23	23	23
-15%	9	13	18	23	28	28	28
Base	10	15	21	27	33	33	33
+15%	12	17	24	31	38	38	38
+30%	13	20	27	35	43	43	43
+45%	15	22	30	39	48	48	48

The dealership will be extremely sensitive to fluctuations in Scania vehicle sales especially in the early years business, this sensitivity will reduce over time as can be seen in Table 4.1.2. The main reason for this is the effect that indirect costs and overheads have on the profit of the business.

Economies of scale will be gained as the volume of truck and spare parts sales and maintenance work increase, but the administration cost are either constant or increase at a much lower rate. The actual changes in gross margin can be seen on Table 4.1.3 .

Table 4.1.2 - Effect on profits (%) for changes in Scania Truck Sales

Change in Base	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
-45%	-237%	-243%	-87%	-65%	-54%	-48%	-44%
-30%	-177%	-104%	-57%	-41%	-33%	-31%	-30%
-15%	-59%	-49%	-27%	-18%	-17%	-17%	-14%
Base	0%	0%	0%	0%	0%	0%	0%
+15%	108%	53%	29%	19%	14%	17%	16%
+30%	134%	120%	57%	37%	31%	31%	29%
+45%	183%	167%	85%	56%	48%	48%	45%

Table 4.1.3 - Effect of profits ('000 US$) of changes in Scania Truck Sale

Change in Base	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
-45%	-34.5	-37.1	-36.8	-48.6	-56.6	-52.3	-51.3
-30%	-25.8	-15.8	-23.9	-30.8	-35.1	-34.0	-35.3
-15%	-8.5	-7.5	-11.4	-13.8	-17.6	-18.2	-16.3
Base	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+15%	15.8	8.2	12.4	13.9	15.2	18.3	18.9
+30%	19.6	18.3	24.1	27.9	32.9	34.1	34.1
+45%	26.8	25.5	35.8	41.8	50.6	52.4	53.1

4.2 Financial Forecast Findings, Overview

4.2.1 Introduction

The principle aim of the SVS dealership is to become a profitable Scania Dealership and maintenance facility. To this end all scenarios show the Trucks sales business being the single largest profit centre within the dealership company. It can clearly be seen that the proportion of the total gross margin that is made up by sales of Scania trucks varies considerable through the life of the dealership. With range the growth rates used for Scania truck sales shows how important the other sources of revenue are. As the sales of other Scania products (parts and maintenance) would be proportional to the size of the Scania fleet in Kazakstan (plus transit traffic), non-Scania revenue generators were found to be vital to ensure the survival of the business through the early years of the dealership.

4.2.2 Profitability

Sales volume of Scania trucks and sales of other Scania manufactured or related products in the four forecast levels all plateau above 40% or above of the total gross margin and all but the low SVS GIBB forecast plateau at 60% or above, see Table 4.2.1.

The Total Scania business Gross Margin will in all cases be above 70% from year four onwards, and approaching 90% in all but the low forecast by the end of the 7th year, see Table 4.2.2.

Table 4.2.1 - SCANIA TRUCK SALES BUSINESS gross margin as a % of total gross margin

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
AsiaScan	77	80	81	81	76	74	70
Mid	51	58	63	66	65	63	59
High	55	63	67	69	69	67	63
Low	31	40	47	51	51	49	44

Table 4.2.2 - TOTAL SCANIA BUSINESS gross margin as a % of total gross margin

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
AsiaScan	87	94	94	94	94	94	94
Mid	66	75	83	85	88	88	88
High	69	79	87	87	89	90	90
Low	50	59	67	74	75	80	79

The sales price of each truck was set at 80,000 US$ with a maximum margin for SVS of 8%, giving a maximum revenue to SVS of 6,400 US$ before sales costs to the SVS dealership for each truck sold. No deduction has been made in the financial model for any discount that has to be given to customers. This is however an area requiring further discussion between SVS and Scania. Section.

4.2.3 Return on investment

As an indication of the return on investment IRR calculations were carried on of each of the four forecast scenarios, these can be seen in Table 4.2.3 below. It is clear from these

indicators the vital importance of accurate forecasts of the sales volume of Scania trucks, and that once this is selected that the business has this as it's firm target. The agreement of all parties to this forecast and their determination to achieve it, is vital to the successful establishment of the Scania dealership in Kazakhstan.

Table 4.2.3 IRR % for 7 year period

Forecast	IRR %
AsiaScan	119%
MID	28%
HIGH	39%
LOW	1%

In the SVS/GIBB forecasts the sales volume of Scania trucks plateau at the year five volume and for the AsiaScan forecast year 4. On reaching the peak the percentage of overall revenue generated will slowly decline as the maintenance and spare parts revenue increase inline with the increasing locally owned fleet. Sales will become more balanced once the maintenance facility is fully utilised although the continuing growth of spare parts sales will have an effect of the split of sales.

Maintenance revenue will also restricted by the current size of maintenance facility and so the number of trucks that can be maintained at the same time. This restriction can be seen in the forecast profit and loss statements that show reducing non-Scania work and then a levelling off of Scania maintenance work revenue and gross margin. Scania spare parts are assumed to not be limited by the size of the maintenance facility and are only dependant on the size of the fleet and the number of transit vehicles.

4.3 Financial Forecast Findings

4.3.1 Scania truck sales growth

For the dealership is survive it must achieve the sales volumes of Scania Trucks agreed at the outset of the business. This is seen in the MID forecast, truck sales make up in excess of 60% of the gross margin of the business from the second year on. The importance of truck sales cannot be considered in isolation because of the beneficial knock-on effect of sales of Scania spare parts, maintenance/servicing work and build up of the locally owned Scania fleet.

The growth of Scania spare parts sales and maintenance work is almost entirely dependant on the creation of a fleet of local owned vehicles requiring spare parts and maintenance work. Without the growth of this Scania fleet in Kazakstan the business would become dependant on other makes of locally owned and transit western manufactured trucks and, trucks of CIS manufacture. This would cause problems with:

- stock holding, for western makes a limited range of parts could be held so limiting the attractiveness of the business. For CIS manufactured trucks there would be considerable competition with existing suppliers and so the margins available on sales would be very low;
- tools designed for specific makes of vehicle could not be purchased because with the throughput of many different makes of truck, the utilisation of these specialist tools would be too low to justify the purchase;
- competition for truck maintenance of non-specific makes would be high, and so volume throughput using low skilled employees would be the priority rather than a high quality premium service; and

- quality of service, this will be hard to keep at an acceptable standard or even to raise to that standard because firstly, the purchase of new and specialised equipment could not be financially justified as competition would push charge-out rates down. Secondly the business would not get the volume of each make to give the level of experience required by the mechanics to gain the level of expertise to justify premium rates.

Table 4.3.1- Scania sales per year, numbers of trucks

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
AsiaScan	30	45	60	75	75	75	75
Mid	10	15	21	27	33	33	33
High	12	18	25	32	40	40	40
Low	5	8	11	14	17	17	17

Table 4.3.2 - Gross Margin of Scania Trucks

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
AsiaScan	182	278	369	465	465	465	465
Mid	54	86	119	158	196	196	196
High	67	105	145	190	241	241	241
Low	22	41	60	80	99	94	94

4.4 Revenues, variable cost and Gross Margin calculation.

4.4.1 Introduction

this section describes the detail of the financial forecast reports. The headings can be matched to those appearing on the profit and loss accounts and detailed sales reports.

4.4.2 Scania Truck Sales

(a) Introduction

As a Scania dealership the development of a strong market for Scania trucks would be vital to the development and viability of the business in all time scales.

(b) Revenue

Considerable discussion took place between the SVS and GIBB before the MID, HIGH and LOW forecasts were finalised. These are below the AsiaScan forecast but it was felt that they reflect the possible range of sales volumes that could be expected by the dealership.

Table 4.4.1 - Scania Sales, Number of Trucks

Description	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
AsiaScan	30	45	60	75	75	75	75
Mid	10	15	21	27	33	33	33
High	12	18	25	32	40	40	40
Low	5	8	11	14	17	17	17

Table 4.2 - Scania Sales, Revenue '000 US$

Description	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
AsiaScan	2,400	3,600	4,800	6,000	6,000	6,000	6,000
Mid	800	1,200	1,680	2,160	2,640	2,640	2,640
High	960	1,440	2,000	2,540	3,200	3,200	3,200
Low	400	640	880	1,120	1,360	1,360	1,360

Truck sales are based on New Scania tractor units selling at 80,000 US$ per unit.

(c) Variable Cost and Gross Margin

The gross margin that the dealer receives from the sale of the vehicle would be 8%. This is the maximum that the dealer could expect to make from the sale and would reduce with any discount given to any customer.

Table 4.4.3 The forecast Gross Margins are shown in the table below:

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
AsiaScan	182	278	369	465	465	465	465
MID	54	86	119	158	196	196	196
HIGH	67	105	145	190	241	241	241
LOW	22	41	60	80	99	94	94

4.4.3 Spare parts

(a) Scania spares

Spare parts will be sold to both Kazak owned trucks and transit vehicles. This will be the primary part of the spares sales business with priority given to the storage, ordering and sale of Scania spares. The following data was used:

Kazak owned trucks

1. The number of customers in the year will be equal to the number of trucks in the market. This is calculated as the number of trucks at the beginning of the year plus 50% of the forecast sales for the year
2. Scania trucks will require 1000US$ of new parts per year, this is the figure estimated by AsiaScan as the expected requirement for a properly maintained vehicle.

Transit Scania trucks

1. the number of customers is assumed to start at two per week and rise at 5% per annum, this will mean that by year 7, 2.7 customers per week.
2. Each transit Scania customer will spend 250US$ on each purchase.

(b) Other makes spares

Other makes can be split into two main market segments:

1. Other European makes:
2. CIS manufactured vehicles.

It should be the policy of the dealership to target the 'other European makes' segment of the market. The reasons for this are:

1. The dealership would be able to offer a reliable and quality service compared to that on offer in the market at present.
2. Foreign vehicle operators (transit vehicles) will pay a price premium for these parts compared to CIS trucks.
3. High competition and restricted market for CIS parts
4. The offer of European spare parts will attract transit and Kazak owned European trucks to use the maintenance facilities offered by the SVS dealership.

The gross margin that could be expected on these parts would be lower than for the Scania supplied parts. Additional costs in soucing the parts would be incurred for example the likelihood that they would be bought through a third party rather than direct from the manufacturer and smaller volumes than the Scania parts stocked.

Parts would be sold to both those using the SVS Scania dealership maintenance facility and to buyers who would fit the parts themselves. It is assumed that each sale (to whichever type of customer) would be 50US$.

The number of sales has been forecast as 2x (number of maintenance customers). The assumption being that the total sales will be split between vehicles being maintained by the SVS Scania dealership and other sales. This also allows all sales of other makes' spare parts to cease once the number of Kazak owned Scania trucks fully utilises the SVS maintenance facility. At this point the dealership will be a Scania only operation in all activities. It can be seen from Table 4.4.5 below that the year at which this happens varies greatly with the range of forecast Scania sales, form year 2 for the AsiaScan forecast to year 7 for the Low SVS/GIBB forecast, with the Mid forecast showing the 5th year as the change point.

(c) Detail of spare parts customers

Table 4.4.3 - Kazak owned Scania Trucks, Customers per year

Forecast	US$ / customer / Yr	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
A	1000	19	57	109	177	252	327	402
M	1000	9	22	40	64	94	126	159
H	1000	10	25	47	76	112	151	190
L	1000	7	13	23	35	50	66	82

Table 4.4.4 - Transit Scania trucks, Customers per year

Forecast	US$ / customer / visit	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
A,M,H & L	50	104	109	115	120	126	133	139

Table 4.4.5 - Other makes parts customers, Total

Forecast	UD$ / customer/ visit	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
A	50	391	0	0	0	0	0	0
M	50	520	348	73	95	0	0	0
H	50	520	296	0	0	0	0	0
L	50	520	476	328	135	0	47	0

4.4.4 Maintenance

(a) Introduction

The management of SVS are fully in agreement that the aim of the dealership to become a Scania specific operation, but that this is restricted by the low level of forecast business at the initial stages of operation. It is agreed that their will be some fundamental policies of the dealership:

1. Scania vehicles have priority over other makes;
2. The maintenance facility will become Scania only as soon as economically viable.

The number of trained mechanics will start with the minimum of two, and would increase from this base with the increase in Scania vehicle work. The SVS management stated that to keep the required quality of service the number of mechanics must be limited to 6 with the space available at the Airport site. This would mean that there would be a requirement to expand the maintenance workshop at some point depending on the sales level and so growth of the Scania fleet within Kazakstan.
It has been assumed that the as the number of mechanics is increased to satisfy demand for Scania work any time available will be utilised by maintaining Other makes of truck. Table 4.4.6 shows the detail of the maintenance demand and supply split between Scania and Other makes.

Table 4.4.6 - Scania vehicles % of total maintenance work

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
AsiaScan	50	100	100	100	100	100	100
Mid	32	55	91	100	100	100	100
High	33	62	100	100	100	100	100
Low	28	39	58	83	75	96	88

(b) Revenue

The number of Kazak owned vehicles passing through the workshop each year will be equal to the number of Scania trucks in the market at the beginning of the year plus 50% of the forecast sales for that year.

Each Scania truck would be expected to have on average 75 hours of work per year. And the work on Scania trucks in transit would start at 2 per week rising at 5% per year to reach 2.7 per week by year 7. Each of these transit vehicles would require 5 hours each in the maintenance facility. The charge of all maintenance work is assumed to be 10US$ per hour.

Mechanics utilisation was set at 75% to allow for idle time between jobs and when completing administrative jobs.

(c) Costs

The only cost used in the calculation of the maintenance facility gross margin was labour. The labour charge would in the early years of all forecast sales levels be purely for the mechanics. With the volume of work increasing there would be the need at some to have a dedicated maintenance department manager this person would probably also be used on jobs but the salary cost has been included in addition to the mechanics required on jobs. The detail of staffing levels can be seen in Table 6.1.1 . A full break-down of salaries of all staff can be seen in Tables 6.1.1 and 6.3.1.

Salary levels used in the business plan were:

1. Maintenance manager 10,000 UD$ per year
2. Mechanic 7,500 UD$ per year

4.4.5 Lubricants

Lubricant sales were assumed to be to maintenance customers only, for both Scania and other makes. Sales are assumed at 5 lt.'s per vehicle, a sales price of 3 US$/lt and a gross margin of 25%.

4.4.6 Tyres

Tyre sales have been assumed to start a two tyres per week rising to 5 in year 4 and remaining at this level from then on. Table 4.4.7 below shows the detail of the expected tyre sales.

Table 4.4.7 - Tyre sales information

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
Sales volume, tyres / week	2	3	4	5	5	5	5
Price per tyre US$	500	500	500	500	500	500	500
Sales Revenue '000 US$	52	78	104	130	130	130	130
Gross Margin (25%) '000US$	13	20	26	33	33	33	33

4.4.7 Benzene

Through discussions between SVS and GIBB it was felt better not to include Benzene sales as part of the activities of the dealership. There are no fixed facilities of the required volume at either of the SVS sites. The company holds enough fuel for it's own vehicles. The use of tanker trucks or tanks on trailers was rejected as unsuitable for the business that was being established and from a safety point of view.

4.4.8 TIR Parking

This was seriously considered and could well be brought into the business within the 7 year period of this plan. There would need to be some construction work at the SVS airport site to keep separate the Dealership business and, the parking area.

4.4.9 Other Products

The management are interested in other possible developments or diversification of their business that complement the core Scania dealership business. Such developments would be limited in the are they could occupy because of the requirements for space for the Scania business at the current sites

4.5 Indirect and Overheads Costs

4.5.1 Advertising and Marketing

Within the costs of developing the dealership business consideration must be made of the need to publicise the business and attract new customers to it. A budget of 500 US$ per month supplemented by an additional 5,000 US$ in the first year has been allowed. This level of expenditure would allow the dealership to carryout the required advertising and mailing as well has holding functions. The is a need for additional expenditure in the early stages of the project. It is expected that Scania would supply publicity materials although discussion would required over who bears the cost of this.

4.5.2 Interest and Debt repayment

It was considered that the initial investment would be in the form of a debt/equity mix. The initial investment has been assumed to be 150,000 USD with the remaining funding being debt. The debt would attract interest at an estimated rate of 20%. In all cases some debt funding would be required, Table 4.5.1 shows the level of debt and the principal repayments forecast.

Table 4.5.1 - Debt principal draw-down and repayment ('000 US$)

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
AsiaScan	34	(34)					
Mid	115	(61)	(54)				
High	99	(73)	(26)				
Low	157	(21)	(50)	(24)	(62)	-	-

Section 4.1.4 above, shows analysis of the sensitivity of the proposed dealership to flexing of the Sales volume of Scania trucks. The changes in cash flow caused by the flexing would cause changes to the debt requirement and the ability to repay the principal.

Table 4.5.1 below shows for the MID forecast how the debt requirement and repayment would be effected by the flexing of the Scania truck sales, indicated in the left hand column. This table indicates that with reduced sales volumes there is a rapid increase in need for debt with over increasing pay-back periods. This is shown by the repayment period increase of 3 to 5 years between the BASE case and the -45% position. If the sales were to increase then the reduction in debt requirement is only slightly slower than the rate of increase in the reverse situation.

Table 4.5.1 - Debt principal draw-down and (repayment) for MID forecast. ('000 US$)

Scania truck sales flexed	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
-45%	149	(23)	(52)	(26)	(48)	-	-
-30%	140	(44)	(65)	(31)	-	-	-
-15%	123	(53)	(70)	-	-	-	-
BASE	115	(61)	(54)	-	-	-	-
+15%	99	(70)	(29)	-	-	-	-
+30%	95	(80)	(15)	-	-	-	-
+45%	88	(87)	(1)	-	-	-	-

4.5.3 Depreciation and Capital Expenditure

The asset book valuation can be seen in Table 4.5.1 below. The Land and buildings figure is an estimation while the tools and equipment values are those supplied by AsiaScan. This is the expected level of tooling, and as the buildings are already owned by SVS, this is the main area of capital expenditure required to start up the project.

The total cost of the tools was quoted as 166,000 US$, and this was the main area of concern for the SVS management. In this business plan it has been assumed that all the equipment listed is required and is purchased on day one of the dealership starting. It was felt there needed to be more discussion as to whether this level of investment could be phased and whether it was required for a current maximum of 6 mechanics which is the final level of mechanics with a phased increase with the growth of the maintenance facility.

The SVS management were also concerned that this level of investment exposed them to considerable financial risk if the business levels predicted did not materialise or if for some reason Scania could no-longer operate in Kazakstan. These areas need further discussion to ensure that Scania. AsiaScan and SVS are comfortable with what is required from each party.

Most assets were depreciated over 3 to 5 years and it was felt that the replacement requirement at this time would be below the original capital cost but to allow for loss and breakage 75% capital expenditure was charged at the end of each assets depreciation life. As already stated much of the tooling would last past the 3 to 5 year period and with the inclusion of a charge for repairs and maintenance in the budget all costs were covered.

Table 4.5.1 - Fixed asset detail

Description	Book Value (US $)	Life of Asset (years)
Benches, lockers	13,000	5
Lifting, transport	13,000	5
Hand tool	30,000	3
Hand machines	26,000	3
Air compressors	16,000	5
Measuring equip	6,000	5
Lub' & Grease handling	7,000	5
Tyre mounting	30,000	5
Scania special tools	25,000	5
TOTAL TOOLS	166,000	
Buildings & land	120,000	25

4.6 Funding Requirements

4.6.1 Investment requirement

The initial investment would consist mainly of the funds required to purchase the tools and maintenance equipment. AsiaScan quoted a total investment requirement of 166,000 US$ on this equipment that SVS was expected to pay. Although this full charge has been made in the financial forecast as a start up cost, it was felt that this cost could, in reality be spread over at least the first year if not longer. This could be done inline with the growth of the business although it was understood that with some equipment only on unit may be required whatever the size of the dealership (within reason).

At the initial stages of the dealership additional to normal advertising and marketing expenses would be incurred to ensure that the dealership was known about in the market place. Therefore in addition to the 500 US$ per month allowed for this budget a initial expenditure of 5,00 US$ has been included for additional trade advertising, open days etc.

The installation of 3 personal computer local area network should be seriously considered at an early stage in the life of the dealership. The financial forecast has included 16,000 US$ for such a system assuming that it would be installed at the start of the business operations. Section 5.1.1 describes the system thought to be necessary for the SVS Scania dealership.

As with any new business cash flow in the initial weeks and months could cause problems until the business starts to establish itself, a sum of 20-30,000 US$ would be required immediately to cover such cash flow shortfalls.

The total initial investment has been estimated at 225,000 US$, through discussions with SVS management it was clear that they would make an initial investment into the business but no definite sums were discussed. In the financial model the initial investment was funded by a debt / equity ratio of 75 / 25. This loan is paid off as soon as possible using all profits after tax until the principal of the loan is paid off.

4.6.2 Investment sources

The EBRD has developed links with various financial intermediaries to provide financing for projects that are too small to be funded directly. There has been a realisation it is central to the development of an effective private sector.

Credit lines to central Asia will enable local banks to provide small businesses with finance to meet the requirements of the road services sector. These loans will be given on a purely commercial basis. The businesses should have adequate standing and cash flow, a market demand for their product and an effective management team. Such loans need to be made available at levels much lower than the EBRD historically considered in a range up to 100 k ECU over periods of up to 3 years, with companies of up to 50 employees. Borrowers in such organisations need to demonstrate their skills and capability in order to gain bank interest and then approval. Banks will be more positive towards organisations that are capable and willing commit their own funds into the scheme in question.

It is the intention to consider smaller loans up to 30 k ECU for short periods whilst a company build it's financial and business credibility before being allowed access to larger loans. The bank explained that there will be analysis of the firms debt capability before a loan can be expanded. It is also possible for individual enterprises and firms with up to 20 employees to apply for limited credits.

Specified local intermediary financial institutions can assess local demands in the road services sector for financial support. The bank by providing direct medium to long term funding using credit lines through these intermediaries will be able to ensure that the loans will be directed were they are required. There may also be facilities whereby the EBRD may participate in a co-financing equity arrangement in conjunction with local banks and investment funds where the local intermediary undertakes the appraisal of the project.

5 FINANCIAL AND MANAGEMENT ACCOUNTING

5.1 Financial accounting procedures and controls

5.1.1 Introduction

It is vitally important that the company develops and maintains it's accounting system that is both acceptable to it's various internal and external "customers":

- Scania, completing the required reports for he head-office;
- State authorities: for tax, record keeping and statistical purposes;
- The company owners and debt suppliers: who need to see how well the company is operating and being managed to assess the risk and return on their investment.
- Company management: to see how well all areas of the company are performing and so be able to take action as a when required.
- Customers: who need to be invoiced accurately and promptly. This needs accurate records to ensure that all payments are received through a credit control system.
- Suppliers: who require payment of bills at the required time
- Employees: ensuring timely and accurate payment of wages and salaries

For an operation the size of the SVS a PC based system is suitable and necessary. GIBB has recommended software for such systems in both English or Russian. The choice of systems that could be installed very much depends on the features that are required by the company. This can very from stand alone PC's with off the shelf software packages to a LAN (Local Area Network). Ideally the system chosen would integrate the financial and management accounting functions, stock control, and maintenance scheduling

GIBB technical assistance to SVS management included coaching in financial accounting to supply a range of outputs, these should include a minimum:

- invoicing, purchase orders, despatch notes, etc.;
- goods inwards, stock control, good outwards;
- labour hours;
- statutory reports (profit & loss, balance sheet and cash flow).

Management accounting covers the internal reporting. This is a vital management tool allowing SVS's management quick and accurate information about how well the business is being run and as a method of control. Off the shelf packages can be bought as well as those which are integrated with the financial accounting system, integrated systems do not have to be expensive. GIBB explained th2 ways in which such equipment could be brought into SVS's operations.

Also a necessity for a company such as SVS is a method of controlling the new vehicle ordering, parts stock control (issuing and ordering) and, control of the vehicles passing through the maintenance/servicing workshop.

The cost of the hard and software will vary greatly depending on the number of functions it has, the number of work stations required and of course the quality of the system (see Table 5.1.1). GIBB highly recommended the investment in a local area network with additional software to stock and customer records and control. The use of a network will allow access to each computer from each of the other computers so making a much more powerful management toll.

Table 5.1.1 - Computer equipment requirement and cost

	Local area network			Stand alone PCs		
	Units	US$/unit	Total US$	Units	US$/unit	Totals US$
PC stations[1]	x3	4,000	12,000	x3	3,000	9,000
Other Hardware			500			
Printer	x3	500	1,500	x3	500	1,500
Additional software[2]			2,000			2,000
			16,000			**12,500**

1 Work station location
1x Stock/maintenance control
1x Marketing & Administration
1x Accounts and reporting

2 Maintenance department control
Financial accounts package

The SVS management team responded positively to these proposals and understood the costs and benefits and, explained that such systems would be included in the business plan.

5.1.2 Management reporting and information flow

As discussed above management information can be greatly improved if a well design computer system. In the case of SVS acting as a Scania dealership the flow of information will give the required reports, (possibly different for each recipient) to the following people:

- SVS's management; and
- Scania head office.

The role that management accounts have in the direct running and control of the business have been discussed in above.

The reporting requirements of Scania must be considered when setting up the management reporting system and are detailed by Scania.

6 STAFFING POLICY, SOURCES AND TRAINING

6.1 Staff sources

The position of the SVS dealership gives them access to the work force of Almaty. They would, of course be in competition with a number of other companies, both local and overseas looking for quality staff. The staff should be considered in five separate groupings:

1. Sales

   Selling is still a relatively new concept in central Asia. Both the existing SVS staff and new staff brought into the company would require training or at least guidance in the general as well as Scania selling techniques, policies and procedures. The number of staff required will not be high ranging from 2 to 8 (including the sales manager).

2. Marketing

   The marketing function will be lead by the SVS management. They have the knowledge of the companies strategy and can therefore design the marketing activity to fit this strategy. The actually preparation of documents and administration would be completed by one of the administration staff.

3. Accounts

   There are two considerations that are needed when selecting staff for this area of the company. Statutory accounts that are the same (or very similar) to the old Soviet account system and western accounting controls, procedures and reports.
   To maximise the usefulness of the accounts function a reasonable (if not high) level of training would be required. This should include both statutory and western accounting procedures, the latter may well need to be done in Europe.

4. Maintenance

   Through investigation it was found that there are a large number of trained mechanics in the Almaty area. Experienced mechanics with the training on offer from Scania would give the required quality of mechanics required.

   SVS has it's own mechanics who have the advantage over most other local mechanics that they have worked extensively on European manufactured trucks. The SVS mechanics would still be required on SVS's own fleet and so there is a need to employ mechanics from outside the company.

5. Administration
   There are available in Almaty well educated personnel with very high standards of English that would be of considerable use to the SVS management. It was felt that one or two graduate level personnel with goods European languages could be used cross functionally. This would allow the company and Scania to develop very useful and valuable members of staff for not only this dealership but future developments in Russian speaking countries.

Table 6.1.1 - Staffing requirements

	Annual Salary	AsiaScan	Mid	High	Low
Senior Manager	15,000	1	1	1	1
Sales Manager	10,000	1	1	1	1
Sale man	5,000	0 up to 1 by yr 3	0 up to 1 by Yr 3	1 up to 3 by Yr 3	0 up to 1 by Yr 6
Senior Admin.	7,500	0 up to 1 by Yr 5	0	0	0
Junior Admin.	5,000	1 up to 3 by Yr 4	1 up to 3 by Yr 7	1 up to 3 by Yr 6	1

Table 6.1.2 - Staffing requirements, Maintenance department

	Salary UD$	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
AsiaScan	7,500	2	2	4	6	6	6	6
Mid	7,500	2	2	2	3	3	4	5
High	7,500	2	2	2	3	4	5	6
Low	7,500	2	2	2	2	2	3	3

A full time maintenance manager would be employed once the number of staff reached 5. Up to this time one of the full time mechanics would manage the department, the dedicated manager should be capable of doing maintenance work but the managers time has not been used in calculating the capacity of the department.

6.2 Languages

Scania expect the dealership to have a good standard of English, ideally this would include the management. As specified above this could be overcome in the short run by employing English speakers that have another role within the company but can be used in discussions with the Scania.

6.3 Training and quality

Scania expectations about the quality of staff and the dealership operations are high. The management of SVS would develop a training policy that would target the areas that were needed to achieve the quality of operation required. It would be necessary over the initial months of the dealership's operation to supply training to all members of staff. The table below gives an idea of the level of training that would be expected:

Table 6.3.1 - Training requirements by employee

Department / Position	Up to month 5	Month 6 & on
Senior management	• Scania required courses • Sales, basic • Marketing, 1st stage • Health & Safety	• Business development • Marketing, 2nd stage
Salesmen	• Sales techniques 1st stage	• Sales Techniques 2nd stage
Marketing	• Marketing, 1st stage	• Marketing, 2nd stage
Accounts	• Statutory reports • Scania reports • Management accounting, 1st stage • Financial accounting, 1st stage	• Management accounting, 12ndstage • Financial accounting, 2nd stage
Mechanics	• Scania training • Health & safety	• Further training, updated techniques
Administration	• Marketing, 1st stage (if required)	• Marketing, 1st stage (if required and not already completed)
Computer operators (as required)	• Spread sheet use • Word processor • Bespoke software	• More advanced courses as required
Other/General	• Quality control systems •	•

Appendixes
Financial Forecasts

1. AsiaScan Forecast
2. SVS/GIBB Mid Forecast
3. SVS/GIBB High Forecast
4. SVS/GIBB Low Forecast

1. AsiaScan Forecast

SVS BUSINESS PROPOSAL
SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST

DETAILED SALES ANALYSIS

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AsiaScan: Truck Sale Forecast

	Year 1 US$	Year 2 US$	Year 3 US$	Year 4 US$	Year 5 US$	Year 6 US$	Year 7 US$	Gross Margin
SCANIA								
Sales								
Truck	2,400,000	3,600,000	4,800,000	6,000,000	6,000,000	6,000,000	6,000,000	8%
Spare Parts	45,000	83,800	137,665	206,598	283,103	359,683	436,342	25%
Maintenance	19,450	39,000	39,000	39,000	58,500	58,500	78,000	variable
Total Scania Sales	**2,464,450**	**3,722,800**	**4,976,665**	**6,245,598**	**6,341,603**	**6,418,183**	**6,514,342**	
OTHER MAKES / SUPPLIERS								
Sales								
Spare Parts	39,100	0	0	0	0	0	0	10%
Maintenance	19,550	0	0	0	0	0	0	variable
Lubricants (all makes)	11,700	11,700	11,700	11,700	17,550	17,550	23,400	25%
Tyres	52,000	78,000	104,000	130,000	130,000	130,000	130,000	25%
Benzene	0	0	0	0	0	0	0	5%
TIR Parking	0	0	0	0	0	0	0	100%
Total other sales	**122,350**	**89,700**	**115,700**	**141,700**	**147,550**	**147,550**	**153,400**	
Total all Sales	**2,586,800**	**3,812,500**	**5,092,365**	**6,387,298**	**6,489,153**	**6,565,733**	**6,667,742**	

SVS BUSINESS PROPOSAL
SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST

PROFIT & LOSS ACCOUNT

14-Aug-97

AsiaScan: Truck Sale Forecast

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	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
GROSS MARGIN (G.M.)							
SCANIA							
Truck Sales	182,000	278,000	369,000	465,000	465,000	465,000	465,000
Spare Parts	11,250	20,950	34,416	51,650	70,776	89,921	109,086
Maintenance	11,969	24,000	24,000	24,000	36,000	36,000	48,000
Total Scania G.M.	**205,219**	**322,950**	**427,416**	**540,650**	**571,776**	**590,921**	**622,086**
OTHER MAKES / SUPPLIERS							
Spare Parts	3,910	0	0	0	0	0	0
Maintenance	12,031	0	0	0	0	0	0
Lubricants (all makes)	2,925	2,925	2,925	2,925	4,388	4,388	5,850
Tyres	13,000	19,500	26,000	32,500	32,500	32,500	32,500
Benzene margin	0	0	0	0	0	0	0
TIR Parking	0	0	0	0	0	0	0
Other Products	0	0	0	0	0	0	0
Total Other G.M.	**31,866**	**22,425**	**28,925**	**35,425**	**36,888**	**36,888**	**38,350**
TOTAL GROSS MARGIN	**237,085**	**345,375**	**456,341**	**576,075**	**608,663**	**627,808**	**660,436**
OTHER COSTS (Indirect)							
Wages (non-maintenance)	27,500	27,500	32,500	37,500	45,000	45,000	45,000
Advertising and marketing	11,000	6,000	6,000	6,000	6,000	6,000	6,000
Utilities	6,000	7,200	7,200	7,200	7,200	7,200	7,200
Telephone & Fax	3,000	3,000	3,000	3,000	3,000	3,000	3,000
R & M (Fixed Assets)	3,000	3,000	3,150	3,308	3,473	3,647	3,829
Total Costs (indirect)	**50,500**	**46,700**	**51,850**	**57,008**	**64,673**	**64,847**	**65,029**
PROFIT / (LOSS) before Depreciation & Interest	**186,585**	**298,675**	**404,491**	**519,067**	**543,990**	**562,962**	**595,407**
Depreciation charge	47,867	47,867	47,867	43,200	43,200	37,700	37,700
Interest charge	6,800	6,800	0	0	0	0	0
Overheads	**54,667**	**54,667**	**47,867**	**43,200**	**43,200**	**37,700**	**37,700**
PROFIT / (LOSS) after OVERHEADS	131,918	244,008	356,625	475,867	500,790	525,262	557,707
Tax 50%	65,959	122,004	178,312	237,934	250,395	262,631	278,853
PROFIT / (LOSS) after TAX	65,959	122,004	178,312	237,934	250,395	262,631	278,853
Dividened	0	0	0	0	0	0	0
PROFIT / (LOSS) Retained	**65,959**	**122,004**	**178,312**	**237,934**	**250,395**	**262,631**	**278,853**
Retained Profit Brought Forward	0	65,959	187,963	366,276	604,209	854,604	1,117,235
Retained Profit Carried Forward	65,959	187,963	366,276	604,209	854,604	1,117,235	1,396,089

Definitions

R&M - Repairs & Maintenance

GM - Gross Margin

Interest Rate 20%

	65,959	122,004	178,312	237,934	250,395	262,631	278,853
NOTES							
Truck sales volume (per year)	30	45	60	75	75	75	75
Average Sales price US$	80,000	80,000	80,000	80,000	80,000	80,000	80,000
Calculation of Maintenance Labour Margin							
Revenue							
Scania Vehicles	19,450	39,000	39,000	39,000	58,500	58,500	78,000
Other Makes	19,550	0	0	0	0	0	0
Total	39,000	39,000	39,000	39,000	58,500	58,500	78,000
Cost							
Labour	15,000	15,000	15,000	15,000	22,500	22,500	30,000
Margin	24,000	24,000	24,000	24,000	36,000	36,000	48,000
Margin Split							
Scania	11,969	24,000	24,000	24,000	36,000	36,000	48,000
Other	12,031	0	0	0	0	0	0
	0	0	0	0	0	0	0
Labour Split							
US $ per Year							
General Management	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Administration	12,500	12,500	17,500	22,500	30,000	30,000	30,000
Sub-Total	**27,500**	**27,500**	**32,500**	**37,500**	**45,000**	**45,000**	**45,000**
Sales inc. Management	10,000	10,000	15,000	15,000	15,000	15,000	15,000
Maintenance inc. management	15,000	15,000	15,000	15,000	22,500	22,500	30,000
Total	**52,500**	**52,500**	**62,500**	**67,500**	**82,500**	**82,500**	**90,000**
Number of Personnel							
General Management	1	1	1	1	1	1	1
Sales inc. Management	1	1	2	2	2	2	2
Administration	2	2	3	4	5	5	5
Sub-Total	**4**	**4**	**6**	**7**	**8**	**8**	**8**
Maintenance inc. management	2	2	2	2	3	3	4
Total	**6**	**6**	**8**	**9**	**11**	**11**	**12**

SVS BUSINESS PROPOSAL
SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST

CASH-FLOW FORECAST (USD)

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AsiaScan: Truck Sale Forecast

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Profit / (Loss) for year before dividend	65,959	122,004	178,312	237,934	250,395	262,631	278,853
Debtor / Creditor Adjustment	(14,950)	(2,117)	(10,311)	(13,239)	(11,988)	(12,763)	(12,639)
Add Back							
Depreciation	47,867	47,867	47,867	43,200	43,200	37,700	37,700
Loan (Over-draft) drawn-down	34,000	0	0	0	0	0	0
Share Capital	150,000	0	0	0	0	0	0
spare							
spare							
Less							
Capital expenditure	(282,000)	0	0	(42,000)	0	(82,500)	0
Loan (over draft) repaid	0	(34,000)	0	0	0	0	0
Dividend payment	0	0	0	0	0	0	0
spare							
spare							
Net Cash Flow In / (Out)	876	133,754	215,868	225,895	281,607	205,068	303,914
Retained cash brought forward	0	876	134,630	350,498	576,393	858,000	1,063,067
Retained cash carried forward	876	134,630	350,498	576,393	858,000	1,063,067	1,366,982

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Capital Investment	(282,000)	0	0	(42,000)	0	(82,500)	0
Retained profit	113,826	169,871	226,179	281,134	293,595	300,331	316,553
Net of above	(168,174)	169,871	226,179	239,134	293,595	217,831	316,553
IRR	118.5%						

SVS BUSINESS PROPOSAL

SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST
BALANCE SHEET (as at end of year shown)
AsiaScan: Truck Sale Forecast

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	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Fixed Assets	234,133	186,267	138,400	137,200	94,000	138,800	101,100
Current Assets							
Cash	876	134,630	350,498	576,393	858,000	1,063,067	1,366,982
Stock	19,325	21,442	32,586	46,241	59,480	72,243	85,507
	20,201	156,072	383,084	622,634	917,479	1,135,310	1,452,489
Total Assets	**254,334**	**342,338**	**521,484**	**759,834**	**1,011,479**	**1,274,110**	**1,553,589**
Current Liabilities							
Trade Creditors							
Salaries	4,375	4,375	5,208	5,625	6,875	6,875	7,500
Dividend	0	0	0	0	0	0	0
Loan	34,000	0	0	0	0	0	0
	38,375	**4,375**	**5,208**	**5,625**	**6,875**	**6,875**	**7,500**
Net Current Assets	**215,959**	**337,963**	**516,276**	**754,209**	**1,004,604**	**1,267,235**	**1,546,089**
Liabilities due in more than 1 year	0	0	0	0	0	0	0
	215,959	**337,963**	**516,276**	**754,209**	**1,004,604**	**1,267,235**	**1,546,089**
Capital & Reserves							
Ordinary Share Capital	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Retained profits	65,959	187,963	366,276	604,209	854,604	1,117,235	1,396,089
	215,959	**337,963**	**516,276**	**754,209**	**1,004,604**	**1,267,235**	**1,546,089**

SVS BUSINESS PROPOSAL
SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST
AsiaScan: Truck Sale Forecast

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
SCANIA								
Truck Sales (Low, Mid, High & AsiaScan=>)	A	AsiaScan						
Trucks in country at Yr 0	4							
Forecast sales per year		30	45	60	75	75	75	75
% achieved		100%	100%	100%	100%	100%	100%	100%
Actual Sales per year		30	45	60	75	75	75	75
Value per sale (US$)		80000	80000	80000	80000	80000	80000	80000
Dealer revenue %		8%	8%	8%	8%	8%	8%	8%
Truck Sales		192000	288000	384000	480000	480000	480000	480000
Sales workforce costs								
Gross Margin		192000	288000	384000	480000	480000	480000	480000
Total turnover		2400000	4E+06	5E+06	6E+06	6E+06	6E+06	6E+06
Sales								
Low		5	8	11	14	17	17	17
Med		10	15	21	27	33	33	33
High		12	18	25	32	40	40	40
AsiaScan estimate		30	45	60	75	75	75	75
Spare Parts								
Trucks in Market		19.0	56.5	109.0	176.5	251.5	326.5	401.5
Spares / truck / year (US$)		1,000	1,000	1,000	1,000	1,000	1,000	1,000
Transit customers / week		2.0	2.1	2.2	2.3	2.4	2.6	2.7
Spares / truck / vehicle (US$)		250	250	250	250	250	250	250
Actual purchase level %		100%	100%	100%	100%	100%	100%	100%
Dealer Margin %		25%	25%	25%	25%	25%	25%	25%
Spare Parts		11250	20950	34416	51650	70776	89921	109086
Total sales		45000	83800	137665	206598	283103	359683	436342
		104	109	115	120	126	133	139
Maintenance								
Trucks in market		19	57	109	177	252	327	402
Hours work / truck / year		75	75	75	75	75	75	75
Factor % (actual maintenance)		100%	100%	100%	100%	100%	100%	100%
Transit customers / week		2	2	2	2	2	3	3
Hours work / truck / job		5	5	5	5	5	5	5
Charge US$ / Hour		10	10	10	10	10	10	10
Actual hours REQUIRED		1,945	4,784	8,748	13,839	19,495	25,151	30,809
Max hours AVAILABLE		1,945	3,900	3,900	3,900	5,850	5,850	7,800
Actual hours worked		1,945	3,900	3,900	3,900	5,850	5,850	7,800
Total Revenue		19,450	39,000	39,000	39,000	58,500	58,500	78,000
OTHER MAKES / SUPPLIERS								
Spare Parts								
Vehicles maintained / day		2	0	0	0	0	0	0
Other sales per day		2	0	0	0	0	0	0
Value of each sale		50	50	50	50	50	50	50
Dealer Margin %		10%	10%	10%	10%	10%	10%	10%
Dealer Margin US$		3910	0	0	0	0	0	0
Total revenue		39100	0	0	0	0	0	0
		391	0	0	0	0	0	0
Maintenance								
Growth over previous year			50%	50%	25%	25%	25%	25%
Trucks / day		2.0	3.0	4.5	5.6	7.0	8.8	11.0
Hours work / truck / job		5	5	5	5	5	5	5

Charge US$ / Hour	10	10	10	10	10	10	10
Actual hours REQUIRED	2,600	3,900	5,850	7,313	9,141	11,426	14,282
Max hours AVAILABLE	1,955	0	0	0	0	0	0
Actual hours worked	1,955	0	0	0	0	0	0
Factor - Actual work	100%	100%	100%	100%	100%	100%	100%
Total Revenue	19,550	0	0	0	0	0	0
	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Lubricants (all makes)							
Vehicles per year	780	780	780	780	1170	1170	1560
Sales volume lts / vehicle	5	5	5	5	5	5	5
Sales volume lts / year	3900	3900	3900	3900	5850	5850	7800
Sales value US$ / lt	3	3	3	3	3	3	3
Vehicles requiring lubricants %	100%	100%	100%	100%	100%	100%	100%
Dealer margin (%)	25%	25%	25%	25%	25%	25%	25%
Lubricants (all makes)	2925	2925	2925	2925	4388	4388	5850
Total Revenue	11700	11700	11700	11700	17550	17550	23400
Tyres							
Sales volume (tyres / week)	2	3	4	5	5	5	5
Sales value (US$ / tyre)	500	500	500	500	500	500	500
Dealer margin (%)	25%	25%	25%	25%	25%	25%	25%
Tyres	13000	19500	26000	32500	32500	32500	32500
Total Revenue	52000	78000	104000	130000	130000	130000	130000
Benzene							
Sales volume per vehicle lts	0	0	0	0	0	0	0
Sales per day (vehicles)	5	5	5	5	5	5	5
Sales price (Tenge/lt)	0.67	0.67	0.67	0.67	0.67	0.67	0.67
Dealer margin (%)	5%	5%	5%	5%	5%	5%	5%
Benzene margin	0	0	0	0	0	0	0
Total Revenue	0	0	0	0	0	0	0
TIR Parking							
Vehicles per day	0	0	0	0	0	0	0
Charge / vehicle /day US $	5	5	5	5	5	5	5
Dealer margin	100%	100%	100%	100%	100%	100%	100%
Total Revenue	0	0	0	0	0	0	0
Other Products							

STOCK CALCULATION

	Months						
SCANIA							
Spare Parts	2	7,500	13,967	22,944	34,433	47,184	59,947	72,724
OTHER MAKES / SUPPLIERS							
Spare Parts	2	6,517	0	0	0	0	0	0
Lubricants (all makes)	1	975	975	975	975	1,463	1,463	1,950
Tyres	1	4,333	6,500	8,667	10,833	10,833	10,833	10,833
Benzene	0.5	0	0	0	0	0	0	0
Total Stock		19,325	21,442	32,586	46,241	59,480	72,243	85,507
			2,117	11,144	13,656	13,238	12,763	13,264

COSTS INPUT AND CALCULATIONS
AsiaScan: Truck Sale Forecast

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Sales volume (units)	30	45	60	75	75	75	75
Cum Scania in mkt (mid yr)	19	57	109	177	252	327	402
Maintenance Scania (hr/yr)	1945	3900	3900	3900	5850	5850	7800
Maintenance Other (hr/yr)	1955	0	0	0	0	0	0
	3900	3900	3900	3900	5850	5850	7800
Mechanics required	2.0	2.0	2.0	2.0	3.0	3.0	4.0

	Hrs / man / yr	Mechanics / truck
Mechanics required	2600	100%

Wages

Senior Manager							
Number	1	1	1	1	1	1	1
US$ / Year	15000	15000	15000	15000	15000	15000	15000
Senior Manager	15000	15000	15000	15000	15000	15000	15000
Sales Manager							
Number	1	1	1	1	1	1	1
US$ / Year	10000	10000	10000	10000	10000	10000	10000
Sales Manager	10000	10000	10000	10000	10000	10000	10000
Salesmen							
Number	0	0	1	1	1	1	1
US$ / Year	5000	5000	5000	5000	5000	5000	5000
Salesmen	0	0	5000	5000	5000	5000	5000
Maintenance Manager							
Number	0	0	0	0	0	0	0
US$ / Year	10000	10000	10000	10000	10000	10000	10000
Maintenance Manager	0	0	0	0	0	0	0
Mechanics							
Number	2.0	2.0	2.0	2.0	3.0	3.0	4.0
US$ / Year	7500	7500	7500	7500	7500	7500	7500
Mechanics	15000	15000	15000	15000	22500	22500	30000
Senior Admin Staff							
Number	1	1	1	1	2	2	2
US$ / Year	7500	7500	7500	7500	7500	7500	7500
Senior Admin Staff	7500	7500	7500	7500	15000	15000	15000
Junior Admin Staff							
Number	1	1	2	3	3	3	3
US$ / Year	5000	5000	5000	5000	5000	5000	5000
Junior Admin Staff	5000	5000	10000	15000	15000	15000	15000
Spare							
Number	0	0	0	0	0	0	0
US$ / Year	0	0	0	0	0	0	0
Spare	0	0	0	0	0	0	0
Total	52,500	52,500	62,500	67,500	82,500	82,500	90,000
Maintenance	15,000	15,000	15,000	15,000	22,500	22,500	30,000
Sales	10,000	10,000	15,000	15,000	15,000	15,000	15,000
Other	27,500	27,500	32,500	37,500	45,000	45,000	45,000
check	-	-	-	-	-	-	-

Other staff split US$ per year							
General Management	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Sales	10,000	10,000	15,000	15,000	15,000	15,000	15,000
Administration	12,500	12,500	17,500	22,500	30,000	30,000	30,000
Spare	-	-	-	-	-	-	-
	37,500	37,500	47,500	52,500	60,000	60,000	60,000
	10,000	10,000	15,000	15,000	15,000	15,000	15,000
Staff numbers							
General Management	1	1	1	1	1	1	1
Sales	1	1	2	2	2	2	2
Administration	2	2	3	4	5	5	5
Spare	-	-	-	-	-	-	-
	4	4	6	7	8	8	8
Maintenance	2	2	2	2	3	3	4
Total	6	6	8	9	11	11	12

Advertising and marketing							
Exp / month	500	500	500	500	500	500	500
One-offs	5,000	0	0	0	0	0	0
Exp / Year	11,000	6,000	6,000	6,000	6,000	6,000	6,000
Utilities							
Electricity							
Cost per unit	1	1	1	1	1	1	1
Units per month	250	250	250	250	250	250	250
Total Electricity	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Water							
Cost per unit	1	1	1	1	1	1	1
Units per month	250	250	250	250	250	250	250
Total Water	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Gas							
Cost per unit	1	1	1	1	1	1	1
Units per month	0	100	100	100	100	100	100
Total Gas	0	1,200	1,200	1,200	1,200	1,200	1,200
Total Utilities	6,000	7,200	7,200	7,200	7,200	7,200	7,200
Telephone & Fax							
Cost per unit	1	1	1	1	1	1	1
Units per month	250	250	250	250	250	250	250
Total Tel & Fax	3,000	3,000	3,000	3,000	3,000	3,000	3,000
R & M (Fixed Assets)							
Increase on previous year		0%	5%	5%	5%	5%	5%
Buildings, Cost/ month	100	100	105	110	116	122	128
Roads, Cost / month	50	50	53	55	58	61	64
Plant & Machinery, cost / month	100	100	105	110	116	122	128
Other, Cost/ month	0	0	0	0	0	0	0
Total Cost / month	250	250	263	276	289	304	319
Total Cost / Year	3,000	3,000	3,150	3,308	3,473	3,647	3,829

DEPRECIATION CALCULATION

Equipment Purchase Phase 1 — 100%

	Total Spend	Life of Asset	Annual Dep'n	Annual Dep'n	Annual Dep'n	Annual Dep'n	Annual Dep'n	Annual Dep'n	Annual Dep'n
Benches, lockers	13,000	5	2,600	2,600	2,600	2,600	2,600		
Lifting, transport	13,000	5	2,600	2,600	2,600	2,600	2,600		
Hand tool	30,000	3	10,000	10,000	10,000				
Hand m/c's	26,000	3	8,667	8,667	8,667				
Air compressors	16,000	5	3,200	3,200	3,200	3,200	3,200		
Measuring equip	6,000	5	1,200	1,200	1,200	1,200	1,200		
Lub & Grease handling	7,000	5	1,400	1,400	1,400	1,400	1,400		
Tyre mounting	30,000	5	6,000	6,000	6,000	6,000	6,000		
Scania special tools	25,000	5	5,000	5,000	5,000	5,000	5,000		
				-	-	-	-		
				-	-	-	-		
Buildings & Land		25	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Computer equipment	16,000	5	3,200	3,200	3,200	3,200	3,200	3,200	3,200
Depreciation charge	######		47,867	47,867	47,867	29,200	29,200	7,200	7,200

Equipment Purchase Phase 2

Reduction from year 1 co	25%							
Benches, lockers	9,750	5					1,950	1,950
Lifting, transport	9,750	5					1,950	1,950
Hand tool	22,500	3				7,500	7,500	7,500
Hand m/c's	19,500	3				6,500	6,500	6,500
Air compressors	12,000	5					2,400	2,400
Measuring equip	4,500	5					900	900
Lub & Grease handling	5,250	5					1,050	1,050
Tyre mounting	22,500	5					4,500	4,500
Scania special tools	18,750	5					3,750	3,750

	0	0	0						
	0	0	0						
Buildings & Land		0	25						
Computer equipment		4,000	5						
Depreciation charge		128,500		0	0	0	14,000	14,000	30,500	30,500
Total Depreciation				47,867	47,867	47,867	43,200	43,200	37,700	37,700
Cap Ex Total				282,000			42,000		82,500	
Net Book Value				234,133	186,267	138,400	137,200	94,000	138,800	101,100
Loan Requirements										
Net Cash Flow Without loan				876	133,754	215,868	225,895	281,607	205,068	303,914
Loan draw-down				34,000	0	0	0	0	0	0
Loan paid-off				0	34,000	0	0	0	0	0
Loan balance				34,000	0	0	0	0	0	0
Cash Flow Balance				876	134,630	350,498	576,393	858,000	1,063,067	1,366,982
Interest Rate				20%	20%	20%	20%	20%	20%	20%
Interest charge				6,800	6,800	0	0	0	0	0

2. SVS/GIBB Mid Forecast

SVS BUSINESS PROPOSAL
SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST

DETAILED SALES ANALYSIS

MID: Truck Sale Forecast

14-Aug-97
4:49 PM

	Year 1 US$	Year 2 US$	Year 3 US$	Year 4 US$	Year 5 US$	Year 6 US$	Year 7 US$	Gross Margin
SCANIA								
Sales								
Truck	800,000	1,200,000	1,680,000	2,160,000	2,640,000	2,640,000	2,640,000	8%
Spare Parts	35,000	48,800	68,165	93,598	125,103	159,683	194,342	25%
Maintenance	11,950	21,585	35,358	39,000	58,500	58,500	78,000	variable
Total Scania Sales	**846,950**	**1,270,385**	**1,783,523**	**2,292,598**	**2,823,603**	**2,858,183**	**2,912,342**	
OTHER MAKES / SUPPLIERS								
Sales								
Spare Parts	52,000	34,830	7,284	0	0	0	0	10%
Maintenance	26,000	17,415	3,642	0	0	0	0	variable
Lubricants (all makes)	11,385	11,700	11,700	11,700	17,550	17,550	23,400	25%
Tyres	52,000	78,000	104,000	130,000	130,000	130,000	130,000	25%
Benzene	0	0	0	0	0	0	0	5%
TIR Parking	0	0	0	0	0	0	0	100%
Total other sales	**141,385**	**141,945**	**126,626**	**141,700**	**147,550**	**147,550**	**153,400**	
Total all Sales	**988,335**	**1,412,330**	**1,910,149**	**2,434,298**	**2,971,153**	**3,005,733**	**3,065,742**	

SVS BUSINESS PROPOSAL
SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST

PROFIT & LOSS ACCOUNT

14-Aug-97

MID: Truck Sale Forecast

4:49 PM

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
GROSS MARGIN (G.M.)							
SCANIA							
Truck Sales	54,000	86,000	119,400	157,800	196,200	196,200	196,200
Spare Parts	8,750	12,200	17,041	23,400	31,276	39,921	48,586
Maintenance	7,227	13,283	21,759	24,000	36,000	36,000	48,000
Total Scania G.M.	**69,977**	**111,483**	**158,200**	**205,200**	**263,476**	**272,121**	**292,786**
OTHER MAKES / SUPPLIERS							
Spare Parts	5,200	3,483	728	0	0	0	0
Maintenance	15,723	10,717	2,241	0	0	0	0
Lubricants (all makes)	2,846	2,925	2,925	2,925	4,388	4,388	5,850
Tyres	13,000	19,500	26,000	32,500	32,500	32,500	32,500
Benzene margin	0	0	0	0	0	0	0
TIR Parking	0	0	0	0	0	0	0
Other Products	0	0	0	0	0	0	0
Total Other G.M.	**36,770**	**36,625**	**31,895**	**35,425**	**36,888**	**36,888**	**38,350**
TOTAL GROSS MARGIN	**106,746**	**148,108**	**190,095**	**240,625**	**300,363**	**309,008**	**331,136**
OTHER COSTS (Indirect)							
Wages (non-maintenance)	27,500	27,500	27,500	27,500	27,500	32,500	37,500
Advertising and marketing	11,000	6,000	6,000	6,000	6,000	6,000	6,000
Utilities	6,000	7,200	7,200	7,200	7,200	7,200	7,200
Telephone & Fax	3,000	3,000	3,000	3,000	3,000	3,000	3,000
R & M (Fixed Assets)	3,000	3,000	3,150	3,308	3,473	3,647	3,829
Total Costs (indirect)	**50,500**	**46,700**	**46,850**	**47,008**	**47,173**	**52,347**	**57,529**
PROFIT / (LOSS) before Depreciation & Interest	**56,246**	**101,408**	**143,245**	**193,617**	**253,190**	**256,662**	**273,607**
Depreciation charge	47,867	47,867	47,867	43,200	43,200	37,700	37,700
Interest charge	23,000	23,000	10,800	0	0	0	0
Overheads	**70,867**	**70,867**	**58,667**	**43,200**	**43,200**	**37,700**	**37,700**
PROFIT / (LOSS) after OVERHEADS	(14,620)	30,541	84,578	150,417	209,990	218,962	235,907
Tax 50%	0	15,271	42,289	75,209	104,995	109,481	117,953
PROFIT / (LOSS) after TAX	(14,620)	15,271	42,289	75,209	104,995	109,481	117,953
Dividened	0	0	0	0	0	0	0
PROFIT / (LOSS) Retained	**(14,620)**	**15,271**	**42,289**	**75,209**	**104,995**	**109,481**	**117,953**
Retained Profit Brought Forward	0	(14,620)	650	42,939	118,148	223,143	332,624
Retained Profit Carried Forward	(14,620)	650	42,939	118,148	223,143	332,624	450,577

Definitions

R&M - Repairs & Maintenance

GM - Gross Margin

Interest Rate 20%

	0	15,271	42,289	75,209	104,995	109,481	117,953
NOTES							
Truck sales volume (per year)	10	15	21	27	33	33	33
Average Sales price US$	80,000	80,000	80,000	80,000	80,000	80,000	80,000
Calculation of Maintenance Labour Margin							
Revenue							
Scania Vehicles	11,950	21,585	35,358	39,000	58,500	58,500	78,000
Other Makes	26,000	17,415	3,642	0	0	0	0
Total	37,950	39,000	39,000	39,000	58,500	58,500	78,000
Cost							
Labour	15,000	15,000	15,000	15,000	22,500	22,500	30,000
Margin	22,950	24,000	24,000	24,000	36,000	36,000	48,000
Margin Split							
Scania	7,227	13,283	21,759	24,000	36,000	36,000	48,000
Other	15,723	10,717	2,241	0	0	0	0
	0	0	0	0	0	0	0
Labour Split							
US $ per Year							
General Management	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Administration	12,500	12,500	12,500	12,500	12,500	17,500	22,500
Sub-Total	**27,500**	**27,500**	**27,500**	**27,500**	**27,500**	**32,500**	**37,500**
Sales inc. Management	10,000	10,000	15,000	15,000	15,000	15,000	15,000
Maintenance inc. management	15,000	15,000	15,000	15,000	22,500	22,500	30,000
Total	**52,500**	**52,500**	**57,500**	**57,500**	**65,000**	**70,000**	**82,500**
Number of Personnel							
General Management	1	1	1	1	1	1	1
Sales inc. Management	1	1	2	2	2	2	2
Administration	2	2	2	2	2	3	4
Sub-Total	**4**	**4**	**5**	**5**	**5**	**6**	**7**
Maintenance inc. management	2	2	2	2	3	3	4
Total	**6**	**6**	**7**	**7**	**8**	**9**	**11**

SVS BUSINESS PROPOSAL
SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST

CASH-FLOW FORECAST (USD)

14-Aug-97
4:49 PM

MID: Truck Sale Forecast

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Profit / (Loss) for year before dividend	(14,620)	15,271	42,289	75,209	104,995	109,481	117,953
Debtor / Creditor Adjustment	(15,407)	(1,631)	(387)	(5,192)	(5,113)	(5,347)	(5,222)
Add Back							
Depreciation	47,867	47,867	47,867	43,200	43,200	37,700	37,700
Loan (Over-draft) drawn-down	115,000	0	0	0	0	0	0
Share Capital	150,000	0	0	0	0	0	0
spare							
spare							
Less							
Capital expenditure	(282,000)	0	0	(42,000)	0	(82,500)	0
Loan (over draft) repaid	0	(61,000)	(54,000)	0	0	0	0
Dividend payment	0	0	0	0	0	0	0
spare							
spare							
Net Cash Flow In / (Out)	839	506	35,769	71,217	143,082	59,334	150,431
Retained cash brought forward	0	839	1,345	37,114	108,331	251,413	310,747
Retained cash carried forward	839	1,345	37,114	108,331	251,413	310,747	461,179

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Capital Investment	(282,000)	0	0	(42,000)	0	(82,500)	0
Retained profit	33,246	63,137	90,156	118,409	148,195	147,181	155,653
Net of above	(248,754)	63,137	90,156	76,409	148,195	64,681	155,653
IRR	28.2%						

SVS BUSINESS PROPOSAL

SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST

BALANCE SHEET (as at end of year shown)

14-Aug-97

MID: Truck Sale Forecast

4:49 PM

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Fixed Assets	234,133	186,267	138,400	137,200	94,000	138,800	101,100
Current Assets							
Cash	839	1,345	37,114	108,331	251,413	310,747	461,179
Stock	19,782	21,413	22,217	27,408	33,146	38,910	45,174
	20,621	22,759	59,331	135,739	284,560	349,657	506,352
Total Assets	**254,755**	**209,025**	**197,731**	**272,939**	**378,560**	**488,457**	**607,452**
Current Liabilities							
Trade Creditors							
Salaries	4,375	4,375	4,792	4,792	5,417	5,833	6,875
Dividend	0	0	0	0	0	0	0
Loan	115,000	54,000	0	0	0	0	0
	119,375	**58,375**	**4,792**	**4,792**	**5,417**	**5,833**	**6,875**
Net Current Assets	**135,380**	**150,650**	**192,939**	**268,148**	**373,143**	**482,624**	**600,577**
Liabilities due in more than 1 year	0	0	0	0	0	0	0
	135,380	**150,650**	**192,939**	**268,148**	**373,143**	**482,624**	**600,577**
Capital & Reserves							
Ordinary Share Capital	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Retained profits	(14,620)	650	42,939	118,148	223,143	332,624	450,577
	135,380	**150,650**	**192,939**	**268,148**	**373,143**	**482,624**	**600,577**

SVS BUSINESS PROPOSAL
SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST
MID: Truck Sale Forecast

SCANIA		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Truck Sales (Low, Mid, High & AsiaScan=>)	**M**	MID						
Trucks in country at Yr 0	**4**							
Forecast sales per year		10	15	21	27	33	33	33
% achieved		100%	100%	100%	100%	100%	100%	100%
Actual Sales per year		10	15	21	27	33	33	33
Value per sale (US$)		80000	80000	80000	80000	80000	80000	80000
Dealer revenue %		8%	8%	8%	8%	8%	8%	8%
Truck Sales		64000	96000	134400	172800	211200	211200	211200
Sales workforce costs								
Gross Margin		64000	96000	134400	172800	211200	211200	211200
Total turnover		800000	1E+06	2E+06	2E+06	3E+06	3E+06	3E+06
Sales								
Low		5	8	11	14	17	17	17
Med		10	15	21	27	33	33	33
High		12	18	25	32	40	40	40
AsiaScan estimate		30	45	60	75	75	75	75
Spare Parts								
Trucks in Market		9.0	21.5	39.5	63.5	93.5	126.5	159.5
Spares / truck / year (US$)		1,000	1,000	1,000	1,000	1,000	1,000	1,000
Transit customers / week		2.0	2.1	2.2	2.3	2.4	2.6	2.7
Spares / truck / vehicle (US$)		250	250	250	250	250	250	250
Actual purchase level %		100%	100%	100%	100%	100%	100%	100%
Dealer Margin %		25%	25%	25%	25%	25%	25%	25%
Spare Parts		8750	12200	17041	23400	31276	39921	48586
Total sales		35000	48800	68165	93598	125103	159683	194342
		104	109	115	120	126	133	139
Maintenance								
Trucks in market		9	22	40	64	94	127	160
Hours work / truck / year		75	75	75	75	75	75	75
Factor % (actual maintenance)		100%	100%	100%	100%	100%	100%	100%
Transit customers / week		2	2	2	2	2	3	3
Hours work / truck / job		5	5	5	5	5	5	5
Charge US$ / Hour		10	10	10	10	10	10	10
Actual hours REQUIRED		1,195	2,159	3,536	5,364	7,645	10,151	12,659
Max hours AVAILABLE		1,195	2,159	3,536	3,900	5,850	5,850	7,800
Actual hours worked		1,195	2,159	3,536	3,900	5,850	5,850	7,800
Total Revenue		11,950	21,585	35,358	39,000	58,500	58,500	78,000

OTHER MAKES / SUPPLIERS

Spare Parts								
Vehicles maintained / day		2	1	0	0	0	0	0
Other sales per day		2	1	0	0	0	0	0
Value of each sale		50	50	50	50	50	50	50
Dealer Margin %		10%	10%	10%	10%	10%	10%	10%
Dealer Margin US$		5200	3483	728	0	0	0	0
Total revenue		52000	34830	7284	0	0	0	0
		520	348	73	0	0	0	0
Maintenance								
Growth over previous year			50%	50%	25%	25%	25%	25%
Trucks / day		2.0	3.0	4.5	5.6	7.0	8.8	11.0
Hours work / truck / job		5	5	5	5	5	5	5

Revenue Input

Charge US$ / Hour		10	10	10	10	10	10	10
Actual hours REQUIRED		2,600	3,900	5,850	7,313	9,141	11,426	14,282
Max hours AVAILABLE		2,600	1,742	364	0	0	0	0
Actual hours worked		2,600	1,742	364	0	0	0	0
Factor - Actual work		100%	100%	100%	100%	100%	100%	100%
Total Revenue		26,000	17,415	3,642	0	0	0	0
		2.0	1.3	0.3	0.0	0.0	0.0	0.0
Lubricants (all makes)								
Vehicles per year		759	780	780	780	1170	1170	1560
Sales volume lts / vehicle		5	5	5	5	5	5	5
Sales volume lts / year		3795	3900	3900	3900	5850	5850	7800
Sales value US$ / lt		3	3	3	3	3	3	3
Vehicles requiring lubricants %		100%	100%	100%	100%	100%	100%	100%
Dealer margin (%)		25%	25%	25%	25%	25%	25%	25%
Lubricants (all makes)		2846	2925	2925	2925	4388	4388	5850
Total Revenue		11385	11700	11700	11700	17550	17550	23400
Tyres								
Sales volume (tyres / week)		2	3	4	5	5	5	5
Sales value (US$ / tyre)		500	500	500	500	500	500	500
Dealer margin (%)		25%	25%	25%	25%	25%	25%	25%
Tyres		13000	19500	26000	32500	32500	32500	32500
Total Revenue		52000	78000	104000	130000	130000	130000	130000
Benzene								
Sales volume per vehicle lts		0	0	0	0	0	0	0
Sales per day (vehicles)		5	5	5	5	5	5	5
Sales price (Tenge/lt)		0.67	0.67	0.67	0.67	0.67	0.67	0.67
Dealer margin (%)		5%	5%	5%	5%	5%	5%	5%
Benzene margin		0	0	0	0	0	0	0
Total Revenue		0	0	0	0	0	0	0
TIR Parking								
Vehicles per day		0	0	0	0	0	0	0
Charge / vehicle /day US $		5	5	5	5	5	5	5
Dealer margin		100%	100%	100%	100%	100%	100%	100%
Total Revenue		0	0	0	0	0	0	0
Other Products								

STOCK CALCULATION

	Months							
SCANIA								
Spare Parts	2	5,833	8,133	11,361	15,600	20,851	26,614	32,390
OTHER MAKES / SUPPLIERS								
Spare Parts	2	8,667	5,805	1,214	0	0	0	0
Lubricants (all makes)	1	949	975	975	975	1,463	1,463	1,950
Tyres	1	4,333	6,500	8,667	10,833	10,833	10,833	10,833
Benzene	0.5	0	0	0	0	0	0	0
Total Stock		19,782	21,413	22,217	27,408	33,146	38,910	45,174
			1,631	803	5,192	5,738	5,763	6,264

COSTS INPUT AND CALCULATIONS
MID: Truck Sale Forecast

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Sales volume (units)	10	15	21	27	33	33	33
Cum Scania in mkt (mid yr)	9	22	40	64	94	127	160
Maintenance Scania (hr/yr)	1195	2159	3536	3900	5850	5850	7800
Maintenance Other (hr/yr)	2600	1742	364	0	0	0	0
	3795	3900	3900	3900	5850	5850	7800
Mechanics required	2.0	2.0	2.0	2.0	3.0	3.0	4.0

	Hrs / man / yr	Mechanics / truck
Mechanics required	2600	100%

Wages

Senior Manager							
Number	1	1	1	1	1	1	1
US$ / Year	15000	15000	15000	15000	15000	15000	15000
Senior Manager	15000	15000	15000	15000	15000	15000	15000
Sales Manager							
Number	1	1	1	1	1	1	1
US$ / Year	10000	10000	10000	10000	10000	10000	10000
Sales Manager	10000	10000	10000	10000	10000	10000	10000
Salesmen							
Number	0	0	1	1	1	1	1
US$ / Year	5000	5000	5000	5000	5000	5000	5000
Salesmen	0	0	5000	5000	5000	5000	5000
Maintenance Manager							
Number	0	0	0	0	0	0	0
US$ / Year	10000	10000	10000	10000	10000	10000	10000
Maintenance Manager	0	0	0	0	0	0	0
Mechanics							
Number	2.0	2.0	2.0	2.0	3.0	3.0	4.0
US$ / Year	7500	7500	7500	7500	7500	7500	7500
Mechanics	15000	15000	15000	15000	22500	22500	30000
Senior Admin Staff							
Number	1	1	1	1	1	1	1
US$ / Year	7500	7500	7500	7500	7500	7500	7500
Senior Admin Staff	7500	7500	7500	7500	7500	7500	7500
Junior Admin Staff							
Number	1	1	1	1	1	2	3
US$ / Year	5000	5000	5000	5000	5000	5000	5000
Junior Admin Staff	5000	5000	5000	5000	5000	10000	15000
Spare							
Number	0	0	0	0	0	0	0
US$ / Year	0	0	0	0	0	0	0
Spare	0	0	0	0	0	0	0
Total	52,500	52,500	57,500	57,500	65,000	70,000	82,500
Maintenance	15,000	15,000	15,000	15,000	22,500	22,500	30,000
Sales	10,000	10,000	15,000	15,000	15,000	15,000	15,000
Other	27,500	27,500	27,500	27,500	27,500	32,500	37,500
check	-	-	-	-	-	-	-

Other staff split US$ per year

General Management	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Sales	10,000	10,000	15,000	15,000	15,000	15,000	15,000
Administration	12,500	12,500	12,500	12,500	12,500	17,500	22,500
Spare	-	-	-	-	-	-	-
	37,500	37,500	42,500	42,500	42,500	47,500	52,500
	10,000	10,000	15,000	15,000	15,000	15,000	15,000

Staff numbers

General Management	1	1	1	1	1	1	1
Sales	1	1	2	2	2	2	2
Administration	2	2	2	2	2	3	4
Spare	-	-	-	-	-	-	-
	4	4	5	5	5	6	7
Maintenance	2	2	2	2	3	3	4
Total	6	6	7	7	8	9	11

Advertising and marketing							
Exp / month	500	500	500	500	500	500	500
One-offs	5,000	0	0	0	0	0	0
Exp / Year	11,000	6,000	6,000	6,000	6,000	6,000	6,000
Utilities							
Electricity							
Cost per unit	1	1	1	1	1	1	1
Units per month	250	250	250	250	250	250	250
Total Electricity	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Water							
Cost per unit	1	1	1	1	1	1	1
Units per month	250	250	250	250	250	250	250
Total Water	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Gas							
Cost per unit	1	1	1	1	1	1	1
Units per month	0	100	100	100	100	100	100
Total Gas	0	1,200	1,200	1,200	1,200	1,200	1,200
Total Utilities	6,000	7,200	7,200	7,200	7,200	7,200	7,200
Telephone & Fax							
Cost per unit	1	1	1	1	1	1	1
Units per month	250	250	250	250	250	250	250
Total Tel & Fax	3,000	3,000	3,000	3,000	3,000	3,000	3,000
R & M (Fixed Assets)							
Increase on previous year		0%	5%	5%	5%	5%	5%
Buildings, Cost/ month	100	100	105	110	116	122	128
Roads, Cost / month	50	50	53	55	58	61	64
Plant & Machinery, cost / month	100	100	105	110	116	122	128
Other, Cost/ month	0	0	0	0	0	0	0
Total Cost / month	250	250	263	276	289	304	319
Total Cost / Year	3,000	3,000	3,150	3,308	3,473	3,647	3,829

DEPRECIATION CALCULATION

Equipment Purchase Phase 1 100%

	Total Spend	Life of Asset	Annual Dep'n	Annual Dep'n	Annual Dep'n	Annual Dep'n	Annual Dep'n	Annual Dep'n	Annual Dep'n
Benches, lockers	13,000	5	2,600	2,600	2,600	2,600	2,600		
Lifting, transport	13,000	5	2,600	2,600	2,600	2,600	2,600		
Hand tool	30,000	3	10,000	10,000	10,000				
Hand m/c's	26,000	3	8,667	8,667	8,667				
Air compressors	16,000	5	3,200	3,200	3,200	3,200	3,200		
Measuring equip	6,000	5	1,200	1,200	1,200	1,200	1,200		
Lub & Grease handling	7,000	5	1,400	1,400	1,400	1,400	1,400		
Tyre mounting	30,000	5	6,000	6,000	6,000	6,000	6,000		
Scania special tools	25,000	5	5,000	5,000	5,000	5,000	5,000		
				-	-	-	-		
Buildings & Land		25	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Computer equipment	16,000	5	3,200	3,200	3,200	3,200	3,200	3,200	3,200
Depreciation charge	######		47,867	47,867	47,867	29,200	29,200	7,200	7,200

Equipment Purchase Phase 2									
Reduction from year 1 co	25%								
Benches, lockers	9,750	5							
Lifting, transport	9,750	5						1,950	1,950
Hand tool	22,500	3						1,950	1,950
Hand m/c's	19,500	3				7,500	7,500	7,500	7,500
Air compressors	12,000	5				6,500	6,500	6,500	6,500
Measuring equip	4,500	5						2,400	2,400
Lub & Grease handling	5,250	5						900	900
Tyre mounting	22,500	5						1,050	1,050
Scania special tools	18,750	5						4,500	4,500
								3,750	3,750

	0	0	0						
	0	0	0						
Buildings & Land		0	25						
Computer equipment		4,000	5						
Depreciation charge		128,500		0	0	0	14,000	14,000	30,500	30,500
Total Depreciation				47,867	47,867	47,867	43,200	43,200	37,700	37,700
Cap Ex Total				282,000			42,000		82,500	
Net Book Value				234,133	186,267	138,400	137,200	94,000	138,800	101,100
Loan Requirements										
Net Cash Flow Without loan				839	506	35,769	71,217	143,082	59,334	150,431
Loan draw-down				115,000	0	0	0	0	0	0
Loan paid-off				0	61,000	54,000	0	0	0	0
Loan balance				115,000	54,000	0	0	0	0	0
Cash Flow Balance				839	1,345	37,114	108,331	251,413	310,747	461,179
Interest Rate				20%	20%	20%	20%	20%	20%	20%
Interest charge				23,000	23,000	10,800	0	0	0	0

3. SVS/GIBB High Forecast

SVS BUSINESS PROPOSAL
SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST

DETAILED SALES ANALYSIS

14-Aug-97
4:49 PM

HIGH: Truck Sale Forecast

	Year 1 US$	Year 2 US$	Year 3 US$	Year 4 US$	Year 5 US$	Year 6 US$	Year 7 US$	Gross Margin
SCANIA								
Sales								
Truck	960,000	1,440,000	2,000,000	2,560,000	3,200,000	3,200,000	3,200,000	8%
Spare Parts	36,000	52,300	75,165	105,098	142,603	184,183	225,842	25%
Maintenance	12,700	24,210	39,000	39,000	58,500	58,500	78,000	variable
Total Scania Sales	**1,008,700**	**1,516,510**	**2,114,165**	**2,704,098**	**3,401,103**	**3,442,683**	**3,503,842**	
OTHER MAKES / SUPPLIERS								
Sales								
Spare Parts	52,000	29,580	0	0	0	0	0	10%
Maintenance	26,000	14,790	0	0	0	0	0	variable
Lubricants (all makes)	11,610	11,700	11,700	11,700	17,550	17,550	23,400	25%
Tyres	52,000	78,000	104,000	130,000	130,000	130,000	130,000	25%
Benzene	0	0	0	0	0	0	0	5%
TIR Parking	0	0	0	0	0	0	0	100%
Total other sales	**141,610**	**134,070**	**115,700**	**141,700**	**147,550**	**147,550**	**153,400**	
Total all Sales	**1,150,310**	**1,650,580**	**2,229,865**	**2,845,798**	**3,548,653**	**3,590,233**	**3,657,242**	

SVS BUSINESS PROPOSAL
SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST

PROFIT & LOSS ACCOUNT

14-Aug-97
4:49 PM

HIGH: Truck Sale Forecast

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
GROSS MARGIN (G.M.)							
SCANIA							
Truck Sales	66,800	105,200	145,000	189,800	241,000	241,000	241,000
Spare Parts	9,000	13,075	18,791	26,275	35,651	46,046	56,461
Maintenance	7,778	14,898	24,000	24,000	36,000	36,000	48,000
Total Scania G.M.	**83,578**	**133,173**	**187,791**	**240,075**	**312,651**	**323,046**	**345,461**
OTHER MAKES / SUPPLIERS							
Spare Parts	5,200	2,958	0	0	0	0	0
Maintenance	15,922	9,102	0	0	0	0	0
Lubricants (all makes)	2,903	2,925	2,925	2,925	4,388	4,388	5,850
Tyres	13,000	19,500	26,000	32,500	32,500	32,500	32,500
Benzene margin	0	0	0	0	0	0	0
TIR Parking	0	0	0	0	0	0	0
Other Products	0	0	0	0	0	0	0
Total Other G.M.	**37,025**	**34,485**	**28,925**	**35,425**	**36,888**	**36,888**	**38,350**
TOTAL GROSS MARGIN	**120,603**	**167,658**	**216,716**	**275,500**	**349,538**	**359,933**	**383,811**
OTHER COSTS (Indirect)							
Wages (non-maintenance)	27,500	27,500	27,500	27,500	32,500	37,500	37,500
Advertising and marketing	11,000	6,000	6,000	6,000	6,000	6,000	6,000
Utilities	6,000	7,200	7,200	7,200	7,200	7,200	7,200
Telephone & Fax	3,000	3,000	3,000	3,000	3,000	3,000	3,000
R & M (Fixed Assets)	3,000	3,000	3,150	3,308	3,473	3,647	3,829
Total Costs (indirect)	**50,500**	**46,700**	**46,850**	**47,008**	**52,173**	**57,347**	**57,529**
PROFIT / (LOSS) before Depreciation & Interest	**70,103**	**120,958**	**169,866**	**228,492**	**297,365**	**302,587**	**326,282**
Depreciation charge	47,867	47,867	47,867	43,200	43,200	37,700	37,700
Interest charge	19,800	19,800	5,200	0	0	0	0
Overheads	**67,667**	**67,667**	**53,067**	**43,200**	**43,200**	**37,700**	**37,700**
PROFIT / (LOSS) after OVERHEADS	2,436	53,291	116,800	185,292	254,165	264,887	288,582
Tax 50%	1,218	26,646	58,400	92,646	127,083	132,443	144,291
PROFIT / (LOSS) after TAX	1,218	26,646	58,400	92,646	127,083	132,443	144,291
Dividened	0	0	0	0	0	0	0
PROFIT / (LOSS) Retained	**1,218**	**26,646**	**58,400**	**92,646**	**127,083**	**132,443**	**144,291**
Retained Profit Brought Forward	0	1,218	27,864	86,263	178,909	305,992	438,436
Retained Profit Carried Forward	1,218	27,864	86,263	178,909	305,992	438,436	582,726

Definitions

R&M - Repairs & Maintenance

GM - Gross Margin

Interest Rate 20%

	1,218	26,646	58,400	92,646	127,083	132,443	144,291
NOTES							
Truck sales volume (per year)	12	18	25	32	40	40	40
Average Sales price US$	80,000	80,000	80,000	80,000	80,000	80,000	80,000
Calculation of Maintenance Labour Margin							
Revenue							
Scania Vehicles	12,700	24,210	39,000	39,000	58,500	58,500	78,000
Other Makes	26,000	14,790	0	0	0	0	0
Total	38,700	39,000	39,000	39,000	58,500	58,500	78,000
Cost							
Labour	15,000	15,000	15,000	15,000	22,500	22,500	30,000
Margin	23,700	24,000	24,000	24,000	36,000	36,000	48,000
Margin Split							
Scania	7,778	14,898	24,000	24,000	36,000	36,000	48,000
Other	15,922	9,102	0	0	0	0	0
	0	0	0	0	0	0	0
Labour Split							
US $ per Year							
General Management	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Administration	12,500	12,500	12,500	12,500	17,500	22,500	22,500
Sub-Total	**27,500**	**27,500**	**27,500**	**27,500**	**32,500**	**37,500**	**37,500**
Sales inc. Management	10,000	10,000	15,000	15,000	15,000	15,000	15,000
Maintenance inc. management	15,000	15,000	15,000	15,000	22,500	22,500	30,000
Total	**52,500**	**52,500**	**57,500**	**57,500**	**70,000**	**75,000**	**82,500**
Number of Personnel							
General Management	1	1	1	1	1	1	1
Sales inc. Management	1	1	2	2	2	2	2
Administration	2	2	2	2	3	4	4
Sub-Total	**4**	**4**	**5**	**5**	**6**	**7**	**7**
Maintenance inc. management	2	2	2	2	3	3	4
Total	**6**	**6**	**7**	**7**	**9**	**10**	**11**

SVS BUSINESS PROPOSAL
SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST

CASH-FLOW FORECAST (USD)

14-Aug-97
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HIGH: Truck Sale Forecast

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Profit / (Loss) for year before dividend	1,218	26,646	58,400	92,646	127,083	132,443	144,291
Debtor / Creditor Adjustment	(15,593)	(1,154)	(631)	(7,156)	(5,697)	(6,513)	(6,806)
Add Back							
Depreciation	47,867	47,867	47,867	43,200	43,200	37,700	37,700
Loan (Over-draft) drawn-down	99,000	0	0	0	0	0	0
Share Capital	150,000	0	0	0	0	0	0
spare							
spare							
Less							
Capital expenditure	(282,000)	0	0	(42,000)	0	(82,500)	0
Loan (over draft) repaid	0	(73,000)	(26,000)	0	0	0	0
Dividend payment	0	0	0	0	0	0	0
spare							
spare							
Net Cash Flow In / (Out)	492	358	79,636	86,690	164,586	81,130	175,185
Retained cash brought forward	0	492	850	80,486	167,176	331,762	412,892
Retained cash carried forward	492	850	80,486	167,176	331,762	412,892	588,078

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Capital Investment	(282,000)	0	0	(42,000)	0	(82,500)	0
Retained profit	49,085	74,512	106,266	135,846	170,283	170,143	181,991
Net of above	(232,915)	74,512	106,266	93,846	170,283	87,643	181,991
IRR	38.7%						

SVS BUSINESS PROPOSAL

SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST

BALANCE SHEET (as at end of year shown)

HIGH: Truck Sale Forecast

14-Aug-97
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	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Fixed Assets	234,133	186,267	138,400	137,200	94,000	138,800	101,100
Current Assets							
Cash	492	850	80,486	167,176	331,762	412,892	588,078
Stock	19,968	21,122	22,169	29,325	36,063	42,993	50,424
	20,460	21,972	102,655	196,501	367,825	455,886	638,501
Total Assets	**254,593**	**208,239**	**241,055**	**333,701**	**461,825**	**594,686**	**739,601**
Current Liabilities							
Trade Creditors							
Salaries	4,375	4,375	4,792	4,792	5,833	6,250	6,875
Dividend	0	0	0	0	0	0	0
Loan	99,000	26,000	0	0	0	0	0
	103,375	**30,375**	**4,792**	**4,792**	**5,833**	**6,250**	**6,875**
Net Current Assets	**151,218**	**177,864**	**236,263**	**328,909**	**455,992**	**588,436**	**732,726**
Liabilities due in more than 1 year	0	0	0	0	0	0	0
	151,218	**177,864**	**236,263**	**328,909**	**455,992**	**588,436**	**732,726**
Capital & Reserves							
Ordinary Share Capital	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Retained profits	1,218	27,864	86,263	178,909	305,992	438,436	582,726
	151,218	**177,864**	**236,263**	**328,909**	**455,992**	**588,436**	**732,726**

SVS BUSINESS PROPOSAL
SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST
HIGH: Truck Sale Forecast

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
SCANIA								
Truck Sales (Low, Mid, High & AsiaScan=>)	**H**	HIGH						
Trucks in country at Yr 0	**4**							
Forecast sales per year		12	18	25	32	40	40	40
% achieved		100%	100%	100%	100%	100%	100%	100%
Actual Sales per year		12	18	25	32	40	40	40
Value per sale (US$)		80000	80000	80000	80000	80000	80000	80000
Dealer revenue %		8%	8%	8%	8%	8%	8%	8%
Truck Sales		76800	115200	160000	204800	256000	256000	256000
Sales workforce costs								
Gross Margin		76800	115200	160000	204800	256000	256000	256000
Total turnover		960000	1E+06	2E+06	3E+06	3E+06	3E+06	3E+06
Sales								
Low		5	8	11	14	17	17	17
Med		10	15	21	27	33	33	33
High		12	18	25	32	40	40	40
AsiaScan estimate		30	45	60	75	75	75	75
Spare Parts								
Trucks in Market		10.0	25.0	46.5	75.0	111.0	151.0	191.0
Spares / truck / year (US$)		1,000	1,000	1,000	1,000	1,000	1,000	1,000
Transit customers / week		2.0	2.1	2.2	2.3	2.4	2.6	2.7
Spares / truck / vehicle (US$)		250	250	250	250	250	250	250
Actual purchase level %		100%	100%	100%	100%	100%	100%	100%
Dealer Margin %		25%	25%	25%	25%	25%	25%	25%
Spare Parts		9000	13075	18791	26275	35651	46046	56461
Total sales		36000	52300	75165	105098	142603	184183	225842
		104	109	115	120	126	133	139
Maintenance								
Trucks in market		10	25	47	75	111	151	191
Hours work / truck / year		75	75	75	75	75	75	75
Factor % (actual maintenance)		100%	100%	100%	100%	100%	100%	100%
Transit customers / week		2	2	2	2	2	3	3
Hours work / truck / job		5	5	5	5	5	5	5
Charge US$ / Hour		10	10	10	10	10	10	10
Actual hours REQUIRED		1,270	2,421	4,061	6,227	8,957	11,989	15,022
Max hours AVAILABLE		1,270	2,421	3,900	3,900	5,850	5,850	7,800
Actual hours worked		1,270	2,421	3,900	3,900	5,850	5,850	7,800
Total Revenue		12,700	24,210	39,000	39,000	58,500	58,500	78,000
OTHER MAKES / SUPPLIERS								
Spare Parts								
Vehicles maintained / day		2	1	0	0	0	0	0
Other sales per day		2	1	0	0	0	0	0
Value of each sale		50	50	50	50	50	50	50
Dealer Margin %		10%	10%	10%	10%	10%	10%	10%
Dealer Margin US$		5200	2958	0	0	0	0	0
Total revenue		52000	29580	0	0	0	0	0
		520	296	0	0	0	0	0
Maintenance								
Growth over previous year			50%	50%	25%	25%	25%	25%
Trucks / day		2.0	3.0	4.5	5.6	7.0	8.8	11.0
Hours work / truck / job		5	5	5	5	5	5	5

Charge US$ / Hour	10	10	10	10	10	10	10
Actual hours REQUIRED	2,600	3,900	5,850	7,313	9,141	11,426	14,282
Max hours AVAILABLE	2,600	1,479	0	0	0	0	0
Actual hours worked	2,600	1,479	0	0	0	0	0
Factor - Actual work	100%	100%	100%	100%	100%	100%	100%
Total Revenue	26,000	14,790	0	0	0	0	0
	2.0	1.1	0.0	0.0	0.0	0.0	0.0
Lubricants (all makes)							
Vehicles per year	774	780	780	780	1170	1170	1560
Sales volume lts / vehicle	5	5	5	5	5	5	5
Sales volume lts / year	3870	3900	3900	3900	5850	5850	7800
Sales value US$ / lt	3	3	3	3	3	3	3
Vehicles requiring lubricants %	100%	100%	100%	100%	100%	100%	100%
Dealer margin (%)	25%	25%	25%	25%	25%	25%	25%
Lubricants (all makes)	2903	2925	2925	2925	4388	4388	5850
Total Revenue	11610	11700	11700	11700	17550	17550	23400
Tyres							
Sales volume (tyres / week)	2	3	4	5	5	5	5
Sales value (US$ / tyre)	500	500	500	500	500	500	500
Dealer margin (%)	25%	25%	25%	25%	25%	25%	25%
Tyres	13000	19500	26000	32500	32500	32500	32500
Total Revenue	52000	78000	104000	130000	130000	130000	130000
Benzene							
Sales volume per vehicle lts	0	0	0	0	0	0	0
Sales per day (vehicles)	5	5	5	5	5	5	5
Sales price (Tenge/lt)	0.67	0.67	0.67	0.67	0.67	0.67	0.67
Dealer margin (%)	5%	5%	5%	5%	5%	5%	5%
Benzene margin	0	0	0	0	0	0	0
Total Revenue	0	0	0	0	0	0	0
TIR Parking							
Vehicles per day	0	0	0	0	0	0	0
Charge / vehicle /day US $	5	5	5	5	5	5	5
Dealer margin	100%	100%	100%	100%	100%	100%	100%
Total Revenue	0	0	0	0	0	0	0
Other Products							

STOCK CALCULATION

	Months						
SCANIA							
Spare Parts	2	6,000	8,717	12,528	17,516	23,767	30,697	37,640
OTHER MAKES / SUPPLIERS							
Spare Parts	2	8,667	4,930	0	0	0	0	0
Lubricants (all makes)	1	968	975	975	975	1,463	1,463	1,950
Tyres	1	4,333	6,500	8,667	10,833	10,833	10,833	10,833
Benzene	0.5	0	0	0	0	0	0	0
Total Stock		19,968	21,122	22,169	29,325	36,063	42,993	50,424
			1,154	1,048	7,156	6,738	6,930	7,431

COSTS INPUT AND CALCULATIONS
HIGH: Truck Sale Forecast

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Sales volume (units)	12	18	25	32	40	40	40
Cum Scania in mkt (mid yr)	10	25	47	75	111	151	191
Maintenance Scania (hr/yr)	1270	2421	3900	3900	5850	5850	7800
Maintenance Other (hr/yr)	2600	1479	0	0	0	0	0
	3870	3900	3900	3900	5850	5850	7800
Mechanics required	2.0	2.0	2.0	2.0	3.0	3.0	4.0

	Hrs / man / yr	Mechanics / truck
Mechanics required	2600	100%

Wages							
Senior Manager							
Number	1	1	1	1	1	1	1
US$ / Year	15000	15000	15000	15000	15000	15000	15000
Senior Manager	15000	15000	15000	15000	15000	15000	15000
Sales Manager							
Number	1	1	1	1	1	1	1
US$ / Year	10000	10000	10000	10000	10000	10000	10000
Sales Manager	10000	10000	10000	10000	10000	10000	10000
Salesmen							
Number	0	0	1	1	1	1	1
US$ / Year	5000	5000	5000	5000	5000	5000	5000
Salesmen	0	0	5000	5000	5000	5000	5000
Maintenance Manager							
Number	0	0	0	0	0	0	0
US$ / Year	10000	10000	10000	10000	10000	10000	10000
Maintenance Manager	0	0	0	0	0	0	0
Mechanics							
Number	2.0	2.0	2.0	2.0	3.0	3.0	4.0
US$ / Year	7500	7500	7500	7500	7500	7500	7500
Mechanics	15000	15000	15000	15000	22500	22500	30000
Senior Admin Staff							
Number	1	1	1	1	1	1	1
US$ / Year	7500	7500	7500	7500	7500	7500	7500
Senior Admin Staff	7500	7500	7500	7500	7500	7500	7500
Junior Admin Staff							
Number	1	1	1	1	2	3	3
US$ / Year	5000	5000	5000	5000	5000	5000	5000
Junior Admin Staff	5000	5000	5000	5000	10000	15000	15000
Spare							
Number	0	0	0	0	0	0	0
US$ / Year	0	0	0	0	0	0	0
Spare	0	0	0	0	0	0	0
Total	52,500	52,500	57,500	57,500	70,000	75,000	82,500
Maintenance	15,000	15,000	15,000	15,000	22,500	22,500	30,000
Sales	10,000	10,000	15,000	15,000	15,000	15,000	15,000
Other	27,500	27,500	27,500	27,500	32,500	37,500	37,500
check	-	-	-	-	-	-	-
Other staff split US$ per year							
General Management	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Sales	10,000	10,000	15,000	15,000	15,000	15,000	15,000
Administration	12,500	12,500	12,500	12,500	17,500	22,500	22,500
Spare	-	-	-	-	-	-	-
	37,500	37,500	42,500	42,500	47,500	52,500	52,500
	10,000	10,000	15,000	15,000	15,000	15,000	15,000
Staff numbers							
General Management	1	1	1	1	1	1	1
Sales	1	1	2	2	2	2	2
Administration	2	2	2	2	3	4	4
Spare	-	-	-	-	-	-	-
	4	4	5	5	6	7	7
Maintenance	2	2	2	2	3	3	4
Total	6	6	7	7	9	10	11

Advertising and marketing							
Exp / month	500	500	500	500	500	500	500
One-offs	5,000	0	0	0	0	0	0
Exp / Year	11,000	6,000	6,000	6,000	6,000	6,000	6,000
Utilities							
Electricity							
Cost per unit	1	1	1	1	1	1	1
Units per month	250	250	250	250	250	250	250
Total Electricity	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Water							
Cost per unit	1	1	1	1	1	1	1
Units per month	250	250	250	250	250	250	250
Total Water	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Gas							
Cost per unit	1	1	1	1	1	1	1
Units per month	0	100	100	100	100	100	100
Total Gas	0	1,200	1,200	1,200	1,200	1,200	1,200
Total Utilities	6,000	7,200	7,200	7,200	7,200	7,200	7,200
Telephone & Fax							
Cost per unit	1	1	1	1	1	1	1
Units per month	250	250	250	250	250	250	250
Total Tel & Fax	3,000	3,000	3,000	3,000	3,000	3,000	3,000
R & M (Fixed Assets)							
Increase on previous year		0%	5%	5%	5%	5%	5%
Buildings, Cost/ month	100	100	105	110	116	122	128
Roads, Cost / month	50	50	53	55	58	61	64
Plant & Machinery, cost / month	100	100	105	110	116	122	128
Other, Cost/ month	0	0	0	0	0	0	0
Total Cost / month	250	250	263	276	289	304	319
Total Cost / Year	3,000	3,000	3,150	3,308	3,473	3,647	3,829

DEPRECIATION CALCULATION

Equipment Purchase Phase 1 100%

	Total Spend	Life of Asset	Annual Dep'n	Annual Dep'n	Annual Dep'n	Annual Dep'n	Annual Dep'n	Annual Dep'n	Annual Dep'n
Benches, lockers	13,000	5	2,600	2,600	2,600	2,600	2,600		
Lifting, transport	13,000	5	2,600	2,600	2,600	2,600	2,600		
Hand tool	30,000	3	10,000	10,000	10,000				
Hand m/c's	26,000	3	8,667	8,667	8,667				
Air compressors	16,000	5	3,200	3,200	3,200	3,200	3,200		
Measuring equip	6,000	5	1,200	1,200	1,200	1,200	1,200		
Lub & Grease handling	7,000	5	1,400	1,400	1,400	1,400	1,400		
Tyre mounting	30,000	5	6,000	6,000	6,000	6,000	6,000		
Scania special tools	25,000	5	5,000	5,000	5,000	5,000	5,000		
				-	-	-	-		
				-	-	-	-		
Buildings & Land		25	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Computer equipment	16,000	5	3,200	3,200	3,200	3,200	3,200	3,200	3,200
Depreciation charge	######		47,867	47,867	47,867	29,200	29,200	7,200	7,200

Equipment Purchase Phase 2

Reduction from year 1 co	25%							
Benches, lockers	9,750	5					1,950	1,950
Lifting, transport	9,750	5					1,950	1,950
Hand tool	22,500	3				7,500	7,500	7,500
Hand m/c's	19,500	3				6,500	6,500	6,500
Air compressors	12,000	5					2,400	2,400
Measuring equip	4,500	5					900	900
Lub & Grease handling	5,250	5					1,050	1,050
Tyre mounting	22,500	5					4,500	4,500
Scania special tools	18,750	5					3,750	3,750

	0	0	0						
	0	0	0						
Buildings & Land		0	25						
Computer equipment		4,000	5						
Depreciation charge		128,500		0	0	0	14,000	14,000	30,500	30,500
Total Depreciation				47,867	47,867	47,867	43,200	43,200	37,700	37,700
Cap Ex Total				282,000			42,000		82,500	
Net Book Value				234,133	186,267	138,400	137,200	94,000	138,800	101,100
Loan Requirements										
Net Cash Flow Without loan				492	358	79,636	86,690	164,586	81,130	175,185
Loan draw-down				99,000	0	0	0	0	0	0
Loan paid-off				0	73,000	26,000	0	0	0	0
Loan balance				99,000	26,000	0	0	0	0	0
Cash Flow Balance				492	850	80,486	167,176	331,762	412,892	588,078
Interest Rate				20%	20%	20%	20%	20%	20%	20%
Interest charge				19,800	19,800	5,200	0	0	0	0

4. SVS/GIBB Low Forecast

SVS BUSINESS PROPOSAL
SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST

DETAILED SALES ANALYSIS

14-Aug-97
4:42 PM

LOW: Truck Sale Forecast

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Gross Margin
	US$	US$	US$	US$	US$	US$	US$	
SCANIA								
Sales								
Truck	400,000	640,000	880,000	1,120,000	1,360,000	1,360,000	1,360,000	8%
Spare Parts	32,500	40,300	51,165	65,098	82,103	100,683	119,342	25%
Maintenance	10,075	15,210	22,608	32,270	44,196	57,262	70,343	variable
Total Scania Sales	**442,575**	**695,510**	**953,773**	**1,217,368**	**1,486,299**	**1,517,945**	**1,549,686**	
OTHER MAKES / SUPPLIERS								
Sales								
Spare Parts	52,000	47,580	32,784	13,461	28,609	2,477	15,313	10%
Maintenance	26,000	23,790	16,392	6,730	14,304	1,238	7,657	variable
Lubricants (all makes)	10,823	11,700	11,700	11,700	17,550	17,550	23,400	25%
Tyres	52,000	78,000	104,000	130,000	130,000	130,000	130,000	25%
Benzene	0	0	0	0	0	0	0	5%
TIR Parking	0	0	0	0	0	0	0	100%
Other Products	0	0	0	0	0	0	0	
Other Products	0	0	0	0	0	0	0	
Total other sales	**140,823**	**161,070**	**164,876**	**161,891**	**190,463**	**151,265**	**176,370**	
Total all Sales	**583,398**	**856,580**	**1,118,649**	**1,379,259**	**1,676,762**	**1,669,210**	**1,726,055**	

SVS BUSINESS PROPOSAL
SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST

PROFIT & LOSS ACCOUNT

14-Aug-97

LOW: Truck Sale Forecast

4:42 PM

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
GROSS MARGIN (G.M.)							
SCANIA							
Truck Sales	22,000	41,200	60,400	79,600	98,800	93,800	93,800
Spare Parts	8,125	10,075	12,791	16,275	20,526	25,171	29,836
Maintenance	5,886	9,360	13,913	19,858	27,197	35,238	43,288
Total Scania G.M.	**36,011**	**60,635**	**87,104**	**115,733**	**146,523**	**154,209**	**166,924**
OTHER MAKES / SUPPLIERS							
Spare Parts	5,200	4,758	3,278	1,346	2,861	248	1,531
Maintenance	15,189	14,640	10,087	4,142	8,803	762	4,712
Lubricants (all makes)	2,706	2,925	2,925	2,925	4,388	4,388	5,850
Tyres	13,000	19,500	26,000	32,500	32,500	32,500	32,500
Benzene margin	0	0	0	0	0	0	0
TIR Parking	0	0	0	0	0	0	0
Other Products	0	0	0	0	0	0	0
Total Other G.M.	**36,095**	**41,823**	**42,291**	**40,913**	**48,551**	**37,897**	**44,593**
TOTAL GROSS MARGIN	**72,106**	**102,458**	**129,395**	**156,646**	**195,074**	**192,106**	**211,517**
OTHER COSTS (Indirect)							
Wages (non-maintenance)	27,500	27,500	27,500	27,500	27,500	27,500	27,500
Advertising and marketing	11,000	6,000	6,000	6,000	6,000	6,000	6,000
Utilities	6,000	7,200	7,200	7,200	7,200	7,200	7,200
Telephone & Fax	3,000	3,000	3,000	3,000	3,000	3,000	3,000
R & M (Fixed Assets)	3,000	3,000	3,150	3,308	3,473	3,647	3,829
Total Costs (indirect)	**50,500**	**46,700**	**46,850**	**47,008**	**47,173**	**47,347**	**47,529**
PROFIT / (LOSS) before Depreciation & Interest	**21,606**	**55,758**	**82,545**	**109,638**	**147,901**	**144,759**	**163,988**
Depreciation charge	47,867	47,867	47,867	43,200	43,200	37,700	37,700
Interest charge	31,400	31,400	27,200	17,200	12,400	0	0
Overheads	**79,267**	**79,267**	**75,067**	**60,400**	**55,600**	**37,700**	**37,700**
PROFIT / (LOSS) after OVERHEADS	(57,661)	(23,509)	7,478	49,238	92,301	107,059	126,288
Tax 50%	0	0	3,739	24,619	46,151	53,530	63,144
PROFIT / (LOSS) after TAX	(57,661)	(23,509)	3,739	24,619	46,151	53,530	63,144
Dividened	0	0	0	0	0	0	0
PROFIT / (LOSS) Retained	**(57,661)**	**(23,509)**	**3,739**	**24,619**	**46,151**	**53,530**	**63,144**
Retained Profit Brought Forward	0	(57,661)	(81,170)	(77,431)	(52,812)	(6,661)	46,869
Retained Profit Carried Forward	(57,661)	(81,170)	(77,431)	(52,812)	(6,661)	46,869	110,013

Definitions

R&M - Repairs & Maintenance

GM - Gross Margin

Interest Rate 20%

	0	0	3,739	24,619	46,151	53,530	63,144
NOTES							
Truck sales volume (per year)	5	8	11	14	17	17	17
Average Sales price US$	80,000	80,000	80,000	80,000	80,000	80,000	80,000
Calculation of Maintenance Labour Margin							
Revenue							
Scania Vehicles	10,075	15,210	22,608	32,270	44,196	57,262	70,343
Other Makes	26,000	23,790	16,392	6,730	14,304	1,238	7,657
Total	36,075	39,000	39,000	39,000	58,500	58,500	78,000
Cost							
Labour	15,000	15,000	15,000	15,000	22,500	22,500	30,000
Margin	21,075	24,000	24,000	24,000	36,000	36,000	48,000
Margin Split							
Scania	5,886	9,360	13,913	19,858	27,197	35,238	43,288
Other	15,189	14,640	10,087	4,142	8,803	762	4,712
	0	0	0	0	0	0	-0
Labour Split							
US $ per Year							
General Management	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Administration	12,500	12,500	12,500	12,500	12,500	12,500	12,500
Sub-Total	**27,500**	**27,500**	**27,500**	**27,500**	**27,500**	**27,500**	**27,500**
Sales inc. Management	10,000	10,000	10,000	10,000	10,000	15,000	15,000
Maintenance inc. management	15,000	15,000	15,000	15,000	22,500	22,500	30,000
Total	**52,500**	**52,500**	**52,500**	**52,500**	**60,000**	**65,000**	**72,500**
Number of Personnel							
General Management	1	1	1	1	1	1	1
Sales inc. Management	1	1	1	1	1	2	2
Administration	2	2	2	2	2	2	2
Sub-Total	**4**	**4**	**4**	**4**	**4**	**5**	**5**
Maintenance inc. management	2	2	2	2	3	3	4
Total	**6**	**6**	**6**	**6**	**7**	**8**	**9**

SVS BUSINESS PROPOSAL
SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST

CASH-FLOW FORECAST (USD)

14-Aug-97
4:42 PM

LOW: Truck Sale Forecast

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Profit / (Loss) for year before dividend	(57,661)	(23,509)	3,739	24,619	46,151	53,530	63,144
Debtor / Creditor Adjustment	(14,944)	(2,803)	(1,512)	(1,268)	(5,221)	1,675	(5,112)
Add Back							
Depreciation	47,867	47,867	47,867	43,200	43,200	37,700	37,700
Loan (Over-draft) drawn-down	157,000	0	0	0	0	0	0
Share Capital	150,000	0	0	0	0	0	0
spare							
spare							
Less							
Capital expenditure	(282,000)	0	0	(42,000)	0	(82,500)	0
Loan (over draft) repaid	0	(21,000)	(50,000)	(24,000)	(62,000)	0	0
Dividend payment	0	0	0	0	0	0	0
spare							
spare							
Net Cash Flow In / (Out)	262	555	94	551	22,129	10,405	95,732
Retained cash brought forward	0	262	817	911	1,462	23,591	33,996
Retained cash carried forward	262	817	911	1,462	23,591	33,996	129,729

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Capital Investment	(282,000)	0	0	(42,000)	0	(82,500)	0
Retained profit	(9,794)	24,358	51,606	67,819	89,351	91,230	100,844
Net of above	(291,794)	24,358	51,606	25,819	89,351	8,730	100,844
IRR	0.8%						

SVS BUSINESS PROPOSAL

SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST

BALANCE SHEET (as at end of year shown)

LOW: Truck Sale Forecast

14-Aug-97
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	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Fixed Assets	234,133	186,267	138,400	137,200	94,000	138,800	101,100
Current Assets							
Cash	262	817	911	1,462	23,591	33,996	129,729
Stock	19,319	22,122	23,633	24,901	30,748	29,489	35,226
	19,581	22,939	24,544	26,363	54,339	63,485	164,954
Total Assets	**253,714**	**209,205**	**162,944**	**163,563**	**148,339**	**202,285**	**266,054**
Current Liabilities							
Trade Creditors							
Salaries	4,375	4,375	4,375	4,375	5,000	5,417	6,042
Dividend	0	0	0	0	0	0	0
Loan	157,000	136,000	86,000	62,000	0	0	0
	161,375	**140,375**	**90,375**	**66,375**	**5,000**	**5,417**	**6,042**
Net Current Assets	**92,339**	**68,830**	**72,569**	**97,188**	**143,339**	**196,869**	**260,013**
Liabilities due in more than 1 year	0	0	0	0	0	0	0
	92,339	**68,830**	**72,569**	**97,188**	**143,339**	**196,869**	**260,013**
Capital & Reserves							
Ordinary Share Capital	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Retained profits	(57,661)	(81,170)	(77,431)	(52,812)	(6,661)	46,869	110,013
	92,339	**68,830**	**72,569**	**97,188**	**143,339**	**196,869**	**260,013**

SVS BUSINESS PROPOSAL
SCANIA KAZAKSTAN DEALERSHIP FINANCIAL FORECAST
LOW: Truck Sale Forecast

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
SCANIA								
Truck Sales (Low, Mid, High & AsiaScan=>)	L	LOW						
Trucks in country at Yr 0	4							
Forecast sales per year		5	8	11	14	17	17	17
% achieved		100%	100%	100%	100%	100%	100%	100%
Actual Sales per year		5	8	11	14	17	17	17
Value per sale (US$)		80000	80000	80000	80000	80000	80000	80000
Dealer revenue %		8%	8%	8%	8%	8%	8%	8%
Truck Sales		32000	51200	70400	89600	108800	108800	108800
Sales workforce costs								
Gross Margin		32000	51200	70400	89600	108800	108800	108800
Total turnover		400000	640000	880000	1E+06	1E+06	1E+06	1E+06
Sales								
Low		5	8	11	14	17	17	17
Med		10	15	21	27	33	33	33
High		12	18	25	32	40	40	40
AsiaScan estimate		30	45	60	75	75	75	75
Spare Parts								
Trucks in Market		6.5	13.0	22.5	35.0	50.5	67.5	84.5
Spares / truck / year (US$)		1,000	1,000	1,000	1,000	1,000	1,000	1,000
Transit customers / week		2.0	2.1	2.2	2.3	2.4	2.6	2.7
Spares / truck / vehicle (US$)		250	250	250	250	250	250	250
Actual purchase level %		100%	100%	100%	100%	100%	100%	100%
Dealer Margin %		25%	25%	25%	25%	25%	25%	25%
Spare Parts		8125	10075	12791	16275	20526	25171	29836
Total sales		32500	40300	51165	65098	82103	100683	119342
		104	109	115	120	126	133	139
Maintenance								
Trucks in market		7	13	23	35	51	68	85
Hours work / truck / year		75	75	75	75	75	75	75
Factor % (actual maintenance)		100%	100%	100%	100%	100%	100%	100%
Transit customers / week		2	2	2	2	2	3	3
Hours work / truck / job		5	5	5	5	5	5	5
Charge US$ / Hour		10	10	10	10	10	10	10
Actual hours REQUIRED		1,008	1,521	2,261	3,227	4,420	5,726	7,034
Max hours AVAILABLE		1,008	1,521	2,261	3,227	4,420	5,726	7,034
Actual hours worked		1,008	1,521	2,261	3,227	4,420	5,726	7,034
Total Revenue		10,075	15,210	22,608	32,270	44,196	57,262	70,343
OTHER MAKES / SUPPLIERS								
Spare Parts								
Vehicles maintained / day		2	2	1	1	1	0	1
Other sales per day		2	2	1	1	1	0	1
Value of each sale		50	50	50	50	50	50	50
Dealer Margin %		10%	10%	10%	10%	10%	10%	10%
Dealer Margin US$		5200	4758	3278	1346	2861	248	1531
Total revenue		52000	47580	32784	13461	28609	2477	15313
		520	476	328	135	286	25	153
Maintenance								
Growth over previous year			50%	50%	25%	25%	25%	25%
Trucks / day		2.0	3.0	4.5	5.6	7.0	8.8	11.0
Hours work / truck / job		5	5	5	5	5	5	5

Charge US$ / Hour	10	10	10	10	10	10	10
Actual hours REQUIRED	2,600	3,900	5,850	7,313	9,141	11,426	14,282
Max hours AVAILABLE	2,600	2,379	1,639	673	1,430	124	766
Actual hours worked	2,600	2,379	1,639	673	1,430	124	766
Factor - Actual work	100%	100%	100%	100%	100%	100%	100%
Total Revenue	26,000	23,790	16,392	6,730	14,304	1,238	7,657
	2.0	1.8	1.3	0.5	1.1	0.1	0.6
Lubricants (all makes)							
Vehicles per year	722	780	780	780	1170	1170	1560
Sales volume lts / vehicle	5	5	5	5	5	5	5
Sales volume lts / year	3608	3900	3900	3900	5850	5850	7800
Sales value US$ / lt	3	3	3	3	3	3	3
Vehicles requiring lubricants %	100%	100%	100%	100%	100%	100%	100%
Dealer margin (%)	25%	25%	25%	25%	25%	25%	25%
Lubricants (all makes)	2706	2925	2925	2925	4388	4388	5850
Total Revenue	10823	11700	11700	11700	17550	17550	23400
Tyres							
Sales volume (tyres / week)	2	3	4	5	5	5	5
Sales value (US$ / tyre)	500	500	500	500	500	500	500
Dealer margin (%)	25%	25%	25%	25%	25%	25%	25%
Tyres	13000	19500	26000	32500	32500	32500	32500
Total Revenue	52000	78000	104000	130000	130000	130000	130000
Benzene							
Sales volume per vehicle lts	0	0	0	0	0	0	0
Sales per day (vehicles)	5	5	5	5	5	5	5
Sales price (Tenge/lt)	0.67	0.67	0.67	0.67	0.67	0.67	0.67
Dealer margin (%)	5%	5%	5%	5%	5%	5%	5%
Benzene margin	0	0	0	0	0	0	0
Total Revenue	0	0	0	0	0	0	0
TIR Parking							
Vehicles per day	0	0	0	0	0	0	0
Charge / vehicle /day US $	5	5	5	5	5	5	5
Dealer margin	100%	100%	100%	100%	100%	100%	100%
Total Revenue	0	0	0	0	0	0	0
Other Products							

STOCK CALCULATION

	Months						
SCANIA							
Spare Parts	2	5,417	6,717	8,528	10,850	13,684	16,781	19,890
OTHER MAKES / SUPPLIERS								
Spare Parts	2	8,667	7,930	5,464	2,243	4,768	413	2,552
Lubricants (all makes)	1	902	975	975	975	1,463	1,463	1,950
Tyres	1	4,333	6,500	8,667	10,833	10,833	10,833	10,833
Benzene	0.5	0	0	0	0	0	0	0
Total Stock		19,319	22,122	23,633	24,901	30,748	29,489	35,226
			2,803	1,512	1,268	5,846	-1,259	5,737

COSTS INPUT AND CALCULATIONS
LOW: Truck Sale Forecast

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Sales volume (units)	5	8	11	14	17	17	17
Cum Scania in mkt (mid yr)	7	13	23	35	51	68	85
Maintenance Scania (hr/yr)	1008	1521	2261	3227	4420	5726	7034
Maintenance Other (hr/yr)	2600	2379	1639	673	1430	124	766
	3608	3900	3900	3900	5850	5850	7800
Mechanics required	2.0	2.0	2.0	2.0	3.0	3.0	4.0

	Hrs / man / yr	Mechanics / truck
Mechanics required	2600	100%

Wages

Senior Manager							
Number	1	1	1	1	1	1	1
US$ / Year	15000	15000	15000	15000	15000	15000	15000
Senior Manager	15000	15000	15000	15000	15000	15000	15000
Sales Manager							
Number	1	1	1	1	1	1	1
US$ / Year	10000	10000	10000	10000	10000	10000	10000
Sales Manager	10000	10000	10000	10000	10000	10000	10000
Salesmen							
Number	0	0	0	0	0	1	1
US$ / Year	5000	5000	5000	5000	5000	5000	5000
Salesmen	0	0	0	0	0	5000	5000
Maintenance Manager							
Number	0	0	0	0	0	0	0
US$ / Year	10000	10000	10000	10000	10000	10000	10000
Maintenance Manager	0	0	0	0	0	0	0
Mechanics							
Number	2.0	2.0	2.0	2.0	3.0	3.0	4.0
US$ / Year	7500	7500	7500	7500	7500	7500	7500
Mechanics	15000	15000	15000	15000	22500	22500	30000
Senior Admin Staff							
Number	1	1	1	1	1	1	1
US$ / Year	7500	7500	7500	7500	7500	7500	7500
Senior Admin Staff	7500	7500	7500	7500	7500	7500	7500
Junior Admin Staff							
Number	1	1	1	1	1	1	1
US$ / Year	5000	5000	5000	5000	5000	5000	5000
Junior Admin Staff	5000	5000	5000	5000	5000	5000	5000
Spare							
Number	0	0	0	0	0	0	0
US$ / Year	0	0	0	0	0	0	0
Spare	0	0	0	0	0	0	0
Total	52,500	52,500	52,500	52,500	60,000	65,000	72,500
Maintenance	15,000	15,000	15,000	15,000	22,500	22,500	30,000
Sales	10,000	10,000	10,000	10,000	10,000	15,000	15,000
Other	27,500	27,500	27,500	27,500	27,500	27,500	27,500
check	-	-	-	-	-	-	-
Other staff split US$ per year							
General Management	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Sales	10,000	10,000	10,000	10,000	10,000	15,000	15,000
Administration	12,500	12,500	12,500	12,500	12,500	12,500	12,500
Spare	-	-	-	-	-	-	-
	37,500	37,500	37,500	37,500	37,500	42,500	42,500
	10,000	10,000	10,000	10,000	10,000	15,000	15,000
Staff numbers							
General Management	1	1	1	1	1	1	1
Sales	1	1	1	1	1	2	2
Administration	2	2	2	2	2	2	2
Spare	-	-	-	-	-	-	-
	4	4	4	4	4	5	5
Maintenance	2	2	2	2	3	3	4
Total	6	6	6	6	7	8	9

Advertising and marketing							
Exp / month	500	500	500	500	500	500	500
One-offs	5,000	0	0	0	0	0	0
Exp / Year	11,000	6,000	6,000	6,000	6,000	6,000	6,000
Utilities							
Electricity							
Cost per unit	1	1	1	1	1	1	1
Units per month	250	250	250	250	250	250	250
Total Electricity	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Water							
Cost per unit	1	1	1	1	1	1	1
Units per month	250	250	250	250	250	250	250
Total Water	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Gas							
Cost per unit	1	1	1	1	1	1	1
Units per month	0	100	100	100	100	100	100
Total Gas	0	1,200	1,200	1,200	1,200	1,200	1,200
Total Utilities	6,000	7,200	7,200	7,200	7,200	7,200	7,200
Telephone & Fax							
Cost per unit	1	1	1	1	1	1	1
Units per month	250	250	250	250	250	250	250
Total Tel & Fax	3,000	3,000	3,000	3,000	3,000	3,000	3,000
R & M (Fixed Assets)							
Increase on previous year		0%	5%	5%	5%	5%	5%
Buildings, Cost/ month	100	100	105	110	116	122	128
Roads, Cost / month	50	50	53	55	58	61	64
Plant & Machinery, cost / month	100	100	105	110	116	122	128
Other, Cost/ month	0	0	0	0	0	0	0
Total Cost / month	250	250	263	276	289	304	319
Total Cost / Year	3,000	3,000	3,150	3,308	3,473	3,647	3,829

DEPRECIATION CALCULATION

Equipment Purchase Phase 1 100%

	Total Spend	Life of Asset	Annual Dep'n	Annual Dep'n	Annual Dep'n	Annual Dep'n	Annual Dep'n	Annual Dep'n	Annual Dep'n
Benches, lockers	13,000	5	2,600	2,600	2,600	2,600	2,600		
Lifting, transport	13,000	5	2,600	2,600	2,600	2,600	2,600		
Hand tool	30,000	3	10,000	10,000	10,000				
Hand m/c's	26,000	3	8,667	8,667	8,667				
Air compressors	16,000	5	3,200	3,200	3,200	3,200	3,200		
Measuring equip	6,000	5	1,200	1,200	1,200	1,200	1,200		
Lub & Grease handling	7,000	5	1,400	1,400	1,400	1,400	1,400		
Tyre mounting	30,000	5	6,000	6,000	6,000	6,000	6,000		
Scania special tools	25,000	5	5,000	5,000	5,000	5,000	5,000		
				-	-	-	-		
				-	-	-	-		
Buildings & Land		25	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Computer equipment	16,000	5	3,200	3,200	3,200	3,200	3,200	3,200	3,200
Depreciation charge	######		47,867	47,867	47,867	29,200	29,200	7,200	7,200
Equipment Purchase Phase 2									
Reduction from year 1 co	25%								
Benches, lockers	9,750	5						1,950	1,950
Lifting, transport	9,750	5						1,950	1,950
Hand tool	22,500	3				7,500	7,500	7,500	7,500
Hand m/c's	19,500	3				6,500	6,500	6,500	6,500
Air compressors	12,000	5						2,400	2,400
Measuring equip	4,500	5						900	900
Lub & Grease handling	5,250	5						1,050	1,050
Tyre mounting	22,500	5						4,500	4,500
Scania special tools	18,750	5						3,750	3,750

	0	0	0						
	0	0	0						
Buildings & Land		0	25						
Computer equipment		4,000	5						
Depreciation charge		128,500		0	0	0	14,000	14,000	30,500	30,500
Total Depreciation				47,867	47,867	47,867	43,200	43,200	37,700	37,700
Cap Ex Total				282,000			42,000		82,500	
Net Book Value				234,133	186,267	138,400	137,200	94,000	138,800	101,100
Loan Requirements										
Net Cash Flow Without loan				262	555	94	551	22,129	10,405	95,732
Loan draw-down				157,000	0	0	0	0	0	0
Loan paid-off				0	21,000	50,000	24,000	62,000	0	0
Loan balance				157,000	136,000	86,000	62,000	0	0	0
Cash Flow Balance				262	817	911	1,462	23,591	33,996	129,729
Interest Rate				20%	20%	20%	20%	20%	20%	20%
Interest charge				31,400	31,400	27,200	17,200	12,400	0	0

AUTOMOTIVE SUPPORT STUDY
Volvo/Tasharyuktrans

TASHARYUKTRANS /VOLVO DEALERSHIP

RECOMMENDATIONS AND BUSINESS PLAN
DRAWN UP BY GIBB LTD

JUNE 1997

FINAL REPORT

AUTOMOTIVE SUPPORT STUDY
VOLVO/TASHARYUKTRANS

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1 INTRODUCTION

1.1 UZBEKISTAN OVERVIEW

Because the state of Uzbekistan has followed a policy of slow state deregulation, preferring to err on the side of caution, this has meant that the market structures that are seen increasingly in other CIS countries, particularly Russia, and even Kazakstan, are less in evidence in Uzbekistan. This policy is deliberate, reflecting both government unease at the sometimes free-wheeling approach to creating a market economy as practised by these other countries, and the fact that Uzbekistan is still a statist economy.

It should be stressed that Uzbekistan has managed to avoid the massive contraction in GDP that occurred in Russia, with GDP falling by 16% over 1990-1995 and predicted to rise by 3% in 1997. Bordering all five Central Asian states it can claim to be the natural regional hub. Uzbekistan also has oil and gas, where it is the world's tenth producer, gold, cotton and silk as major resources, and foreign investment has helped to modernise these sectors.

The government is much more familiar with state control and believes that it is better to guide the economy through the well tried mechanisms of edicts and bureaucratic regulation. That is not to say that down the line there will not be further loosening of state control but for the immediate future it is likely to be less evident than elsewhere. For the purposes of the TRACECA project it is not surprising that one of the candidates offered for consideration as partner is a state concern.

Tasharyuktrans is such a body being the major distributor throughout Uzbekistan of domestic and imported goods. Previously it would have been an integral part of the Uzbek transport network with only state companies as its clients. With the gradual freeing of the Uzbek economy it has acquired private clients as well, though the bulk of its business remains from state enterprises. It is fair to say that because Tasharyuktrans is a state company its outlook reflects that. However one should recognise right away that Tasharyuktrans management is very willing to learn the new ways of doing business that are available from the western truck manufacturers.

This is both welcome and unsurprising. Welcome because it shows that co-operation will be much easier and unsurprising because as professional truck fleet operators they are fully aware of what is happening in the outside world. Although Tasharyuktrans concentrates on internal distribution in Uzbekistan, as others such as "Uzmezhavtotrans" have foreign rights, it would be natural for Tasharyuktrans to think of expansion. Like all Central Asian states, Uzbekistan is landlocked and alongside rail, road haulage is the lifeline with both east and west.

1.2 UZBEKISTAN TRUCK MARKET

GIBB commissioned the State Committee of Forecasting and Statistics of the Cabinet of Ministers ("Uistikbolstat") to produce a detailed breakdown of the Uzbek haulage industry. Though the figures, due to collection time, reflect 1994, they are still a valuable if not unique, insight into the activity in the industry.

Table 1 gives a breakdown of the number of Uzbek truck businesses, which shows that one-man or less than 9 people businesses comprise nearly 3800 out of 9332, or over one third of the country's truck fleet, and the really big operators have around 5% of the market with 587 businesses. Most organisations have a light van and pick-up capacity which is to be expected given the short delivery distances covered internally.

TABLE 1

BUSINESSES ACCORDING TO NUMBER OF VEHICLES: 1994

	Total Number of Businesses (units)	Number of Businesses Having Trucks, Pickups, and Light Vans
All Businesses	9332	7622
Businesses with 1-9 vehicles	3777	3566
10-24 vehicles	2689	2363
25-49 vehicles	1769	1041
50-99 vehicles	514	320
100 and more vehicles	587	332

Tasharyuktrans is among the major operators and also covers the whole of Uzbekistan. *Table 2* overleaf shows that of the 865,400 vehicles on the road in Uzbekistan, Tashkent city has more than any other region, at 140,000 with Tashkent oblast 89,100 and Samarkand and Surhandaria around 80,000.

An issue that will have to be investigated is the condition of the fleet. Although the *Uzistikbolstat* figures do not say so it is well known that the vast majority of trucks in Uzbekistan are soviet made and in need of maintenance. Western vehicles are still a novelty though Mercedes and Daewoo are becoming better known. Mercedes has a joint venture producing tractors and trailers at Druzhba and the Turkish industrial group Koc produces small buses and trucks near Samarkand.

TABLE 2

AVAILABILITY OF VEHICLES IN PRIVATE BUSINESSES

	Private Ownership
Uzbekistan Republic	865390
Tashkent	140222
Tashkent oblast	89131
Syrdaria oblast	16261
Dzhizak oblast	26592
Fergana oblast	121450
Andizhan oblast	60124

Namangan oblast	68518
Samarkand oblast	77899
Navoyi oblast	30777
Bukhara oblast	50192
Surhandaria oblast	82825
Kashkandaria oblast	13968
Horesm oblast	42853
Karakalpakstan Republic	44578

2 BUSINESS ANALYSIS

LOCAL PARTNERS

In the course of the project the consultants identified two serious contenders for 'technical assistance and who could also be suitable partners for Volvo. These are **TTM** and **TASHARYUKTRANS** and their respective merits are set out below.

2.1 TTM

The consultant met TTM, Mr Timor Moratar, at the suggestion of Volvo. TTM is a local Uzbek organisation involved in various businesses and had already successfully imported Volvo cars.

The company has a good appreciation of the Volvo methodology and commercial procedures and a good grasp of English. GIBB's consultant visited the proposed selling location that TTM would use to sell Volvo spare parts. The shop is well located in a good shopping district on a main road, and is already fitted out to sell chemist's products and other household items. TTM is the official representative of Braun, the German consumer personal care products division of Gillette.

TTM is very much an entrepreneurial organisation with eight permanent staff, of whom three are joint owners. They are highly motivated to achieve profitable results.

The consultant also visited the intended base for the workshop for the maintenance of Volvo trucks, located on the outskirts of Tashkent. Again the workshop is well sited, with an attractive entrance and good security. The building which they would like to use as a workshop was not built as such and would need some serious structural changes to install a service pit, a proper maintenance area and separation doors. There is space outside for truck storage of up to ten units, and more standage is available if required.

The attractions of Tasharyuktrans as the trucks dealer are defined in section 2.2 but looking at the respective claims it is clear that TTM is less well-equipped in terms of space, equipment and personnel.

The recommendation of the consultant, which they will put to Volvo, **is that TTM should become the approved Volvo dealer in cars while Tasharyuktrans becomes the approved dealer in trucks by means of a joint venture.**

Equally in terms of the EU Tacis remit, TTM has already demonstrated a high degree of business acumen and its managers are familiar with western business practices. In contrast when we look at Tasharyuktrans, it is clear the Tasharyuktrans management would benefit from training in CPC, Volvo business management techniques, and practical technical and financial assistance.

2.2 TASHARYUKTRANS

2.2.1 MANAGEMENT

The local company has the normal Uzbek management structure with a strong general director supported by a commercial director and a technical director and team of specialists.

- GIBB experts have met the management team and believe there is much to be done to assist them to operate in a western style. There would be two types of training to bring Tasharyuktrans up to speed, management and technical training:

MANAGEMENT TRAINING

This would be done both locally using GIBB experts for business plans and market planning, and overseas. It would be valuable to try and use one of the technical assistance programmes to place the more senior management in the UK or Sweden. As advisers on a domestic level GIBB have focused on:

- *the absolute number of employees against western norms*
- *which industry sectors are represented amongst the firm's customers*
- *the quality of existing marketing material*
- *how realistic are the growth rate expectations*
- *the state of current financial plans*
- *the level of its accounts systems*

SMEDA SMALL BUSINESS TRAINING

GIBB value very highly the kind of training that SMEDA can provide under the Tacis umbrella as this has been designed with entrepreneurs in mind, but who may come from a background of state, or indeed no, experience but have the energy and drive to learn how to succeed.

A typical SMEDA course could offer a course on:

Financial analyses;
Profit and loss accounts;
Depreciation;
Structuring Joint Ventures;
Role of law in business.

TECHNICAL TRAINING

The technical specialists have been trained on Russian trucks, such as the Kamaz, which is the work horse of Central Asia.

Volvo have their own intensive training programmes and it is likely a Volvo expert would come to Tashkent to set up a proper series of courses. That would be the most cost efficient method of establishing a comprehensive training programme for mechanics and junior staff.

2.2.2 FACILITIES

Currently Tasharyuktrans possess very good maintenance facilities and can make further space available to Volvo. The General director showed the GIBB evaluation team where the dedicated Volvo workshops could be located and because of the size of the operation there would be no problem in designating seven pits for Volvo alone. Having seen the site the GIBB experts are confident the Volvo section can be created on a stand alone basis.

In addition there are good office and waiting/recreation facilities and cranage and parking. As noted above the local skills are primarily Kamaz oriented and it would be necessary to create a team of Volvo specialists out of the present staff who would work in the designated Volvo area.

Details of the Tasharyuktrans facilities are attached in **Annex 1** given to GIBB to help in assessing the facilities appraisal.

However statistically there has been a dramatic reduction in the number of Russian-made trucks still on the road. One of the results has been Russian trucks now make for a significantly ageing fleet. The quality of these is questionable, as "usability" is lower than found in the west.

Another factor is that the average capacity of trucks within Central Asia is around 5mT, with the larger articulated versions up to 15mT, which are well below European capacities of rigid and articulated trucks at 15mT and 38-42mT respectively. Therefore issues to be considered in buying new vehicles are:

- *Increasing cost of Russian made trucks*
- *Financing new units*
- *Importation of new vehicles*
- *Availability of spares*
- *After sales service*

Because of the issues referred to above of som convertibility and lack of money serious thought must be given to "used" vehicles. Benefits include:

- *Older designs more suited to an unsophisticated market place*
- *Repairs easier with more basic equipment and training*
- *Initial capital outlay less*
- *Good availability of trucks in Europe*
- *Some modern axle systems not able to take tough road conditions*

2.3 VOLVO APPROACH

Volvo is one of the leading truck makers in the world with over 800 dealerships. For the first three months of this year Volvo has delivered some 14,500 medium and heavy trucks to customers in Europe, North and South America and in a year average sales are around 61,000. A particularly significant order in December last year was placed by Sovtransavto in Ukraine for 100 vehicles. Volvo is very active in Eastern Europe and the former Soviet Union, with offices in St Petersburg, Moscow and Belgrade and Kharkov in Ukraine. There are some 11,000 trucks operating in the region.

Volvo often takes advantage of its car division as a promotional tool for its ambitions in the truck market, by using the name of its car and their distribution network. Volvo did this in Kazakstan where it successfully set up a joint venture with a local partner called Business-Dos. Volvo are doing a similar operation with Business-Dos on the truck side and there are plans to construct a truck dealership, spares outlet and servicing base with a tyre re-treading plant in Almaty.

Service and safety are prime qualities of Volvo and are always featured in the news. For example in 1977 Volvo introduced the 'safety cab' and again in 1985 the FL10 created interest because of the installation of anti-locking ABS brakes.

Volvo operate a preventative maintenance programme with perhaps four planned checks for a truck in the course of a year, which is designed to ensure that customers benefit from a planned approach that can also anticipate problems.

Western truck manufacturers usually set out clear objectives on what they can offer their customers along the following lines:

- *service station to be reasonably located;*
- *inspect and carry out repair work speedily;*
- *provide truck related services and advice;*
- *supply the right parts from stock or within 24hours;*
- *never charge for repair work covered by warranty;*
- *have the invoice made out and ready on collection.*

A future Volvo offer in Europe is a 'Volvo Action Service' which provides emergency cover to drivers if they have a problem on the road. This is staffed all the year round by people who can speak the major European languages.

VOLVO STARTPOINT

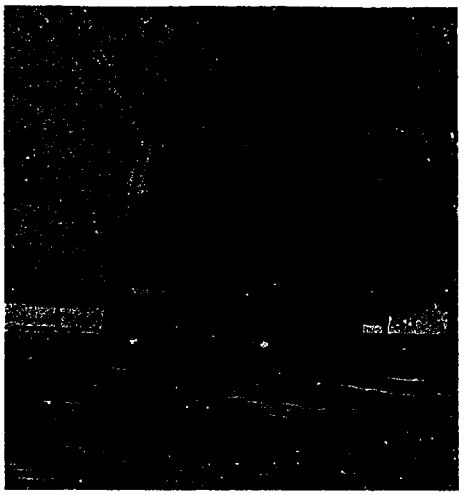
Volvo as an international organisation are aware that a dealer must be supported and have a developed a pro-active dealer services back-up programme that covers:

- *relevant market information on a given country;*
- *contacts of business value;*
- *presentation of your company to potential customers;*
- *assistance on setting up meetings;*
- *marketing services;*
- *legal advice on corporate and commercial issues such as competition law, EU legislation and trademark law;*
- *storage and delivery systems.*

VOLVO TRUCK RANGE

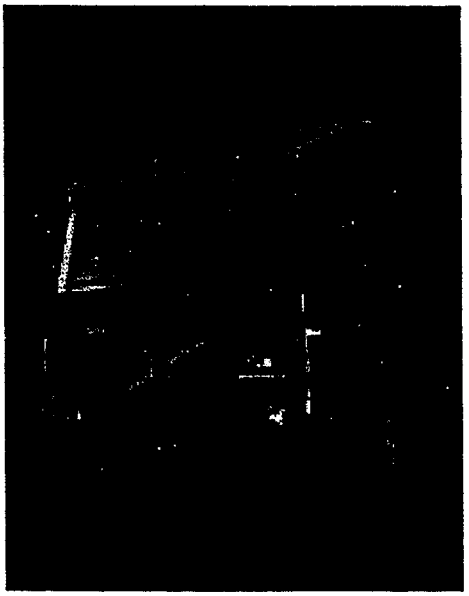
Volvo has a world class truck fleet and the four models illustrated below are given as examples of the range of vehicles from the mid-range to the largest at 42 tonnes.

Volvo FLC



This is the smallest truck of the fleet and was shown at Hanover Truck Show for the first time at the end of 1996. It has been particularly aimed at distribution in city environments, and is safe and versatile to work within traffic.

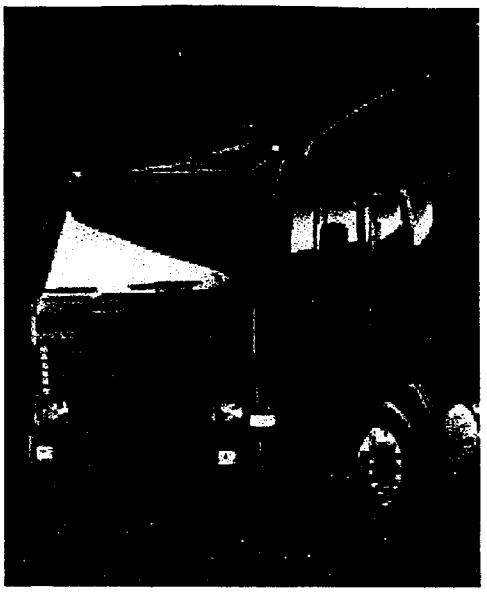
Volvo FL 6



The FL 6 has an impressive load capacity of 18 tonnes and is a good choice for regional and service construction operations. Its low loading height makes for easier handling.

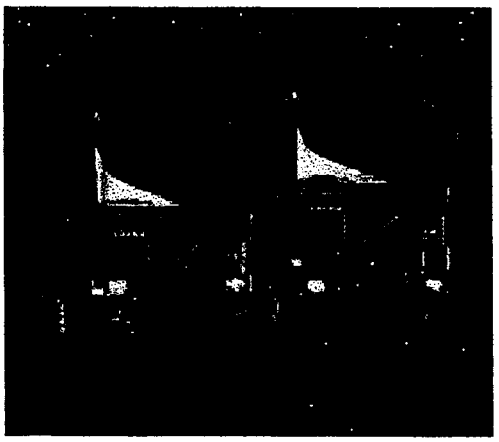
The models above will be well suited to in-country activity, while the two shown below would be more economic for the international long hauls.

Volvo FL 7



This is another very impressive vehicle that can offer a load capacity of 42 tonnes, and again is useful for local or regional distribution. It has power ratings of between 230 to 360hp and wheel bases from 3,200 to 6,000 mm to match the customer needs.

Volvo FL 12



This has the Volvo diesel D12 A engine, that enables the FL 12 to carry 42 tonnes with environmentally acceptable exhaust emissions and reduced operating costs.

All Volvo trucks are fitted out to the highest western standards and can be customised to meet local conditions.

2.4 DEALERSHIP NEEDS

The back-up services set out above have to be run in conjunction with financial resources and this something that Volvo will seek to address with Tasharyuktrans.

In western Europe the expectation is the dealer would have working capital and indeed a "demonstration model" for each type of vehicle on offer. Such models may be used by potential purchasers for a test period of a few weeks to see if they wish to buy.

In addition workshop equipment is also required so there would be capital costs. For a new truck the price could well be $100,000 though discounts are available and used models are also an option. Servicing equipment could cost around $50,000 to $150,000 depending on how much proprietary tools were needed and how much Tasharyuktrans already had available and up to standard.

2.5 JOINT VENTURE DEALERSHIP

To achieve a successful relationship with a western operator like Volvo, Tasharyuktrans need to be able to invest in a dealership. How best to do this? With current Uzbek legislation on foreign currency outflow Tasharyuktrans could not get permission to buy trucks even if they wished to. The optimal route would be the traditional joint venture where the local side puts in land and buildings, while the western partner offers cash and know-how for his part.

Although joint ventures need careful assessment, in this case the logic of the respective contributions ties in well with the law of the land and the business dynamics. Volvo want to get started and the supply of some vehicles probably on a leased basis enables them to do so, while Tasharyuktrans have fully equipped facilities (see above). Both sides will need to discuss the basis of their respective investments to generate trust and to demonstrate they are fairly valued.

Another key element that the Uzbek side will attach great importance to is training. This will also be a factor that Volvo would want to address in any event as part of their business needs to ensure not just initial success but a long-term future.

To start the project we are looking at contributions along the following lines from the two parties:

Volvo	*Provision of trucks* *Training to western levels* *Direct investment* *Western know-how*
Tasharyuktrans	*Premises* *Competent staff* *Local investment* *Permissions and local facilitation*

Clearly the initial costs will be of concern to Volvo and the Business Plan sets out what could reasonably be expected in the first years of operation. Tasharyuktrans have confirmed that they are a "som" rich company and could invest in a joint venture.

In establishing any form of joint venture the parties need to allow for the policy and practice of the EBRD as one of the main lenders to joint ventures in Uzbekistan. The names and descriptions of the leading lenders in Uzbekistan are set out in Section 4 on Investment Strategy, but it may be helpful at this point to emphasise one factor in external equity or loan participation and that is the importance of the private sector.

The EBRD as a matter of policy seeks to encourage the private sector as does the Central Asian American Fund, ABN AMRO and other prominent financial institutions with a local base. That is true of the EU and for the IFC as the private investment arm of the World Bank.

The joint venture will have to recognise this and we recommend that either Tasharyuktrans formally privatises itself or creates the joint venture on a private basis. If it was to privatise itself the scale and timing would need government approval, which hopefully would be forthcoming. How long official sanction would take is unclear.

However in the latter case, Tasharyuktrans would transfer certain assets to the joint venture at an *independently assessed market price* and these would be the local contribution to the joint venture. It would be preferable if all the assets were transferred in this way, but it would be possible to have a leasing arrangement from the parent company, Tasharyuktrans, of say a defined section of its premises and servicing facilities, designated solely for the use of the joint venture.

The joint company would be seen as independent with its own bank account and its own management, responsible for raising finance and driving it in the market place. It may well be in the first years of the joint venture that the employees seconded by Tasharyuktrans have to continue to work for Tasharyuktrans as well, as there may not be enough maintenance and repair work in the first instance to use them full-time. Their time can however be clearly accounted for and gives the joint venture a practical way of recruiting staff at start-up.

3 MARKET ANALYSIS

In order to achieve the common objectives both parties must agree between them what they are. In the case of a joint venture that is often a source of dispute. In this case the intention is that Volvo and Tasharyuktrans want to create a vibrant and dynamic business that will benefit both parties.

3.1 MISSION STATEMENT

The first step is a **mission statement** that sets out the parties' objectives. This may be along the lines of the following:

> "The purpose of our joint venture is to create a successful dealership through the import, sales and distribution of Volvo trucks, backed by quality service".

The mission statement is the core statement of intent, and in order to make the business happen the joint venture has to systematically address how to create a marketing strategy.

The next step is a Marketing Action Plan (MAP). The MAP sets out what is needed at the practical level and covers the following items:

- *marketing brochures*
- *promotional literature*
- *customer contact list (actual/potential)*
- *growth plans*

Market research is important to determine the size of the market and the competition. It is often helpful to break down the market by segments, known as "segmentation" as this enable the company to determine more clearly the competition and whether it is operating in the right sector.

3.2 SWOT ANALYSIS:

Once the market has been analysed it is important to carry out a **SWOT ANALYSIS**. Such an analysis defines the *Strengths, Weaknesses, Opportunities and Threats* to the joint venture and is a vital part of market evaluation.

STRENGTHS

- Strong local truck servicing experience
- Volvo have good reputation internationally
- Dedicated service centre
- Training/support available
- Demand for rugged western vehicles

WEAKNESSES

- No experience in working together
- Lack of convertible som
- Untrained staff
- Dealership network limited
- Volvo unfamiliarity with market
- Need for finance by customers

OPPORTUNITIES

- Substantial potential market
- Additional replacement market as Russian trucks no longer acceptable
- Central Asia "Silk Road" offers international carriage
- Expand dealer network to cities like Chimkent
- Growth likely in domestic economy

THREATS

- "Home" advantage of Russian trucks
- Lack of funds for expansion
- Other foreign truck manufacturers such as Daewoo and Mercedes
- Trucks coming in from Europe
- Lack of familiarity merits of western trucks

3.3 MARKETING PLAN

When the SWOT Analysis is complete the next stage is the **Marketing Plan** which includes the Marketing Mix. The Marketing Mix comprises:

- Product
- Price
- Promotion

These are the accepted ways to differentiate the strength of the product in the market place, that it is priced correctly reflecting quality and value, and that the advertising is pitched to ensure that it reflects the perception that the brand owner wants of his product by the consumer.

PRODUCT

The Volvo product is an excellent one, being robust, well-engineered and ergonomically designed. This makes it a product for which there will be a demand in the market-place.
Where possible Volvo will customise its vehicles to meet client needs and draw on its experience in Sweden and Russia to ensure that the truck meets customer expectations

PRICE

Price is always difficult because if it is priced too high people cannot afford to buy it. If too cheap the company cannot make any money and it will be seen as "cheap", and therefore Volvo aims for a high price that can be reduced if a client demands it, or if they think that will attract repeat purchases.

PROMOTION

Volvo will have a strong view on what they see as the best way to promote their vehicles. The vehicle is generally rated as reliable, solid and state of the art. Volvo will therefore want to make sure any advertising reflects these qualities. Advertising will be necessary in the first instance to generate awareness and our recommendation to the joint venture is to focus on whatever "trade" or specialist journals that exist, and perhaps to add an Uzbekistan national paper, as a route for putting across the value of a Volvo truck.

However because the signing of a joint venture like this is a newsworthy event the joint venture should invite the media to a special signing ceremony to both put across the Volvo image and to explain the purpose of the joint venture and how having such a company will help Uzbekistan develop its transportation quality.

3.4 MARKETING OBJECTIVES

Based on the specified format there will be a clear definition of objectives. The Marketing Objectives in the case of Tasharyuktrans/Volvo might be:

- *Increase market share by 10%*
- *Increase company profile*
- *achieve better operational efficiency*
- *supply all customers in the Fergana Valley by 1998*

Against each task a budget would be set along with the executive responsible for ensuring that the objective is achieved.

4 FINANCIAL ANALYSIS

4.1 FINANCIAL FORECASTS

In **Annex 3** GIBB have set out detailed calculations to assist the joint venture to approach the international lending agencies for financial support. The options have been drawn up to reflect LOW, MEDIUM and HIGH sales forecasts and have built in from the consultant's knowledge of the business environment, estimates of local labour rates, rent, and additional sales of lubricants and tyres.

The revenues generated are likely to be in the range of $1.2mn to $2.7mn.depending on the actual sales, and profits on an average gross margin of 8% would, together with the sales of tyres and lubricants, range from $100,000 to $200,000 over the initial Business Plan period of seven years. It should be emphasised these are conservative estimates based on the minimum of investment and the fact that it will take time to generate a profitable business.

Full details of the projected Revenues and Profit and Loss are in **Annex 3**.

4.2 INVESTMENT STRATEGY

To enable a start to be made, GIBB has made considerable effort to talk through support for a Tasharyuktrans/Volvo joint venture with appropriate funding agencies. Experience shows local organisation are very unlikely to know how best to bring in either the seed-corn capital or set up leasing arrangements that are so vital to get the project off the ground.

By the same token, manufacturers are hesitant to get involved in the risks of finance in countries they know little about and therefore look to more adept institutions to guide them through the obstacles. This element cannot be underrated and GIBB can offer the following advice based on their investigative work with local and international institutions.

These organisations have been contacted because in the case of the EBRD they have been involved in Uzbekistan for around five years and have a strong enterprise development remit. While the Central Asian American Enterprise Fund and ABN-AMRO Bank have not been on the ground so long, they, like the EBRD, have a good feel for the Uzbek market place, being responsible for funding large and small projects where western capital is required. The National Bank of Uzbekistan is a major local institution and the UzDaewoo Bank was established six months ago to develop trade financing and is another option.

4.3 FUNDING INSTITUTIONS

(i) CENTRAL ASIA-AMERICAN ENTERPRISE FUND

This is one of the largest venture funds in Central Asia, starting in 1995, and has already invested over $50 mn. in the region, with $23 mn. in projects in Uzbekistan, and $12.9 mn. actually disbursed. The areas of investment include cotton, clothing, edible oil processing, pharmaceuticals and transport. Although its prime focus is on small and medium sized companies, the CAAF is responsive to all proposals that have been properly costed and structured.

The CAAF is very positive about the location of Uzbekistan recognising in its Annual Report that "Uzbekistan has a well-developed road and rail transportation system, facilitating the distribution of goods" and with a potential market of 22million people it is the most populous country in Central Asia.

(ii) EBRD

The EBRD is of course one of the pre-eminent lending groups to Uzbekistan and has already lent $256 mn. for various projects in-country from1993-1996. EBRD as a matter of policy has looked at projects in both the public and private sectors, and where it has concentrated on infrastructure has focused strongly on rail and road improvement.

The EBRD has identified a number of high profile projects such as the Zarafshan-Newmont Joint Venture on gold mining where it has put up a $52 mn loan and the Uzbek-Turkish JV 'Kansasay Tekmen' wool textile plant where it has taken a share stake of $10 mn and loaned $14mn. Although the EBRD would normally only invest in projects over $5 mn., that may be less of an issue when it comes to the Tasharyuktrans/Volvo joint venture, as the joint venture could use that type of funding to put western style servicing bays in place and arrange a line of credit for vehicle purchase over five to seven years.

Our discussions in Tashkent with EBRD have shown there is a willingness to look at participation in a well structured local enterprise.

(iii) NATIONAL BANK OF UZBEKISTAN

The consultant has had discussions with The National Bank of Uzbekistan at 23 Akunbabaev Street in Tashkent. The Bank's representative went through the process for obtaining SME investment consistent with the EBRD overall investment strategy. It was explained that the EBRD provides long term funding to the local banks for use in project funding and that infrastructure investment in local transport companies could qualify.

Similarly there may be opportunities in respect of loans with government support in future as relationships develop on a standardised basis between the government and the EBRD. Thus loans channelled through the bank may be available to SME applicants. At this stage in developments co-financing may in future be considered appropriate between the EBRD and local banks for the type of venture planned.

An application should be made to the bank by the recipient for consideration. The bank will consider an application on the following conditions:

- *That the company is not a majority state owned organisation. Thus Tasharyuktrans will need to set up a private operation to be considered*
- *The company must have a track record in truck maintenance*
- *The company must be able to demonstrate its ability to generate hard currency from the venture*
- *The organisation should ensure ecological and environmental considerations are met*

The bank made it clear that funds, allocated to such SMEs, are to be used for investment in modernisation of plant and equipment and the creation of working capital and will not be available for speculative investment activities.

(iv) ABN-AMRO BANK

ABN-AMRO is a Dutch international bank of some standing with an aggressive policy of opening branches or representative offices throughout Eastern Europe, Russia and Central Asia and has a branch in Tashkent. The bank in Uzbekistan has a $10 mn investment in which the Dutch put up 50%, while the EBRD and IFC put in $1 mn each and the National Bank of Uzbekistan $ 3mn.

(v) UZDAEWOO BANK

This is the latest foreign trade bank and it has a capital base of $20 mn of which Daewoo Securities has put in 55%, the EBRD 25% and Koram Bank 10% with the balance being split between the National Bank for Foreign Economic Activity taking 5% and Turon Bank 5%.
This could be an interesting bank for Volvo/Tasharyuktrans to contact as the bank will concentrate on credit and financing overseas trade.

All four of these organizations are worth talking to as they have an interest in backing a project that will generate good returns for the investor and also enable them to invest in an important sector in its own right. They are known to GIBB who can assist Volvo and Tasharyuktrans to review the financing options in concert with the prospective lenders.

5 ANNEXES

5.1 ANNEX 1

5.1.1 TASHARYUKTRANS FACILITIES

There is a significant area available for the Service Centre facilities. Discussions and site visits have been held between the management of Tasharyuktrans and GIBB and Volvo to debate the most practical location for the maintenance of vehicles.

The recommended site is in close proximity to the main entrance to the Tasharyuktrans depot adjacent to the main washing plant. This site with some limited refurbishment meets the Volvo requirements for the operation. Tasharyuktrans management are agreeable to this solution and will make the necessary operational alterations in the flow of their normal traffic in the vicinity of the site to enable the Volvo operation to operate efficiently and effectively.

Volvo have agreed that the corporate identity of the Volvo company will be displayed and the necessary promotion done to build awareness of the facility to prospective clients. Similarly GIBB will arrange the training of the necessary staff in technical matters. This may be done on site in Tashkent. There will be regular supervision by Volvo managers and there may also be a Volvo manager positioned in Tashkent to support the operation and ensure the necessary standards of performance are achieved.

The Volvo regional manager is committed to the operation and has met and discussed the project with Mr Akhmetov and the Tasharyuktrans management team and will progress the scheme jointly with them.

5.2 ANNEX 2

5.2.1 DEALERSHIP QUESTIONNAIRE

To establish the merits of a **dealership** and how the **business plan** can be implemented the questions below need to be answered. These are not exclusive, but focus on the core issues that the dealer must address.

(a) START UP COSTS

- What facilities does the dealer currently have?
- What will the initial spend be on equipment?
- What is needed in terms of equipment?
- What is the likely value of spare parts held?
- What repairs need to be made to the existing facilities or alterations?

(b) STAFF ISSUES

- How many people on the payroll in Year 1? Year 2? etc
- What will be the training requirements in Tashkent/Sweden?

(c) REVENUE FROM SALES/SPARE PARTS

How many vehicles will be sold/leased in Year 1? Year 2?
What margin will the dealer make on each sale/lease?

(d) SPARE PARTS AND SERVICING

What percentage of spare parts and thereby revenue will be received in Year 1? Year 2?
What level of servicing can be expected in Year 1? Year 2? Etc

(e) OTHER FACTORS

- Cost of import duties
- Convertibility of the som
- Foreign investment incentives
- Level of mechanical sophistication
- National economic growth rates

5.3 ANNEX 3

TASHARYUKTRANS/VOLVO
BUSINESS PROPOSAL

UZBEKISTAN
DEALERSHIP
FINANCIAL FORECASTS

TASHARYUKTRANS BUSINESS PROPOSAL
Volvo DEALERSHIP FINANCIAL FORECAST
DETAILED SALES ANALYSIS
High status appraisal

TASHARYUKTRANS BUSINESS PROPOSAL
Volvo KAZAKSTAN DEALERSHIP FINANCIAL FORECAST
DETAILED SALES ANALYSIS
Mid status appraisal

TASHARYUKTRANS BUSINESS PROPOSAL

DETAILED SALES ANALYSIS

05-Sep-97
9:24 AM

MID: Truck Sale Forecast

	Year 1 US$	Year 2 US$	Year 3 US$	Year 4 US$	Year 5 US$	Year 6 US$	Year 7 US$	Gross Margin
Volvo								
Sales								
Truck	600,000	900,000	1,300,000	1,700,000	2,000,000	2,000,000	2,000,000	8%
Spare Parts	33,000	41,800	54,165	70,598	90,603	112,183	133,842	25%
Maintenance	10,450	16,335	24,858	36,395	50,571	65,887	81,218	variable
Total Volvo Sales	**643,450**	**958,135**	**1,379,023**	**1,806,993**	**2,141,174**	**2,178,070**	**2,215,061**	
OTHER MAKES / SUPPLIERS								
Sales								
Spare Parts	0	0	0	0	0	0	0	10%
Maintenance	0	0	0	0	0	0	0	variable
Lubricants (all makes)	3,135	4,901	7,457	10,918	15,171	19,766	24,366	25%
Tyres	52,000	78,000	104,000	130,000	130,000	130,000	130,000	25%
Benzene	0	0	0	0	0	0	0	5%
TIR Parking	0	0	0	0	0	0	0	100%
Total other sales	**55,135**	**82,901**	**111,457**	**140,918**	**145,171**	**149,766**	**154,366**	
Total all Sales	**698,585**	**1,041,036**	**1,490,480**	**1,947,911**	**2,286,345**	**2,327,836**	**2,369,427**	

PROFIT & LOSS ACCOUNT

28-Aug-97

MID: Truck Sale Forecast

2:46 PM

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
GROSS MARGIN (G.M.)							
Volvo							
Truck Sales	38,000	62,000	89,000	121,000	145,000	145,000	145,000
Spare Parts	8,250	10,450	13,541	17,650	22,651	28,046	33,461
Maintenance	6,431	10,052	15,297	22,397	31,120	40,546	49,981
Total Volvo G.M.	**52,681**	**82,502**	**117,838**	**161,046**	**198,771**	**213,591**	**228,441**
OTHER MAKES / SUPPLIERS							
Spare Parts	0	0	0	0	0	0	0
Maintenance	0	0	0	0	0	0	0
Lubricants (all makes)	784	1,225	1,864	2,730	3,793	4,941	6,091
Tyres	13,000	19,500	26,000	32,500	32,500	32,500	32,500
Benzene margin	0	0	0	0	0	0	0
TIR Parking	0	0	0	0	0	0	0
Other Products	0	0	0	0	0	0	0
Total Other G.M.	**13,784**	**20,725**	**27,864**	**35,230**	**36,293**	**37,441**	**38,591**
TOTAL GROSS MARGIN	**66,465**	**103,227**	**145,703**	**196,276**	**235,064**	**251,033**	**267,033**
OTHER COSTS (Indirect)							
Wages (non-maintenance)	27,500	27,500	27,500	27,500	27,500	27,500	27,500
Advertising and marketing	5,500	3,000	3,000	3,000	3,000	3,000	3,000
Utilities	6,000	7,200	7,200	7,200	7,200	7,200	7,200
Telephone & Fax	3,000	3,000	3,000	3,000	3,000	3,000	3,000
R & M (Fixed Assets)	3,000	3,000	3,150	3,308	3,473	3,647	3,829
Total Costs (indirect)	**45,000**	**43,700**	**43,850**	**44,008**	**44,173**	**44,347**	**44,529**
PROFIT / (LOSS) before Depreciation & Interest	**21,465**	**59,527**	**101,853**	**152,268**	**190,891**	**206,686**	**222,504**
Depreciation charge	13,633	13,633	13,633	12,700	12,700	11,600	11,600
Interest charge	0	0	0	0	0	0	0
Overheads	**13,633**	**13,633**	**13,633**	**12,700**	**12,700**	**11,600**	**11,600**
PROFIT / (LOSS) after OVERHEADS	7,831	45,894	88,219	139,568	178,191	195,086	210,904
Tax 50%	3,916	22,947	44,110	69,784	89,096	97,543	105,452
PROFIT / (LOSS) after TAX	3,916	22,947	44,110	69,784	89,096	97,543	105,452
Dividened	0	0	0	0	0	0	0
PROFIT / (LOSS) Retained	**3,916**	**22,947**	**44,110**	**69,784**	**89,096**	**97,543**	**105,452**
Retained Profit Brought Forward	0	3,916	26,863	70,972	140,757	229,852	327,395
Retained Profit Carried Forward	3,916	26,863	70,972	140,757	229,852	327,395	432,847

Definitions

R&M - Repairs & Maintenance

GM - Gross Margin

Interest Rate 20%

CASH-FLOW FORECAST (USD)

MID: Truck Sale Forecast

28-Aug-97
2:46 PM

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Profit / (Loss) for year before dividend	3,916	22,947	44,110	69,784	89,096	97,543	105,452
Debtor / Creditor Adjustment	(6,635)	(3,592)	(3,751)	(4,824)	(3,234)	(3,489)	(3,502)
Add Back							
Depreciation	13,633	13,633	13,633	12,700	12,700	11,600	11,600
Loan (Over-draft) drawn-down	0	0	0	0	0	0	0
Share Capital	150,000	0	0	0	0	0	0
spare							
spare							
Less							
Capital expenditure	(140,700)	0	0	(8,400)	0	(16,500)	0
Loan (over draft) repaid	0	0	0	0	0	0	0
Dividend payment	0	0	0	0	0	0	0
spare							
spare							
Net Cash Flow In / (Out)	20,214	32,989	53,992	69,260	98,561	89,155	113,550
Retained cash brought forward	0	20,214	53,203	107,195	176,455	275,017	364,171
Retained cash carried forward	20,214	53,203	107,195	176,455	275,017	364,171	477,721

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Capital Investment	(140,700)	0	0	(8,400)	0	(16,500)	0
Retained profit	17,549	36,580	57,743	82,484	101,796	109,143	117,052
Net of above	(123,151)	36,580	57,743	74,084	101,796	92,643	117,052
IRR	46.5%						

	3,916	22,947	44,110	69,784	89,096	97,543	105,452
NOTES							
Truck sales volume (per year)	6	9	13	17	20	20	20
Average Sales price US$	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Calculation of Maintenance Labour Margin							
Revenue							
Volvo Vehicles	10,450	16,335	24,858	36,395	50,571	65,887	81,218
Other Makes	0	0	0	0	0	0	0
Total	10,450	16,335	24,858	36,395	50,571	65,887	81,218
Cost							
Labour	4,019	6,283	9,561	13,998	19,450	25,341	31,238
Margin	6,431	10,052	15,297	22,397	31,120	40,546	49,981
Margin Split							
Volvo	6,431	10,052	15,297	22,397	31,120	40,546	49,981
Other	0	0	0	0	0	0	0
	0	0	0	0	0	0	0
Labour Split							
US $ per Year							
General Management	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Administration	12,500	12,500	12,500	12,500	12,500	12,500	12,500
Sub-Total	**27,500**	**27,500**	**27,500**	**27,500**	**27,500**	**27,500**	**27,500**
Sales inc. Management	10,000	10,000	15,000	15,000	15,000	15,000	15,000
Maintenance inc. management	4,019	6,283	9,561	13,998	19,450	25,341	31,238
Total	**41,519**	**43,783**	**52,061**	**56,498**	**61,950**	**67,841**	**73,738**
Number of Personnel							
General Management	1	1	1	1	1	1	1
Sales inc. Management	1	1	2	2	2	2	2
Administration	2	2	2	2	2	2	2
Sub-Total	**4**	**4**	**5**	**5**	**5**	**5**	**5**
Maintenance inc. management	1	1	1	2	3	3	4
Total	**5**	**5**	**6**	**7**	**8**	**8**	**9**

BALANCE SHEET (as at end of year shown)
MID: Truck Sale Forecast

28-Aug-97
2:46 PM

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Fixed Assets	127,067	113,433	99,800	95,500	82,800	87,700	76,100
Current Assets							
Cash	20,214	53,203	107,195	176,455	275,017	364,171	477,721
Stock	10,095	13,875	18,316	23,510	27,198	31,178	35,171
	30,309	67,078	125,511	199,965	302,215	395,349	512,892
Total Assets	**157,376**	**180,511**	**225,311**	**295,465**	**385,015**	**483,049**	**588,992**
Current Liabilities							
Trade Creditors							
Salaries	3,460	3,649	4,338	4,708	5,163	5,653	6,145
Dividend	0	0	0	0	0	0	0
Loan	0	0	0	0	0	0	0
	3,460	**3,649**	**4,338**	**4,708**	**5,163**	**5,653**	**6,145**
Net Current Assets	**153,916**	**176,863**	**220,972**	**290,757**	**379,852**	**477,395**	**582,847**
Liabilities due in more than 1 year	0	0	0	0	0	0	0
	153,916	**176,863**	**220,972**	**290,757**	**379,852**	**477,395**	**582,847**
Capital & Reserves							
Ordinary Share Capital	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Retained profits	3,916	26,863	70,972	140,757	229,852	327,395	432,847
	153,916	**176,863**	**220,972**	**290,757**	**379,852**	**477,395**	**582,847**

TASHARYUKTRANS BUSINESS PROPOSAL

DETAILED SALES ANALYSIS

HIGH: Truck Sale Forecast

05-Sep-97
9:24 AM

	Year 1 US$	Year 2 US$	Year 3 US$	Year 4 US$	Year 5 US$	Year 6 US$	Year 7 US$	Gross Margin
Volvo								
Sales								
Truck	700,000	1,100,000	1,600,000	2,000,000	2,400,000	2,400,000	2,400,000	8%
Spare Parts	33,500	43,800	58,665	78,098	101,603	127,183	152,842	25%
Maintenance	10,825	17,835	28,233	42,020	58,821	77,137	95,468	variable
Total Volvo Sales	**744,325**	**1,161,635**	**1,686,898**	**2,120,118**	**2,560,424**	**2,604,320**	**2,648,311**	
OTHER MAKES / SUPPLIERS								
Sales								
Spare Parts	0	0	0	0	0	0	0	10%
Maintenance	0	0	0	0	0	0	0	variable
Lubricants (all makes)	3,248	5,351	8,470	12,606	17,646	23,141	28,641	25%
Tyres	52,000	78,000	104,000	130,000	130,000	130,000	130,000	25%
Benzene	0	0	0	0	0	0	0	5%
TIR Parking	0	0	0	0	0	0	0	100%
Total other sales	**55,248**	**83,351**	**112,470**	**142,606**	**147,646**	**153,141**	**158,641**	
Total all Sales	**799,573**	**1,244,986**	**1,799,368**	**2,262,724**	**2,708,070**	**2,757,461**	**2,806,952**	

PROFIT & LOSS ACCOUNT

28-Aug-97

HIGH: Truck Sale Forecast

2:47 PM

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
GROSS MARGIN (G.M.)							
Volvo							
Truck Sales	46,000	78,000	113,000	145,000	177,000	177,000	177,000
Spare Parts	8,375	10,950	14,666	19,525	25,401	31,796	38,211
Maintenance	6,662	10,975	17,374	25,858	36,197	47,469	58,750
Total Volvo G.M.	**61,037**	**99,925**	**145,040**	**190,383**	**238,598**	**256,265**	**273,960**
OTHER MAKES / SUPPLIERS							
Spare Parts	0	0	0	0	0	0	0
Maintenance	0	0	0	0	0	0	0
Lubricants (all makes)	812	1,338	2,117	3,151	4,412	5,785	7,160
Tyres	13,000	19,500	26,000	32,500	32,500	32,500	32,500
Benzene margin	0	0	0	0	0	0	0
TIR Parking	0	0	0	0	0	0	0
Other Products	0	0	0	0	0	0	0
Total Other G.M.	**13,812**	**20,838**	**28,117**	**35,651**	**36,912**	**38,285**	**39,660**
TOTAL GROSS MARGIN	**74,848**	**120,763**	**173,158**	**226,034**	**275,510**	**294,550**	**313,621**
OTHER COSTS (Indirect)							
Wages (non-maintenance)	27,500	27,500	27,500	27,500	27,500	27,500	32,500
Advertising and marketing	5,500	3,000	3,000	3,000	3,000	3,000	3,000
Utilities	6,000	7,200	7,200	7,200	7,200	7,200	7,200
Telephone & Fax	3,000	3,000	3,000	3,000	3,000	3,000	3,000
R & M (Fixed Assets)	3,000	3,000	3,150	3,308	3,473	3,647	3,829
Total Costs (indirect)	**45,000**	**43,700**	**43,850**	**44,008**	**44,173**	**44,347**	**49,529**
PROFIT / (LOSS) before Depreciation & Interest	**29,848**	**77,063**	**129,308**	**182,027**	**231,337**	**250,203**	**264,092**
Depreciation charge	13,633	13,633	13,633	12,700	12,700	11,600	11,600
Interest charge	0	0	0	0	0	0	0
Overheads	**13,633**	**13,633**	**13,633**	**12,700**	**12,700**	**11,600**	**11,600**
PROFIT / (LOSS) after OVERHEADS	16,215	63,430	115,675	169,327	218,637	238,603	252,492
Tax 50%	8,108	31,715	57,837	84,663	109,318	119,302	126,246
PROFIT / (LOSS) after TAX	8,108	31,715	57,837	84,663	109,318	119,302	126,246
Dividened	0	0	0	0	0	0	0
PROFIT / (LOSS) Retained	**8,108**	**31,715**	**57,837**	**84,663**	**109,318**	**119,302**	**126,246**
Retained Profit Brought Forward	0	8,108	39,822	97,660	182,323	291,641	410,943
Retained Profit Carried Forward	8,108	39,822	97,660	182,323	291,641	410,943	537,189

Definitions

R&M - Repairs & Maintenance

GM - Gross Margin

Interest Rate 20%

	8,108	31,715	57,837	84,663	109,318	119,302	126,246
NOTES							
Truck sales volume (per year)	7	11	16	20	24	24	24
Average Sales price US$	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Calculation of Maintenance Labour Margin							
Revenue							
Volvo Vehicles	10,825	17,835	28,233	42,020	58,821	77,137	95,468
Other Makes	0	0	0	0	0	0	0
Total	10,825	17,835	28,233	42,020	58,821	77,137	95,468
Cost							
Labour	4,163	6,860	10,859	16,161	22,623	29,668	36,719
Margin	6,662	10,975	17,374	25,858	36,197	47,469	58,750
Margin Split							
Volvo	6,662	10,975	17,374	25,858	36,197	47,469	58,750
Other	0	0	0	0	0	0	0
	0	0	0	-0	0	0	0
Labour Split							
US $ per Year							
General Management	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Administration	12,500	12,500	12,500	12,500	12,500	12,500	17,500
Sub-Total	**27,500**	**27,500**	**27,500**	**27,500**	**27,500**	**27,500**	**32,500**
Sales inc. Management	10,000	10,000	15,000	15,000	15,000	15,000	15,000
Maintenance inc. management	4,163	6,860	10,859	16,161	22,623	29,668	36,719
Total	**41,663**	**44,360**	**53,359**	**58,661**	**65,123**	**72,168**	**84,219**
Number of Personnel							
General Management	1	1	1	1	1	1	1
Sales inc. Management	1	1	2	2	2	2	2
Administration	2	2	2	2	2	2	3
Sub-Total	**4**	**4**	**5**	**5**	**5**	**5**	**6**
Maintenance inc. management	1	1	1	2	3	4	5
Total	**5**	**5**	**6**	**7**	**8**	**9**	**11**

CASH-FLOW FORECAST (USD)

28-Aug-97
2:47 PM

HIGH: Truck Sale Forecast

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Profit / (Loss) for year before dividend	8,108	31,715	57,837	84,663	109,318	119,302	126,246
Debtor / Creditor Adjustment	(6,715)	(3,834)	(4,154)	(5,308)	(3,799)	(4,134)	(3,731)
Add Back							
Depreciation	13,633	13,633	13,633	12,700	12,700	11,600	11,600
Loan (Over-draft) drawn-down	0	0	0	0	0	0	0
Share Capital	150,000	0	0	0	0	0	0
spare							
spare							
Less							
Capital expenditure	(140,700)	0	0	(8,400)	0	(16,500)	0
Loan (over draft) repaid	0	0	0	0	0	0	0
Dividend payment	0	0	0	0	0	0	0
spare							
spare							
Net Cash Flow In / (Out)	24,326	41,514	67,316	83,655	118,219	110,267	134,115
Retained cash brought forward	0	24,326	65,840	133,156	216,811	335,031	445,298
Retained cash carried forward	24,326	65,840	133,156	216,811	335,031	445,298	579,413

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Capital Investment	(140,700)	0	0	(8,400)	0	(16,500)	0
Retained profit	21,741	45,348	71,471	97,363	122,018	130,902	137,846
Net of above	(118,959)	45,348	71,471	88,963	122,018	114,402	137,846
IRR	58.5%						

BALANCE SHEET (as at end of year shown)
HIGH: Truck Sale Forecast

28-Aug-97
2:47 PM

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Fixed Assets	127,067	113,433	99,800	95,500	82,800	87,700	76,100
Current Assets							
Cash	24,326	65,840	133,156	216,811	335,031	445,298	579,413
Stock	10,187	14,246	19,150	24,900	29,238	33,959	38,694
	34,513	80,086	152,306	241,711	364,268	479,257	618,107
Total Assets	**161,579**	**193,519**	**252,106**	**337,211**	**447,068**	**566,957**	**694,207**
Current Liabilities							
Trade Creditors							
Salaries	3,472	3,697	4,447	4,888	5,427	6,014	7,018
Dividend	0	0	0	0	0	0	0
Loan	0	0	0	0	0	0	0
	3,472	**3,697**	**4,447**	**4,888**	**5,427**	**6,014**	**7,018**
Net Current Assets	**158,108**	**189,822**	**247,660**	**332,323**	**441,641**	**560,943**	**687,189**
Liabilities due in more than 1 year	0	0	0	0	0	0	0
	158,108	**189,822**	**247,660**	**332,323**	**441,641**	**560,943**	**687,189**
Capital & Reserves							
Ordinary Share Capital	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Retained profits	8,108	39,822	97,660	182,323	291,641	410,943	537,189
	158,108	**189,822**	**247,660**	**332,323**	**441,641**	**560,943**	**687,189**

TASHARYUKTRANS BUSINESS PROPOSAL

DETAILED SALES ANALYSIS

LOW: Truck Sale Forecast

05-Sep-97
9:23 AM

	Year 1 US$	Year 2 US$	Year 3 US$	Year 4 US$	Year 5 US$	Year 6 US$	Year 7 US$	Gross Margin
Volvo								
Sales								
Truck	300,000	500,000	700,000	900,000	1,000,000	1,000,000	1,000,000	8%
Spare Parts	31,500	36,800	44,165	53,598	64,603	76,183	87,842	25%
Maintenance	9,325	12,585	17,358	23,645	31,071	38,887	46,718	variable
Total Volvo Sales	**340,825**	**549,385**	**761,523**	**977,243**	**1,095,674**	**1,115,070**	**1,134,561**	
OTHER MAKES / SUPPLIERS								
Sales								
Spare Parts	0	0	0	0	0	0	0	10%
Maintenance	0	0	0	0	0	0	0	variable
Lubricants (all makes)	2,798	3,776	5,207	7,093	9,321	11,666	14,016	25%
Tyres	52,000	78,000	104,000	130,000	130,000	130,000	130,000	25%
Benzene	0	0	0	0	0	0	0	5%
TIR Parking	0	0	0	0	0	0	0	100%
Total other sales	**54,798**	**81,776**	**109,207**	**137,093**	**139,321**	**141,666**	**144,016**	
Total all Sales	**395,623**	**631,161**	**870,730**	**1,114,336**	**1,234,995**	**1,256,736**	**1,278,577**	

PROFIT & LOSS ACCOUNT

28-Aug-97

LOW: Truck Sale Forecast

2:45 PM

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
GROSS MARGIN (G.M.)							
Volvo							
Truck Sales	14,000	30,000	46,000	62,000	70,000	65,000	65,000
Spare Parts	7,875	9,200	11,041	13,400	16,151	19,046	21,961
Maintenance	5,738	7,745	10,682	14,551	19,120	23,930	28,750
Total Volvo G.M.	**27,613**	**46,945**	**67,723**	**89,950**	**105,271**	**107,976**	**115,710**
OTHER MAKES / SUPPLIERS							
Spare Parts	0	0	0	0	0	0	0
Maintenance	0	0	0	0	0	0	0
Lubricants (all makes)	699	944	1,302	1,773	2,330	2,916	3,504
Tyres	13,000	19,500	26,000	32,500	32,500	32,500	32,500
Benzene margin	0	0	0	0	0	0	0
TIR Parking	0	0	0	0	0	0	0
Other Products	0	0	0	0	0	0	0
Total Other G.M.	**13,699**	**20,444**	**27,302**	**34,273**	**34,830**	**35,416**	**36,004**
TOTAL GROSS MARGIN	**41,313**	**67,388**	**95,025**	**124,223**	**140,101**	**143,393**	**151,714**
OTHER COSTS (Indirect)							
Wages (non-maintenance)	27,500	27,500	27,500	27,500	27,500	27,500	27,500
Advertising and marketing	5,500	3,000	3,000	3,000	3,000	3,000	3,000
Utilities	6,000	7,200	7,200	7,200	7,200	7,200	7,200
Telephone & Fax	3,000	3,000	3,000	3,000	3,000	3,000	3,000
R & M (Fixed Assets)	3,000	3,000	3,150	3,308	3,473	3,647	3,829
Total Costs (indirect)	**45,000**	**43,700**	**43,850**	**44,008**	**44,173**	**44,347**	**44,529**
PROFIT / (LOSS) before Depreciation & Interest	**(3,687)**	**23,688**	**51,175**	**80,216**	**95,929**	**99,046**	**107,186**
Depreciation charge	13,633	13,633	13,633	12,700	12,700	11,600	11,600
Interest charge	200	200	0	0	0	0	0
Overheads	**13,833**	**13,833**	**13,633**	**12,700**	**12,700**	**11,600**	**11,600**
PROFIT / (LOSS) after OVERHEADS	(17,520)	9,855	37,542	67,516	83,229	87,446	95,586
Tax 50%	0	4,928	18,771	33,758	41,614	43,723	47,793
PROFIT / (LOSS) after TAX	(17,520)	4,928	18,771	33,758	41,614	43,723	47,793
Dividened	0	0	0	0	0	0	0
PROFIT / (LOSS) Retained	**(17,520)**	**4,928**	**18,771**	**33,758**	**41,614**	**43,723**	**47,793**
Retained Profit Brought Forward	0	(17,520)	(12,593)	6,178	39,936	81,550	125,273
Retained Profit Carried Forward	(17,520)	(12,593)	6,178	39,936	81,550	125,273	173,066

Definitions

R&M - Repairs & Maintenance

GM - Gross Margin

Interest Rate 20%

	0	4,928	18,771	33,758	41,614	43,723	47,793
NOTES							
Truck sales volume (per year)	3	5	7	9	10	10	10
Average Sales price US$	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Calculation of Maintenance Labour Margin							
Revenue							
Volvo Vehicles	9,325	12,585	17,358	23,645	31,071	38,887	46,718
Other Makes	0	0	0	0	0	0	0
Total	9,325	12,585	17,358	23,645	31,071	38,887	46,718
Cost							
Labour	3,587	4,840	6,676	9,094	11,950	14,956	17,969
Margin	5,738	7,745	10,682	14,551	19,120	23,930	28,750
Margin Split							
Volvo	5,738	7,745	10,682	14,551	19,120	23,930	28,750
Other	0	0	0	0	0	0	0
	0	0	0	0	0	0	-0
Labour Split							
US $ per Year							
General Management	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Administration	12,500	12,500	12,500	12,500	12,500	12,500	12,500
Sub-Total	**27,500**	**27,500**	**27,500**	**27,500**	**27,500**	**27,500**	**27,500**
Sales inc. Management	10,000	10,000	10,000	10,000	10,000	15,000	15,000
Maintenance inc. management	3,587	4,840	6,676	9,094	11,950	14,956	17,969
Total	**41,087**	**42,340**	**44,176**	**46,594**	**49,450**	**57,456**	**60,469**
Number of Personnel							
General Management	1	1	1	1	1	1	1
Sales inc. Management	1	1	1	1	1	2	2
Administration	2	2	2	2	2	2	2
Sub-Total	**4**	**4**	**4**	**4**	**4**	**5**	**5**
Maintenance inc. management	0	1	1	1	2	2	2
Total	**4**	**5**	**5**	**5**	**6**	**7**	**7**

CASH-FLOW FORECAST (USD)

28-Aug-97
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LOW: Truck Sale Forecast

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Profit / (Loss) for year before dividend	(17,520)	4,928	18,771	33,758	41,614	43,723	47,793
Debtor / Creditor Adjustment	(6,393)	(3,027)	(3,361)	(3,695)	(1,782)	(1,458)	(1,888)
Add Back							
Depreciation	13,633	13,633	13,633	12,700	12,700	11,600	11,600
Loan (Over-draft) drawn-down	1,000	0	0	0	0	0	0
Share Capital	150,000	0	0	0	0	0	0
spare							
spare							
Less							
Capital expenditure	(140,700)	0	0	(8,400)	0	(16,500)	0
Loan (over draft) repaid	0	(1,000)	0	0	0	0	0
Dividend payment	0	0	0	0	0	0	0
spare							
spare							
Net Cash Flow In / (Out)	20	14,534	29,044	34,363	52,533	37,365	57,505
Retained cash brought forward	0	20	14,554	43,598	77,961	130,494	167,859
Retained cash carried forward	20	14,554	43,598	77,961	130,494	167,859	225,363

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Capital Investment	(140,700)	0	0	(8,400)	0	(16,500)	0
Retained profit	(3,887)	18,561	32,404	46,458	54,314	55,323	59,393
Net of above	(144,587)	18,561	32,404	38,058	54,314	38,823	59,393
IRR	14.4%						

BALANCE SHEET (as at end of year shown)
LOW: Truck Sale Forecast

28-Aug-97
2:45 PM

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Fixed Assets	127,067	113,433	99,800	95,500	82,800	87,700	76,100
Current Assets							
Cash	20	14,554	43,598	77,961	130,494	167,859	225,363
Stock	9,816	12,948	16,461	20,357	22,377	24,503	26,642
	9,837	27,502	60,059	98,319	152,871	192,361	252,005
Total Assets	**136,903**	**140,935**	**159,859**	**193,819**	**235,671**	**280,061**	**328,105**
Current Liabilities							
Trade Creditors							
Salaries	3,424	3,528	3,681	3,883	4,121	4,788	5,039
Dividend	0	0	0	0	0	0	0
Loan	1,000	0	0	0	0	0	0
	4,424	**3,528**	**3,681**	**3,883**	**4,121**	**4,788**	**5,039**
Net Current Assets	**132,480**	**137,407**	**156,178**	**189,936**	**231,550**	**275,273**	**323,066**
Liabilities due in more than 1 year	0	0	0	0	0	0	0
	132,480	**137,407**	**156,178**	**189,936**	**231,550**	**275,273**	**323,066**
Capital & Reserves							
Ordinary Share Capital	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Retained profits	(17,520)	(12,593)	6,178	39,936	81,550	125,273	173,066
	132,480	**137,407**	**156,178**	**189,936**	**231,550**	**275,273**	**323,066**

TRACECA IMPROVEMENT OF ROAD SERVICES CENTRAL ASIA

ADDENDUM 2

SECTION 2 OPERATOR QUALITY

MAIAK LOGISTICS

TURKMENISTAN

OPERATOR QUALITY

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1. INTRODUCTION

1.1 Turkmenistan Overview

Turkmenistan is characterised as a country of major potential, possessing the fourth largest gas supplies in the world, and by the fact that it is in the heart of Central Asia. Turkmenistan is around the size of France and some 80 percent is taken up by the huge Kara Kum desert that acted as a buffer against incursions from the north for centuries.

The emphasis to date has been on stabilisation and that has been at the forefront of Government policy. In fact the government has made progress on reducing the payment arrears on gas from neighbouring states and has allowed some privatisation in the small business sector. Some 1800 shops and enterprises such as restaurants and hairdressers were auctioned off three years ago, but food shops remain in state control. The trend towards greater commercial liberalisation is likely to continue and there is a willingness to encourage western investment. One of the more significant joint ventures has been the $40 mn Turkish Calik group denim plant, which attracted EBRD funding and enabled Turkmenistan to add value to its domestic cotton production by producing jeans for the markets of the former Soviet Union.

Turkmenistan has been the first Central Asian city to upgrade its airport and the new terminal in Ashgabat was built by the UK contractors, John Laing. Transport is seen as a priority and the EBRD has agreed to fund the modernisation of the port of Turkmenbashi on the Caspian.

Road and rail links have been opened with Iran and the government has recognised the need to improve the quality of the roads themselves. The EBRD has contributed to upgrading the 350 kilometres of highway between Ashgabad and Mary. On the government side funds were raised by increasing road user charges.

Within the range of International Financial Institution projects in Turkmenistan, the Tacis TRACECA programme is an important programme from the Turkmen point of view, as it is seen to improve the quality of the country's distribution network. Furthermore, internationally, there will be real opportunities for the small trucking companies that are now being established in addition to the state companies to develop beyond their borders because of Turkmenistan's pivotal position between the Caspian Sea and the other republics of Central Asia and China.

2. SMALL ENTERPRISE OPERATOR ASSISTANCE

2.1 Project Concept

The project concept was discussed with the Ministry for Road Transport and with Mr Yasberdiev, Head of the Transport and Communications Department.

The method of working in Turkmenistan was reviewed in regard to practical implementation of a private small company operation. The GIBB Main Report explains the current system of operation in the transport sector in Turkmenistan in respect of State organisation and joint enterprises. It was explained by Mr Turacev that there are some small freight companies which operate as freight forwarders and some trucking operators. In Turkmenistan the majority of the Western trucks are operated by Turkish and Iranian organisations.

A site visit was undertaken with Mr Yasberdiev to a truck compound on the outskirts of Ashgabad and here there were over 100 trucks awaiting back loading to the west on a for hire basis. These trucking organisations are not structured or organised by the Ministry.

The Association of Automobile Carriers in Turkmenistan has ratified the Convention. They are members of the IRU but not FIATA.

2.2 Project Candidates

On the recommendation of the Ministry, GIBB interviewed the following companies in Ashgabad to determine the recipient of the project.

(i) INTERTRANS

Intertrans is a State organisation and this company was introduced by the Ministry as a possible recipient. Intertrans explained that the Government is seeking to encourage the sale of old vehicles which are over 8-10 years old and start the investment programme in new trucks as the privatisation programme is completed.

A site visit to their truck parking area showed a considerable area of 5 hectares available for storage. There were ten trucks in the yards, all Russian makes and aged 8 years or over. There was also a small warehousing capability. The fleet is around 120 trucks operated by Intertrans.

The key manager in Intertrans interviewed was Mr Bayram Ali Amanaliev. He has organised a Joint Venture with Merz and McLellan operating 10 leased Volvos and 6 Kamaz trucks, a total of 16. This joint venture will operate throughout Iran, Pakistan, Uzbekistan, Kazakstan and Russia. They also operate a joint venture with a Lebanese company which has 9 trucks of various types.

It was explained that this operation was too big to be appropriate for EU assistance. However the management team was encouraged to participate in CPC training with the recommendation of the Ministry.

(ii) NIET 93

The Ministry also introduced the above company as a possible recipient of technical assistance. This is a small freight forwarding company with extensive contacts and a close relationship with Intertrans. They operate in the freight forwarding arena and already have good and effective business contacts. It was considered that they could be a recipient of CPC training.

This organisation was founded by 6 brothers as a family firm with individuals investing personal savings. They bought 2 Maz second hand trucks. Nine people work permanently in the organisation, including drivers, accounts and the Director, Biram Allakuhev.

(iii) JAFAR

This is a freighting company which is formally registered with 3 founders and a total of 7 staff. The Director interviewed was Mr Ayakubov. JAFAR operates 3 trucks as follows:

- *2 x 20 tonne capacity*
- *1 x 14 tonne capacity*

Their main cargoes are to and from Russia, in particular carrying timber. One 14 tonne truck does domestic work with a dedicated driver working 12 hour shifts. Two drivers operate the 20 tonne trucks on a by distance basis. The company also has an accountant, a deputy director and an office manager.

Mr Ayakubov worked previously with the Ministry and helped set up the joint venture for Merz and McLellan and Intertrans. He clearly understands the procedures and is well versed in business procedures. Although his organisation would benefit from SME assistance through SMEDA, the profile was not quite in accord with the EU specification for technical assistance.

(iv) TURKMENUNESHTRANS

This organisation has an office in Ashgabad and several district offices. They operate 160 trucks with two terminals to unload railway wagons. Their normal commodities which are transported are cotton and timber with clients in Russia, Iran and Pakistan where they have letters of agreement with partner organisations.

In the truck fleet 80 trucks are 10 tonne Russian makes. The remainder are mainly Russian and Western 20-30 tonne trucks. Their operation extends as far as Turkey but no further due to exigencies related to the TIR cartels. Their business is 50 percent international and 50 percent domestic. The international business, approximately 80 percent, is exporting cotton. Their need is to buy new trucks in order to compete against Turkish and Iranian truck fleets, especially in respect to exports of cotton.

It is the company's intention to operate as a private entity in future but this is subject to legislative and regulatory issues. It is their intention to buy European trucks in future with a particular interest in Mercedes, Iveco and Scania which they consider build quality products and have very good after sales and spare part capability.

It was recognised that this organisation was well equipped to move towards a privatised operation. Their business acumen is good and Turkmenuneshtrans can develop their managers by themselves. Therefore we considered that they did not qualify for EU assistance.

The remit required under the Tacis Programme for GIBB to select a company was:

- *small, with 1 or 2 employees*
- *with little resources in the way of trucks, equipment etc,*
- *staff in need of business training*
- *poor and in need of assistance.*

On the basis of this remit, three further companies were interviewed by GIBB for consideration in respect of providing technical assistance. The companies interviewed were Khimai 10, 1 Turk and Maiak.

Following the interviews it was clear that the only one which met the criteria was **Maiak** as the others were already established, had good business skills and were operating organisations already in partnership with the western companies.

The Ministry of Road Transport was supportive of this process and assisted in the shortlisting of the companies. After a final interview the nominated company for Technical Assistance, Maiak, was approved by the Minister, Victor Yerbaliev.

2.3 Maiak

Maiak is a small company, run by an energetic entrepreneur, Vyaschler Klemenko. Currently Maiak supplies 50 percent of spare parts for Kamaz trucks in Turkmenistan and so is familiar with the basics of truck maintenance. Klemenko is keen to learn about western ways of doing business and Maiak responded well to coaching in sales and marketing. Discussions took place in regard to personal presentation at sales meetings which would help also in dealing with both Turkmen clients and western investors.

In order to further enhance the Maiak capability GIBB arranged attendance by Maiak personnel at SMEDA business courses in Almaty during March 1996. This provided further development of the personal briefings with particular emphasis on 1997.

- *Marketing Plan*
- *Production Plan*
- *Organisation and management Plan*
- *Financial Plan*

Maiak is a start up business and need familiarisation with western processes in order to convince western partners that they have capability to operate in accordance with European business norms. Thus training was undertaken on:

- *Introduction to management issues*
- *Modern methods of solving business problems using SWOT analysis*
- *How the market economy works*
- *Assessing the feasibility of the business*
- *How to prepare a Business Plan*
- *What makes a successful businessman.*

A core objective of the start up business is to understand finance in business particularly cash flow and how capital works in practice in regard to the flow of money through the business and its relations with the banks. Therefore a basic appreciation of how to plan for profit in the freight market was developed which includes an

understanding of expenses and costs related to marketing. A profit and loss statement was prepared for the company which demonstrates straightforward procedures for balance and cash flow appraisal leading to achievement of a break even point and return on investment. (See **Annex 1)**.

Mr Klemenko devised a new name, "Maiak Logistics" for the company, supported by the consultant. The aim of the new name is to present an effective image which is easily understood by potential western partners seeking a local freighting company. The name presents the following added value in competitive terms:

- *Integrated capability*
- *More services than local competition*
- *Warehousing, forwarding, haulage and distribution*
- *Documentation, administration and networking skills*
- *Technology, market knowledge, systems awareness.*

The SMEDA administration was briefed by the consultant on the capability and needs of the local company and the course content discussed, which meets those needs. SMEDA also introduced their financial consultant who can provide local consultancy on any on-going basis with the ability to personally assist on questions on practical book-keeping and taxation. This personal support is a significant feature of both the GIBB project and the SMEDA concept which supports the development of the human dimension to aid individuals create profitable ventures through support of their own quality, vision and resources. The SMEDA course developed by GTZ is used in 30 countries worldwide. It uses the CEFE method developed by GTZ which stands for a competence based economy through the "Formation of Enterprises".

Both the MD and Finance Assistant attended SMEDA courses on Marketing and Finance arranged and financed through the consultant's funds.

3. MAIAK BUSINESS DEVELOPMENT

3.1 Truck Purchasing

As Maiak Logistics possesses no trucks, consideration was given with the manager to a strategy for acquisition of capability to enable services to be offered. This will be:

1. Purchase
2. Leasing
3. Spot hire.

The need is for provision of long distance trucking services to and from such locations as Mession in Turkey, Baku, Ukraine and throughout Central Asia. This business would be supplemented by local distribution for 60 kms around the Ashgabad railhead for traffic arriving from Europe using the Traceca or "Silk Road" route.

A purchasing strategy at this moment would require an investment of a minimum of $20,000 for a second-hand European truck available through contacts in the west, or a Russian truck at $10,000. This would enable Maiak Logistics to enter the market and offer services.

These services would be on a negotiated or spot basis based on the marketing achievements of the company.

3.2 Facilities

The marketing of Maiak Logistics services will initially be undertaken by the MD. He has a home based office, a room dedicated to his business at home. There is also a large room used for storage purposes, a basic warehouse, where spare parts, components and commodities are retained on a short term basis in advance of sale. The office is equipped already with a 386 computer, printer and fax, telephone all of which is operational using a Microsoft small business suite. The MD has employed his niece, who has a degree from Ashgabat University in economics as the accounts and sales assistant. She will be responsible for client telemarketing, recording sales, issue of orders and invoices and maintaining the accounts system and client database and files.

3.3 Contact Development

The MD will spend 50% of his time visiting prospective clients in Ashgabat. Through the SMEDA organisation a list of western companies available which will form the basis of the marketing sales plan and will be prioritised and visited by the MD. Equally a personal list of key contacts will be established through networking with local organisations and through personal contacts. The construction of this list which will occur over the next 3 months will further identify potential sales leads to contact. Already there are key market sectors identified for short term opportunities which can provide revenue and cash flow to establish the business. These sectors are:

- *Wood;*
- *Chemicals;*
- *Western commodities.*

The MD will make personal visits to prospective clients in these sectors during the summer period to establish working relations. Similarly, a list of western potential partners is being identified who following training will be contacted, using the methods developed during the Technical Assistance project, to build partnerships for medium term revenue generation. This will take some time as Maiak Logistics will need to establish a track record and substance in order to compete with other local organisations already successfully operating in the market. Nevertheless the skills and commitment of MAIAK will enable them in due course to establish and create business opportunities with European companies.

A visit to a prospective client of the Casino in Ashgabat was arranged. This organisation experienced particular problems in arranging transport from Barcelona to Ashgabat for containers of conserves, spirits and preserved food. The client's preferred route was by sea from Barcelona to Messian in Turkey then overland by truck to Ashgabat. The alternative route via the Black Sea and Caspian Sea ports was proposed but the client considered this not yet operational to provide a cost effective improvement over his existing route where he has already established long term relationships and favourable rates particularly in regard to port and shipping services.

Western potential partners already identified are as follows:

- *Proctor and Gamble*
- *Sealand*
- *Munch*
- *InterCity Trucks*
- *Coca Cola*
- *Mercedes Benz*

A draft business letter introducing Maiak has been prepared (**see Annex 2**). This will be sent with references from GIBB, and the Ministry of Transport to those organisations by way of introduction.

The letter will go out on completion of the Certificate of Professional Competence which has been arranged in professional training at TADI in Tashkent. This week-long course enables the company to operate trucks in western Europe and understand the following business areas:

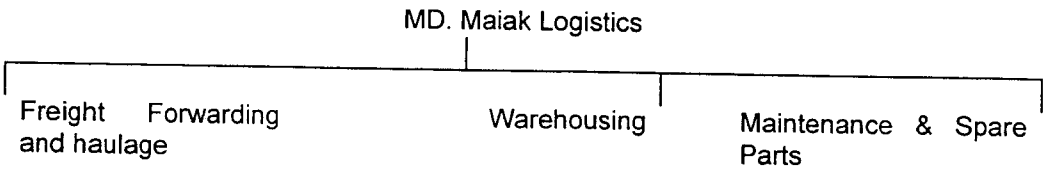
- *International Institutions*
- *Permits and quotas*
- *TIR carnets*
- *Customs documentation*
- *Transit procedures*
- *Insurance*
- *Route planning*

The Business Plan for Maiak was drawn up by the MD, with support from the consultant. The plan is a practical approach to a start up business. It is a cautious plan based on realism of the difficult market in Ashgabat, where over 100 trucks are available for hire daily, looking for work both in local distribution and also in longer haulage. Therefore competition is strong.

3.4 Management Issues

(i) Structure

The Maiak Logistics organisation consists of three emerging elements structured as follows by the MD supported by the consultant.



The Maintenance division is the original operation with 2 employees carrying out supply and maintenance to Russian built trucks locally. The Manager also arranged transport from Russia of spare parts. As a trucker himself in a previous role, he is well versed in the exigencies of the delivery processes in the FSU.

As the maintenance activity has declined so the Manager has sought new ways to build business opportunities in the freight and logistics sectors.

(ii) Promotion

In order to raise the profile of the company an advertisement was designed for inclusion in the local Ashgabat press, linked to a press release and mailshot (see Annex 4). Examples of these are shown in Annexes 2 and 3. A brochure was also produced and business cards for the business. Thus the organisation has a "start up path" which will enable the marketing process to be applied in practice with the list of prospective clients being constructed at SMEDA.

The market intelligence gathered from an integrated approach to marketing by MAIAK Logistics will enable the team to use the information effectively by managing and prioritising the data using the computer software. The aim is to convince customers that MAIAK Logistics is uniquely equipped to help clients by delivering superior service in product quality, personal relationships and solutions to problems plus cost effectiveness.

(iii) Transport

MAIAK will also seek to arrange air transport of consignments between Ashgabad airport and Western capitals using small tourist companies which also organise accompanied cargo movements of consumer products. The aim is to build relationships and traffic with these organisations and arrange delivery from Ashgabad to local companies. As this business grows it is anticipated that MAIAK will be well positioned to co-ordinate such traffic and organise one trailer load per week to be transported from the west to Ashgabad via the Traceca corridor. This type of innovation is exactly the entrepreneurial style required of a small start up business which has the following benefits:

- *direct negotiation with personal contacts;*
- *personal commitment to delivery*
- *close liaison with clients;*
- *development of market and product understanding.*

Companies contacted who are prepared to develop the business relationship further in this respect are as follows:

- Baya travel agency: Freight, Coach Tour China-Urumchi-Germany. Tel: 24-67-87
- Serdar-2 travel agency: Freight, Low Cost Holidays in UAE, India, Pakistan, Turkey in March and April. Address: Turkmenbashi, shaely, 33. Our branch: ul.Seidi, 20/54. Tel. 51-22-69, 39-39-30, 38-86-93.

4. MARKETING

4.1 Market Development

Coaching took place directly with the MD of Maiak Logistics and the finance assistant. The company representatives participated in the sessions with the aim of understanding the role of advertising and of transport services in their area. A list of market sectors was determined from analysis of the Turkmenistan geographic locality.

An approach to marketing the organisation was evolved jointly in order to understand how marketing gets into the company.

The importance of customer care is clearly understood, as without clients, there is no business. Personal service and relationship are crucial in the development of business opportunities in Turkmenistan where good networking between Maiak Logistics and its prospective clients will enable opportunities to be spotted which can develop into revenue earning transport work.

A needs and wants analysis was undertaken of the local Ashgabad market with Maiak Logistics. The types of activities which need to be satisfied includes:

- *on time transportation;*
- *good quality trucking;*
- *competitive pricing;*
- *western style service;*
- *sufficient resources.*

The approach considered most effective in Turkmenistan for a new company emerging in the way Maiak Logistics is doing is to identify potential clients and partners, locally and internationally, also anticipate what their requirements are likely to be before visiting them and then aim to supply efficient logistics services, in respect of road transport, warehousing freighting and documentation which will enable Maiak clients to improve their profitability by gaining more business through a good quality performance of their current business.

The business side of Maiak Logistics is directed at achieving projects by delivering goods from the supplier to the consumer.

The market in Turkmenistan is changing with a large number of Iranian, Pakistan and European operators competing aggressively in it. It is competition which Maiak believes is the most significant factor, which can make or break the success of Maiak Logistics in both the domestic and the international market.

Thus the company goal short term and long term is to achieve penetration into both local and international markets, and be flexible in its solutions, as the Turkmenistan market evolves.

The key to the Maiak Logistics' approach is that they are committed to a market-led approach whereby their sales and marketing activity, motivated by the MD will ensure other activities of Maiak Logistics follow the commercial aims of the company. Thus the limited marketing information which is available in Turkmenistan will be analysed by the Maiak team on a continuous basis so that their resources can be allocated in the most effective way to the opportunities and sales achieved by the marketing

process. To achieve success in the work won through a marketing approach one must ensure that each function at Maiak interconnects to realise the total effort required by the company to satisfy the requirements of clients. For example this has related to specific experience in respect of wood transportation from Russia to Ashgabad and the need to ensure an effective operational supply chain of trucks, drivers and prompt delivery to meet the agreed pricing and client specification in a challenging environment.

In this market Maiak has experienced the difficulties in meeting expectations, but has emphasised that the Maiak approach is to advance in its market niche and not retreat, and to ensure that any losses are critically examined to make the flow of goods from origin to destination a profitable operation.

4.2 Market Research

The concepts of market research were discussed and expressed simply as the search for information by personal contact, and reading data from sources such as the telephone directory, Ministries, TACIS, SMEDA, banks and institutions including foreign embassies. This information is evaluated and analysed in a straightforward fashion to find leads which can be followed up. This data is processed and stored on computer in a data base of contacts from which specific business opportunities can be identified in the local Ashgabad market place from which a course of action can be built up in the form of:

- *understanding the clients needs;*
- *the method of approaching the sale bearing in mind that the client may have a long term relationship.*

The central point is Maiak will develop a marketing information system to support the generation of leads and facts which are relevant to winning and maintaining work with customers.

Maiak Logistics as an emerging small new operator in the Ashgabad market needs to develop and test its capability by carrying out work and monitoring its performance very closely in terms of delivery schedules, handling and pricing to ensure that the clients' preferences are met. Through this analysis of quality a broader market analysis can be done, which will start to measure existing and potential sales of logistics services and this will also identify the market segment where Maiak can position itself, for example:

- *wood*
- *chemicals*
- *food and drink*
- *consumer durables*
- *storage and warehousing*
- *computer products.*

From the niche activities identified, Maiak Logistics will learn the characteristics of each market and how they can best offer their transport services in key target areas.

Maiak is keen to develop its position by using basic marketing techniques and discussions have taken place on the collection of data, how to sort it and how to avoid bias in analysis to get a true picture of the market Maiak Logistics is operating in.

Maiak Logistics has now started to gather marketing information about prospective clients using a practical survey approach as follows:

- *Personal interviews*

The consultant accompanied Maiak and went through a series of questions with a prospective client which enabled Maiak to obtain significant information to propose a freighting solution to the client valued at more than $100,000 per annum.

- *Post*

A mailshot letter is enclosed (Annex 3) to encourage response to Maiak's marketing effort and obtain information to enable Maiak to develop the relationship further with the client.

- *Telephone*

This is a useful approach to obtaining data about potential clients and introducing Maiak to clients through building awareness.

In principle Maiak agreed to develop and continue a practical approach to market research using this tool.

- *Market Research Survey*

Design Questions	*Interview*	*Analyse Data*	*Decide and Act*
Data Collection	*Post*		
	Telephone	*Measure Accurately*	

The main point which was agreed was that in the freight logistics market data is vital to the success of Maiak. Data collection need not be expensive but there must be a commitment to careful and objective analysis in order to obtain facts about both the domestic freight market and the international freight market and infer/decide where the best opportunities are.

It is clear there is great competition in Turkmenistan and Central Asia from Iranian and Turkish truckers who have modern fleets. The trading organisations from these countries use their own national haulage companies even when the trailers return empty, which is caused by the freight rate for the eastbound rate including sufficient to cover empty back running. This can also result in very low charges being made by Iranian and Turkish drivers on the westbound 'spot' market which can dramatically affect the competitiveness of the local start-up haulier.

Maiak is aware of warehouses in these countries being used for logistics break bulk operations. Another problem identified locally and confirmed in other Central Asian countries is the cost of transit bonds which are excessive to local operators and market exclusions in Iran which prevent many Central Asian freight companies from collecting bulk loads from there.

We have noticed difficulties in regard to weight and length restrictions in Iran where the cross-vehicle weight is 34 tonnes and Central Asian trucks often carry 42 tonnes.

Similarly in respect to maximum length of trucks which is 16 metres in Iran and often 16.5 metres in Central Asia.

4.3 Client Behaviour

Two potential partner organisations were identified for marketing purposes, which are:

- *Mr Jack Helton*
  G.M. CIS
  Sea-Land Ltd
  Ulitsa Petrovska 20/1
  103051 Moscow.
  Tel: 007 095 200 3588
  Fax: 007 095 200 3446

- *Mr Paul Fox*
  Eurogate International Forwarding Company Ltd
  11 Bourne Court
  Southend Road
  Woodford Green
  Essex IG8 8HO
  Tel: 00 44 181 535 6300
  Fax: 00 44 181 535 6333

Both these organisations have different needs in terms of their management style and behaviour and are committed to Central Asia. They have agreed with GIBB to support initiatives in the region.

Issues where they need support in Turkmenistan were defined as:

- *Speed of supply chain; quality*
- *Income; pricing*
- *Assets*
- *Perceptions of the local market*
- *Seasonal factors*
- *Legislation issues, taxation, interest rates, insurance*
- *Government rules and regulations.*

Maiak Logistics is attempting to understand the factors which determine the purchasing behaviour patterns of western organisations and the motivation which is required for Maiak to be successful. The key to success is understanding the western mentality, objectives and drives in order to achieve understanding and commitment to mutual links and connections which will give the confidence to enable partnerships to be built with clients.

Thus Maiak are developing a good insight into the cultural, social and psychological issues that create effective relationships with European companies. They are also creating awareness within their organisation of the economic factors which affect freight and logistics purchasing. The consultant discussed the different types of demand for products and services in the Western/Central Asian markets and how these can be satisfied by Maiak Logistics. The consumer goods market was discussed, particularly the development of the group concept, "just in time" deliveries and maximising load factors on trucks. This market is a particularly strong emerging market in Ashgabat in respect of products for immediate consumption. Maiak

Logistics see this as a key high revenue earning niche into which the have already identified opportunities, both directly with clients such as the Ashgabat Casino Company and potential partners for local distribution such as Darzas Sealand and Procter and Gamble. This market segment is clearly seen as having different needs from the markets that Maiak are traditionally familiar with, such as durable goods, like timber, cotton and capital goods.

The consultant had preliminary discussions with Maiak on price equilibrium issues whereby the demand for services varies according to price movements. We also explored the concept of elasticity of demand for Maiak Logistics services where there can be changes in demand for their services according to price changes and how this can be limited. This is defined as elastic and when there is little or no change in demand as a result of a price change, demand is said to be inelastic. The impact for Maiak Logistics is that if they put their price too high, when demand is elastic, the rise in price may result in falling revenue and lost sales.

5. BUSINESS PLANNING

The consultant went through the process of planning and preparing Maiak Logistics for developing a **Business Plan**. A discussion was had about the way in which European companies are structured in respect of:

- *Memorandum and Articles of Association*
- *Total capital*
- *Revenue and costs*
- *Shareholders' funds*
- *Net present value*
- *Board responsibilities*
- *Taxation*
- *Functions and organisation structures*

In preparing the business plan a systematic and disciplined approach was drawn up with Maiak Logistics in order to:

- *identify their goals and objectives;*
- *aim for specific targets;*
- *consider constraints;*
- *produce a practical business plan.*

The key goal of Maiak is to establish the company as a new entrant into the logistics market and ensure its survival. The main challenge is to compete successfully and competitively and cost effectively to build a business from a 'zero' base. Within this Maiak Logistics seeks to be seen as a reputable company offering personal service and adding value to their clients' organisations which will enable them step by step to expand and grow. The result of this will be revenue, profit and motivation for their personnel.

The MD is aware that the specific targets he is setting himself will require considerable personal investment of time and effort to meet his business plan and he is setting himself three specific aims:

1. Win work with personal contacts, eg Casino
2. Form a partnership with a Western company
3. Obtain a loan from a bank to invest in equipment.

The consultant made Maiak Logistics aware that the Central Bank of Turkmenistan has an EBRD loan with government support. The Central Bank can then on lend to borrowers in Turkmenistan. These loans are made in hard currency and geared towards organisations in the private export orientated sector. A letter of application was prepared with Maiak for sending to the Bank at:

Central Bank of Turkmenistan
ul. Gogola 22
744000 Ashgabad
Turkmenistan.
Contact: Mr Anton Deiters, Head of Apex Unit
SME Credit Line
Tel: 99 312 355849
99 312 510812

Timing and **resources** are specific constraints. The company has little resources and cash and there are many other local constraints which will limit the fulfilment of his plans. Nevertheless there are stakeholders who wish to see the firm develop, such as the Ministry, the owners, the employees and the emerging customers who all have an interest in seeing the overall objectives achieved. The short term targets are crucial to success and here support will be required to help Maiak make the right local contacts to generate short term revenue and cash flow, build the resource base and track record which in turn will enable the company to more confidently approach the Western operators/prospective clients who seek an established reputable partner.

Technical assistance was provided in regard to issues such as debt differences. Short term debt is much more onerous than long term debt since both interest to service and principal have to be repaid in the short term.

6. COMMUNICATIONS

Maiak Logistics is specialising in a particular field. It is centralised with good formal and informal communication nets. The team is available and responsive and are good promotional people. The communication element of the 'coaching' approach was highlighted by Maiak as very useful both in attitude and one-to-one coaching for a client appointment. Similarly competitors may price aggressively to minimise the chance of success of a new market entrant.

6.1 Client Needs

The consultant explained that good communication can first get the client interested in Maiak Logistics services, after which Maiak can present how they would go about meeting the customers' requirements, mainly through listening to what their problems are and offering solutions. Often discussions with clients achieve an attitude change through presenting effective responses to what the clients' needs are, rather than presenting attitudes which the client does not want to hear at that point. The basic forms of communication were covered in respect of verbal, written and body language. The communication process in a marketing situation was discussed in terms of what needs to be considered in regard to the prospective client, ie.

- *what are the clients' objectives, short/long term;*
- *who are the clients' competitors, what are they like and what is needed in logistics terms to compete;*
- *what will make the client's product more saleable in respect of supply chain improvements;*
- *what is the client's target market;*
- *what are the client's expectations of a good logistics partner.*

Maiak also went over the information they need to give to the prospective client in terms of a brochure, business cards and similar work experience. The methods, influences and persuasion which might need to be exerted were discussed, and put into practice by the MD at a client meeting with the MD of Ashgabad Casino Company in respect of his transport needs from Spain to Ashgabad. Issues such as language capability perceptions, both by the clients and Maiak of what was being agreed were explored and the need to record, confirm and formally agree processes and issues considered.

6.2 Personal Selling

Personal selling will be the most frequently used way of promoting Maiak Logistics in its early stage of development and may be relatively expensive as the MD personally will be doing this. However, this will also be a flexible way of advertising and selling but will be expensive in time, travel and expenses. The MD was coached on preparation for the sales visit in respect of understanding the market, the services needed and the client company background. Ways of locating clients through networking, press and other media were developed. The pre-approach market research method was discussed in more depth and presentation methods explained. Sales visit recording and follow up was discussed and considered in detail, particularly

in respect of the test client visited in relation to obtaining trucking, TIR carnet issues, documentation and follow up contractual correspondence.

Maiak understands that expensive personal selling can be supported by a limited local advertising campaign of small advertisements in the Ashgabad press and sales calls and mailshots to raise awareness of the company.

Maiak Logistics is at the earliest stage in its life cycle. Going through the development phase will require a degree of effective selling, some innovation in order to differentiate the organisation. They are having to overcome initial problems of not owning trucks or good sized warehousing and are starting to become aware of the channels of distribution between Europe and Central Asia, being more familiar with Russia, Iran, Pakistan routes. However, they have responded well to coaching and practical application of new skills learned in respect of marketing and promotional strategies A main objective during this development stage is to inform potential clients of Maiak Logistics and secondly to win acceptance and new business.

Once Maiak has established a basic core client list the company will begin to grow and by reputation they will be able to obtain more clients as the local market begins to accept their logistics capability. Also competitors will become aware of the company's growth and will respond accordingly. Thus the investment strategy for trucks will be crucial to sustaining and developing the company's plans.

Thus the risks for these two phases will be that there is inadequate marketing effort to launch the company, that the staff do not get enough training to develop the product, ie CPC and SMEDA courses, that they launch into the market prematurely and do not achieve sufficient quality for their early customers or that there is miscalculation of the prices to various customers.

7. RESOURCES AND PRICING

7.1 Resources - Trucks

A major concern for Maiak is resource availability. Trucks are available on the spot hire market, many of which are Turkish and Iranian. Maiak seek loans and equity stakes in Maiak Logistics in order to lease or purchase trucks, up to four, possibly second hand European, to enable the company to have an independent operation as well as confidence in the quality of operation which can be offered. Similarly to support the objective of providing quality warehousing they seek financial support to rent or purchase warehousing space in the Ashgabat area. The client discussed key issues with the Ministry and the MD in regard to capital needed, government policy, use of existing resources and availability, all of which will be considered by the Ministry. But the investment needs cannot be met by the Ministry. Only support in principle within the existing regulatory framework can be developed and this is being given in a very positive way with the Ministry officials maintaining regular contact with the project.

7.2 Pricing

The basic pricing strategies for Maiak Logistics to apply were coached to overcome the market risks identified. These include:

- *Competitive pricing - pricing at the 'going rate' based on the fact that Maiak's services are as good as the competition in Ashgabad. Taking account that Maiak's cost base is lower than the competitions at this stage, or with few overheads there could be high relative profit margins on rates.*
- *Below competition pricing. The aim here is to price below the market price to get work and build loyalty with selected clients with a view to raising the price later.*
- *Variable pricing. This will be used to change prices according to seasonal variations and the ups and downs which take place in an evolving market place.*

Maiak's primary pricing aims are to:

- *get a satisfactory return on the trucking, warehousing and administration they do;*
- *beat the competition and win clients from them, firstly in Ashgabat, then Turkmenistan, then Central Asia, and finally Europe, all of which builds a broader business;*
- *build a small but profitable market share which provides investment to improve facilities and resources and employ more people;*
- *survive in a tough market and become in particular a preferred, successful logistics partner to European companies who are steadily building business in Ashgabat.*

The preferred approach by Maiak is to use market pricing to position themselves and be flexible to emerging opportunities.

7.3 Logistics

A key niche opportunity which Maiak Logistics wishes to present to the market is the ability to break bulk container loads of goods from Europe in secure warehousing and release the product in smaller batches for distribution to specified recipients. By being positioned locally which makes communication easier between Maiak and Turkmenistan retailers and consumers a quick and reliable delivery service can be achieved from the Maiak warehouse. Maiak would also repack products for local delivery ready for immediate resale and can offer help and support in determining local market conditions and needs. Thus Maiak Logistics is seeking to position itself in the Ashgabad environment with a growing capability to provide:

- *inventory locations;*
- *warehousing systems;*
- *handling of goods;*
- *bulk packaging;*
- *order processing*
- *stock control*
- *transport and distribution.*

The aim is to provide a logistics capability and build a degree of inter-dependence between partners, Maiak and customers. Clearly detailed development is required of this concept as a medium-term objective of Maiak considering:

- *transportation costs;*
- *geographical locations;*
- *mileage involved;*
- *location of warehouse.*

A primary objective Maiak wishes to achieve in regard to logistics is to build a good flow system from suppliers to retail outlets at the lowest possible cost with good quality and an effective service. Maiak is aware of the risks involved because efficiency and cost effectiveness rest almost entirely on the efficiency of stock/goods control. Such handling of materials components and goods can result in expensive stock holding (opportunity cost, tied up capital) and poor performance in delivery can result in loss of goodwill, unfinished orders, delays in delivery to retailers and production lines.

The lead times to service Ashgabad customers were considered and achieving promised agreed delivery schedules is accepted as crucial to customer service. The lead times to service Ashgabad customers were considered and achieving promised agreed delivery schedules is accepted as crucial to customer service. Maiak clearly understand that warehousing is a buffer as the event of uneven flows of goods and a key is to minimise stockholding whilst maximising service/delivery to the customer.

Annex 1

MAIAK LOGISTICS
FINANCIAL PLAN FORECAST
US$

		1st Year	2nd Year	3rd Year	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Jul-01	Aug-01	Sep-01	Oct-01	Nov-01	Dec-01
REVENUE																
Domestic Routes		56,460	96,595	96,595	3,526	3,526	3,526	4,561	4,561	4,561	5,366	5,366	5,366	5,366	5,366	5,366
Foreign Routes		25,161	43,056	43,056	1,570	1,570	1,570	2,033	2,033	2,033	2,392	2,392	2,392	2,392	2,392	2,392
				0												
TOTAL REVENUE		**81,620**	**139,651**	**139,651**	**5,095**	**5,095**	**5,095**	**6,595**	**6,595**	**6,595**	**7,758**	**7,758**	**7,758**	**7,758**	**7,758**	**7,758**
COSTS				0												
FUEL		14,299	23,832	23,832	993	993	993	1,125	1,125	1,125	1,324	1,324	1,324	1,324	1,324	1,324
DRIVER EXPENCES		1,642	2,736	2,736	114	114	114	129	129	129	152	152	152	152	152	152
DRIVER PAY		4,115	6,858	6,858	286	286	286	324	324	324	381	381	381	381	381	381
LUBRICANTS		400	666	666	28	28	28	31	31	31	37	37	37	37	37	37
TYRES		12,398	20,664	20,664	861	861	861	976	976	976	1,148	1,148	1,148	1,148	1,148	1,148
MAINTENANCE		1,912	3,186	3,186	133	133	133	150	150	150	177	177	177	177	177	177
TOLL CHARGES		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
EXPORT CHARGES		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
INSURANCE		950	1,584	1,584	66	66	66	75	75	75	88	88	88	88	88	88
LICENCES		1,361	2,268	2,268	95	95	95	107	107	107	126	126	126	126	126	126
TELEPHONE		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PARKING		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL VARIABLE COSTS		**37,076**	**61,794**	**61,794**	**2,575**	**2,575**	**2,575**	**2,918**	**2,918**	**2,918**	**3,433**	**3,433**	**3,433**	**3,433**	**3,433**	**3,433**
GROSS MARGIN		**44,544**	**77,857**	**77,857**	**2,521**	**2,521**	**2,521**	**3,677**	**3,677**	**3,677**	**4,325**	**4,325**	**4,325**	**4,325**	**4,325**	**4,325**
ADMINISTRATION		0	0	0												
DEP'N BUILDINGS / RENT		0	0	0												
DEP'N, TRUCKS		7,873	13,122	13,122	547	547	547	620	620	620	729	729	729	729	729	729
TOTAL OVERHEADS		**7,873**	**13,122**	**13,122**	**547**	**547**	**547**	**620**	**620**	**620**	**729**	**729**	**729**	**729**	**729**	**729**
PROFIT		**36,671**	**64,735**	**64,735**	**1,974**	**1,974**	**1,974**	**3,057**	**3,057**	**3,057**	**3,596**	**3,596**	**3,596**	**3,596**	**3,596**	**3,596**
TAX @	50%	18,335	32,368	32,368	987	987	987	1,528	1,528	1,528	1,798	1,798	1,798	1,798	1,798	1,798
PROFIT AFTER TAX		**18,335**	**32,368**	**32,368**	**987**	**987**	**987**	**1,528**	**1,528**	**1,528**	**1,798**	**1,798**	**1,798**	**1,798**	**1,798**	**1,798**
Gross Margin %		54.6%	55.8%	55.8%	49.5%	49.5%	49.5%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%
Profit % of Revenue		44.9%	46.4%	46.4%	38.7%	38.7%	38.7%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%

MAIAK LOGISTICS
FINANCIAL PLAN FORECAST
US$

	2nd Year	Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02
REVENUE													
Domestic Routes	96,595	8,050	8,050	8,050	8,050	8,050	8,050	8,050	8,050	8,050	8,050	8,050	8,050
Foreign Routes	43,056	3,588	3,588	3,588	3,588	3,588	3,588	3,588	3,588	3,588	3,588	3,588	3,588
TOTAL REVENUE	**139,651**	**11,638**	**11,638**	**11,638**	**11,638**	**11,638**	**11,638**	**11,638**	**11,638**	**11,638**	**11,638**	**11,638**	**11,638**
COSTS													
FUEL	23,832	1,986	1,986	1,986	1,986	1,986	1,986	1,986	1,986	1,986	1,986	1,986	1,986
DRIVER EXPENCES	2,736	228	228	228	228	228	228	228	228	228	228	228	228
DRIVER PAY	6,858	572	572	572	572	572	572	572	572	572	572	572	572
LUBRICANTS	666	56	56	56	56	56	56	56	56	56	56	56	56
TYRES	20,664	1,722	1,722	1,722	1,722	1,722	1,722	1,722	1,722	1,722	1,722	1,722	1,722
MAINTENANCE	3,186	266	266	266	266	266	266	266	266	266	266	266	266
TOLL CHARGES	0	0	0	0	0	0	0	0	0	0	0	0	0
EXPORT CHARGES	0	0	0	0	0	0	0	0	0	0	0	0	0
INSURANCE	1,584	132	132	132	132	132	132	132	132	132	132	132	132
LICENCES	2,268	189	189	189	189	189	189	189	189	189	189	189	189
TELEPHONE	0	0	0	0	0	0	0	0	0	0	0	0	0
PARKING	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL VARIABLE COSTS	**61,794**	**5,150**	**5,150**	**5,150**	**5,150**	**5,150**	**5,150**	**5,150**	**5,150**	**5,150**	**5,150**	**5,150**	**5,150**
GROSS MARGIN	**77,857**	**6,488**	**6,488**	**6,488**	**6,488**	**6,488**	**6,488**	**6,488**	**6,488**	**6,488**	**6,488**	**6,488**	**6,488**
ADMINISTRATION	0												
DEP'N BUILDINGS / RENT	0												
DEP'N, TRUCKS	13,122	1,094	1,094	1,094	1,094	1,094	1,094	1,094	1,094	1,094	1,094	1,094	1,094
TOTAL OVERHEADS	**13,122**	**1,094**	**1,094**	**1,094**	**1,094**	**1,094**	**1,094**	**1,094**	**1,094**	**1,094**	**1,094**	**1,094**	**1,094**
PROFIT	**64,735**	**5,395**	**5,395**	**5,395**	**5,395**	**5,395**	**5,395**	**5,395**	**5,395**	**5,395**	**5,395**	**5,395**	**5,395**
TAX @ ##	32,368	2,697	2,697	2,697	2,697	2,697	2,697	2,697	2,697	2,697	2,697	2,697	2,697
PROFIT AFTER TAX	**32,368**	**2,697**	**2,697**	**2,697**	**2,697**	**2,697**	**2,697**	**2,697**	**2,697**	**2,697**	**2,697**	**2,697**	**2,697**
Gross Margin %	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%
Profit % of Revenue	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%

MAIAK LOGISTICS
FINANCIAL PLAN FORECAST
US$

REVENUE	3rd Year	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Jul-01	Aug-01	Sep-01	Oct-01	Nov-01	Dec-01	Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02
Domestic Routes	96,595	3,526	3,526	3,526	4,561	4,561	4,561	5,366	5,366	5,366	5,366	5,366	5,366	8,050	8,050	8,050	8,050	8,050	8,050	8,050	8,050	8,050	8,050	8,050	8,050
Foreign Routes	43,056	1,570	1,570	1,570	2,033	2,033	2,033	2,392	2,392	2,392	2,392	2,392	2,392	3,588	3,588	3,588	3,588	3,588	3,588	3,588	3,588	3,588	3,588	3,588	3,588
	0																								
TOTAL REVENUE	139,651	5,095	5,095	5,095	6,595	6,595	6,595	7,758	7,758	7,758	7,758	7,758	7,758	11,638	11,638	11,638	11,638	11,638	11,638	11,638	11,638	11,638	11,638	11,638	11,638
COSTS	0																								
FUEL	23,832	993	993	993	1,125	1,125	1,125	1,324	1,324	1,324	1,324	1,324	1,324	1,986	1,986	1,986	1,986	1,986	1,986	1,986	1,986	1,986	1,986	1,986	1,986
DRIVER EXPENCES	2,736	114	114	114	129	129	129	152	152	152	152	152	152	228	228	228	228	228	228	228	228	228	228	228	228
DRIVER PAY	6,858	286	286	286	324	324	324	381	381	381	381	381	381	572	572	572	572	572	572	572	572	572	572	572	572
LUBRICANTS	666	28	28	28	31	31	31	37	37	37	37	37	37	56	56	56	56	56	56	56	56	56	56	56	56
TYRES	20,664	861	861	861	976	976	976	1,148	1,148	1,148	1,148	1,148	1,148	1,722	1,722	1,722	1,722	1,722	1,722	1,722	1,722	1,722	1,722	1,722	1,722
MAINTENANCE	3,186	133	133	133	150	150	150	177	177	177	177	177	177	266	266	266	266	266	266	266	266	266	266	266	266
TOLL CHARGES	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
EXPORT CHARGES	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
INSURANCE	1,584	66	66	66	75	75	75	88	88	88	88	88	88	132	132	132	132	132	132	132	132	132	132	132	132
LICENCES	2,268	95	95	95	107	107	107	126	126	126	126	126	126	189	189	189	189	189	189	189	189	189	189	189	189
TELEPHONE	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PARKING	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL VARIABLE COSTS	61,794	2,575	2,575	2,575	2,918	2,918	2,918	3,433	3,433	3,433	3,433	3,433	3,433	5,150	5,150	5,150	5,150	5,150	5,150	5,150	5,150	5,150	5,150	5,150	5,150
GROSS MARGIN	77,857	2,521	2,521	2,521	3,677	3,677	3,677	4,325	4,325	4,325	4,325	4,325	4,325	6,488	6,488	6,488	6,488	6,488	6,488	6,488	6,488	6,488	6,488	6,488	6,488
ADMINISTRATION	0																								
DEP'N BUILDINGS / RENT	0																								
DEP'N, TRUCKS	13,122	547	547	547	620	620	620	729	729	729	729	729	729	1,094	1,094	1,094	1,094	1,094	1,094	1,094	1,094	1,094	1,094	1,094	1,094
TOTAL OVERHEADS	13,122	547	547	547	620	620	620	729	729	729	729	729	729	1,094	1,094	1,094	1,094	1,094	1,094	1,094	1,094	1,094	1,094	1,094	1,094
PROFIT	64,735	1,974	1,974	1,974	3,057	3,057	3,057	3,596	3,596	3,596	3,596	3,596	3,596	5,395	5,395	5,395	5,395	5,395	5,395	5,395	5,395	5,395	5,395	5,395	5,395
TAX @	32,368	987	987	987	1,528	1,528	1,528	1,798	1,798	1,798	1,798	1,798	1,798	2,697	2,697	2,697	2,697	2,697	2,697	2,697	2,697	2,697	2,697	2,697	2,697
PROFIT AFTER TAX	32,368	987	987	987	1,528	1,528	1,528	1,798	1,798	1,798	1,798	1,798	1,798	2,697	2,697	2,697	2,697	2,697	2,697	2,697	2,697	2,697	2,697	2,697	2,697
Gross Margin %	55.8%	49.5%	49.5%	49.5%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%	55.8%
Profit % of Revenue	46.4%	38.7%	38.7%	38.7%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%	46.4%

Mailshot

ANNEX 2

Maiak Logistics is a new organisation recently established in Ashgabad to provide transport, warehousing and support to clients wishing to transport goods, particularly between Turkmenistan and Europe.

Maiak Logistics personnel have been trained in international freight marketing and freight forwarding operations have specialists in road transport operations. Although we are a small company we believe our commitment to personal service will enable us to provide you with quality of performance to enable you to meet your clients' needs more effectively.

Please find enclosed our brochure providing details of our service. If I may I will call you in the near future to see if it might be possible to meet you for one hour to discuss how we might be of service to you.

Yours sincerely

Vyaschev Klemenko
General Director,
Maiak Logistics.

ANNEX 3

MAIAK LOGISTICS

Solutions to today's
Logistics Problems

We offer customer service of the highest quality in:

- Freight forwarding
- Road transport (international and domestic)
- Warehousing
- Customs control and insurance
- Professionally trained staff

We will be happy to hear from you to discuss further how

MAIAK Logistics can add value to your operations in a cost effective

and professional manner.

Please call

MAIAK Logistics on:

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ANNEX 4 CERTIFICATE OF PROFESSIONAL COMPETANCE (CPC)

Report on the CPC training course has not been received from the Freight Transport Association (UK), this will be forwarded to the relevant report recipients as soon as it is available and included in the final report.