



Kryvvyi Rih Mineral Water

**Description of the investment proposal*



PROJECT SUMMARY

Project content

Mineral water analysis and research of prospects of its production in Kryvyi Rih with the purpose of making the population healthier by means of restoration of table drinkable and therapeutic water production (water rich in radon, sulphuretted hydrogen, ferrous, iodine and bromine) for the external use; these waters are similar to waters of Pyatigorsk and Tshaltubo according to their chemical characteristics.

Attractiveness

- Great population size (as to 01.06.2013 roky - 657,3 thousand people). The city takes the eighth place in Ukraine by the population size.
- Average wage in the city– 3796,0 UAH (as to 01.04.2013 p.), that is 3,3 times the level of minimum wage guaranteed by the government.
- There aren't any enterprises producing drinkable mineral and table water in bottles.
- Strong demand on mineral water consumption
- Local authorities' support of the Project.
- Nowadays producing of mineral and table waters in bottles is one of the most perspective segments of a consumer market in Ukraine.

Degree of project development

The project needs carrying out of mineral water quality analysis to find out its chemical composition and compliance with government standards as well as health legislation of Ukraine.

Resources for project implementation

Investor's own funds





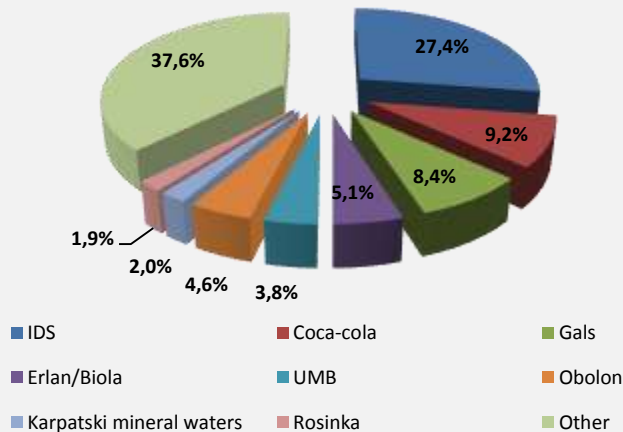
Mineral water market analysis

- Approximately **300 water producers** are working at Ukrainian mineral water market.
- Ukrainian mineral water market is featured by a high level of loyalty to domestic trademarks due to some historical reasons and high price of imported products.
- In general, mineral water market is enough consolidated. 10 large producers occupy only more than 50% of aerated water segment and more than 70% - still mineral water one. The rest of the market is occupied by small local trademarks.
- Nowadays more than **3600 mineral water brands** are in the world; they are owned by companies from over **140 countries** of the world. In general, global branch of mineral water has become very profitable in recent 10-15 years. The worldwide leaders of mineral water production are still **Nestle** and **Danone**.

Leaders of mineral water production in Ukraine

No	Name of the producer	Mineral water trademark
1.	IDS Group	«Myrgorodska», «Morshynska», «Alyaska», «Truskavetska» and imported from Georgia mineral water «Borzhomi»
2.	«Coca-Cola Beverages»	«BonAqua»
3.	«Obolon»	«Obolonska», «Prosora»
4.	«Rosinka»	«Sophia Kyivska»
5.	«Erlan»	«Znamenivska»

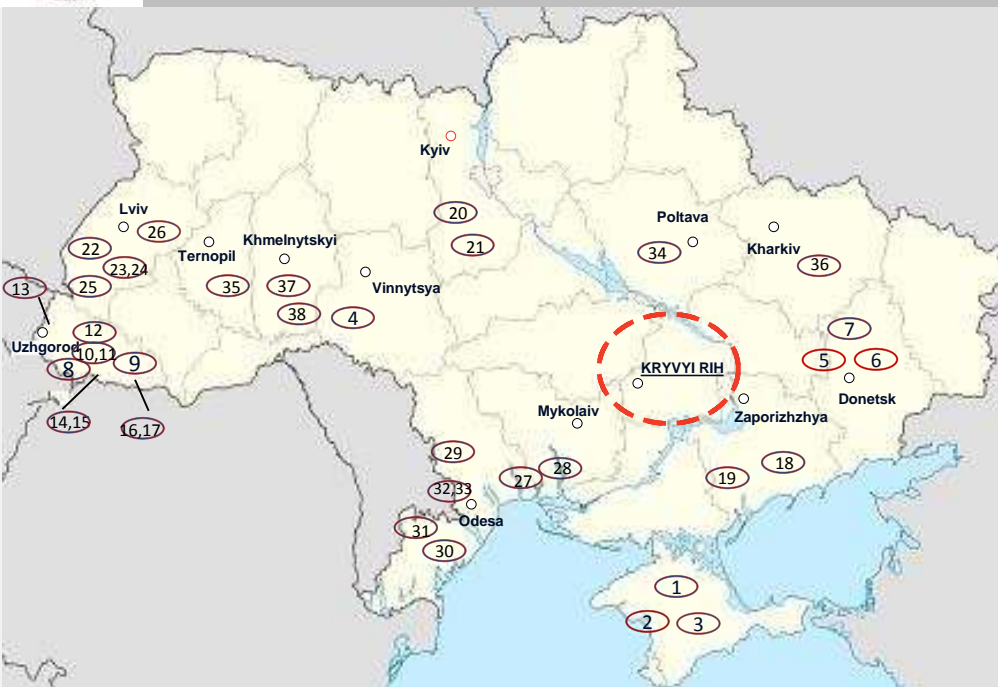
Main producers of mineral drinkable water in Ukraine (au naturel), %



- The leading importer of mineral water is Georgian water «Borzhomi». To Ukraine the following waters are imported: French waters «Vittel», «Evian», «Perrier», Italian water «SanPellegrino» and «SanBenedetto», Russian waters «Narzan» and «Essentuki».
- Mineral waters are exported from Dnoproperovsk, Lviv, Ternopil, Chernigiv, Odesa regions. Still waters are exported from almost all administrative regions of Ukraine.
- At the domestic market of drinkable water delivery (HOD - Home & Office Delivery) there are about 100 players – producers and distributors and this number is constantly increasing. At the same time about 20 companies have their own production facilities
- The main countries-buyers of Ukrainian mineral waters are **Azerbaijan** (30,9% of all export), **Great Britain** (17,1%), **Bulgaria** (10,4%).



Marketing research of mineral water deposits



*See list of the largest mineral water deposits in the Appendix.

- Overall, in Ukraine there are 119 mineral water deposits and 117 in Ukraine – 119 areas of mineral waters.
- Total balance reserves of the A+B+C₁ and C₂ categories are **78 065 m³/day**.
- Table waters constitute 86,79%. Among the waters with specific components and characteristics the following mineral waters are defined - radon ones (12,72%) and bromine ones (11,92%).
- The largest part of balance reserves is concentrated in Autonomous Republic of Crimea (30,22%), Odesa (9,69%), Zaporizhzhya (7,39%), Transcarpathian (6,60%) regions. 53% of balance reserves of table waters are located in Donetsk region.

- 15 deposits have been explored in Dnipropetrovsk region. There are all possibilities to satisfy the demand of population in therapeutic and table mineral waters.



Novotroitske source, Dnipropetrovsk region, Novotroitske village, Novomoskovsk subregion (mineral natural table water TM «Dzherela Prydniprovyia» (Dnipropetrovsk region sources))



Morshynska mineral water, Morshyn town, Lviv region



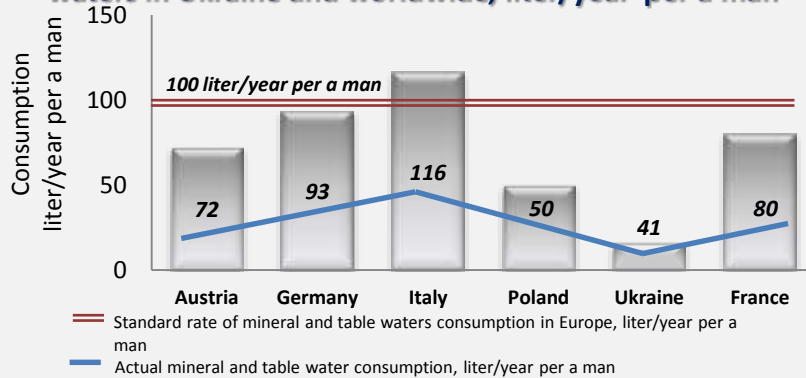
Myrgorodska mineral water, Myrgorod town, Poltava region

- **Kryvyi Rih** is rich not only in iron-ore deposits but also in drinkable therapeutic and table mineral water springs. As early as in the year 1935 the scientists worked on the Kryvyi Rih mineral water usage in balneological issues.
- Maximum mineralization of Kryvyi Rih underground waters at depth of up to 2 km does not exceed 160-170 g/l.



Mineral water consumption analysis

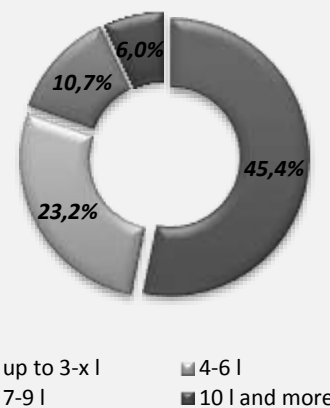
Average annual consumption of mineral and table waters in Ukraine and worldwide, liter/year per a man



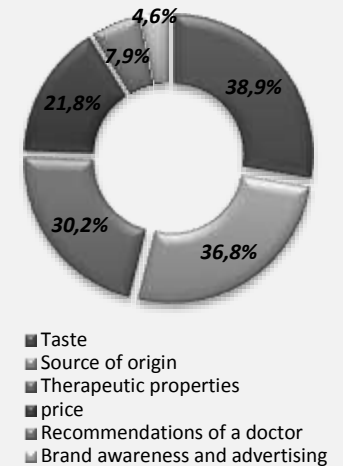
Comments:

- By actual consumption of mineral water Ukraine considerably falls behind European countries (annual rate of mineral and table water consumption in Europe is 100 liters per a man, actual consumption is 41 liters per a man).
- In Kryvyi Rih mineral water consumption by a man is about 3 liters per a week (73 liters per a year).

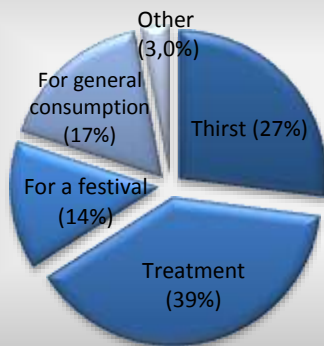
Mineral water consumption by a Kryvyi Rih resident, liter per a year



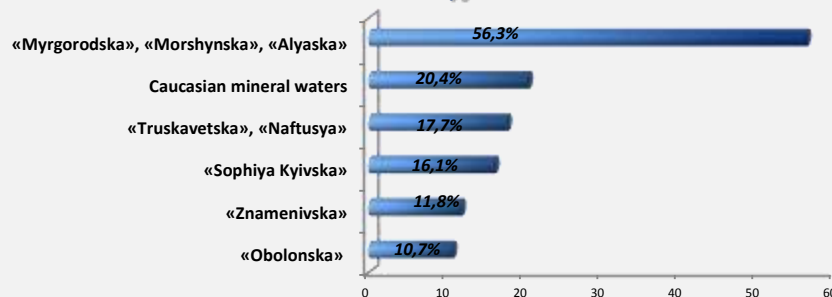
Water selection criteria of the city residents, %



Reasons for a consumer to buy mineral waters



Preferences of Kryvyi Rih consumers in choosing mineral water, %



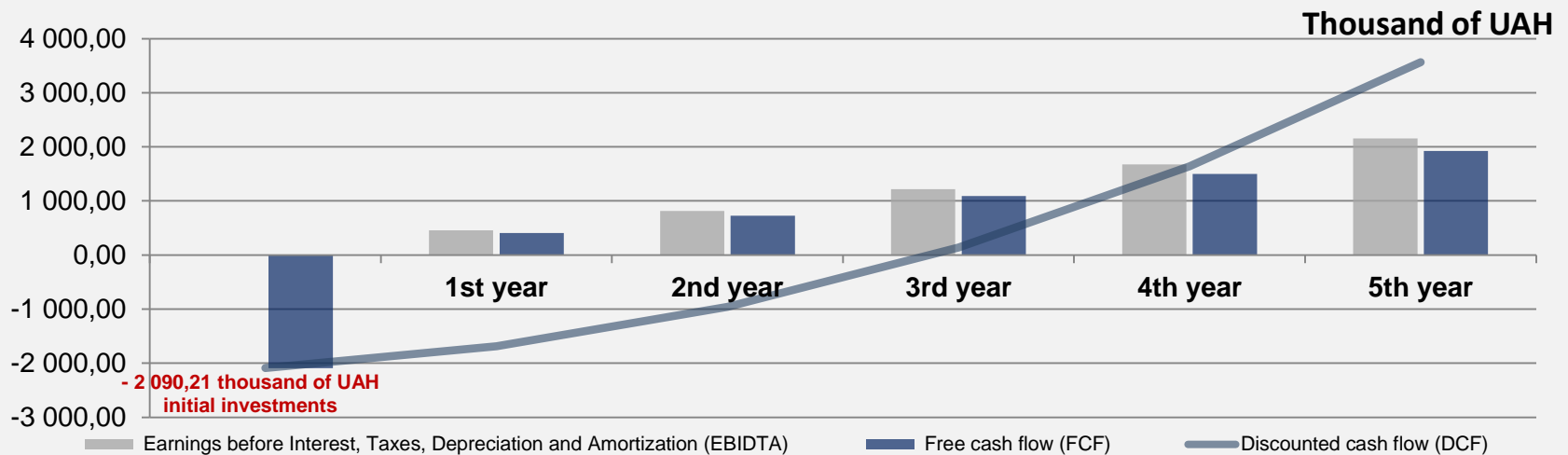
- 61,8% of Kryvyi Rih residents consume mineral water to satisfy thirst, 28,8% - for treatment, 24,9% - for health benefit.
- Key criteria at mineral water selection by the city residents are - taste (38,9%), source of origin (36,8%), therapeutic properties (30,2%) and price (21,8%).



Key project indicators

Project efficiency indicators

Indicator	Unit of measurement	Values
Discounted payback period, DPP	month	42,12
Net present value, NPV	Thousand of UAH	883,67
Internal rate of return, IRR	%	33,7
Profitability index, PI		1,42
Budget (own capital)	Thousand of UAH	2 090,21



Indicator	1 st year	2 nd year	3 rd year	4 th year	5 th year
EBITDA	455,08	812,89	1 219,34	1 678,32	2 153,05
FCF	405,28	728,85	1 093,28	1 501,582	1 923,61
DCF (cumulative)	-1 684,93	-956,08	137,20	1 639,02	3 562,63



Project budget



- Passing of all licensing and coordinating procedures
- Drilling of the well and its formalization
- Chemical and biological expertises
- Construction of administrative, manufacturing and storage areas.
- Purchase of equipment for mineral water production
- Payment for labor of a personnel
- Transport expenses

Thousand of
UAH.

0,5

175,0

1,986

800,0

160,0

580,33

372,39

Project cost,

Total: thousand of UAH

2090,21



COOPERATION CONDITIONS

MUNICIPAL AUTHORITY

- Assisting in passing of licensing procedures
- Assisting in organizing of research activities to find out a compliance of mineral water with Ukrainian governmental standards and health legislation.



- New job places creation
- Providing the city residents with qualitative therapeutic and table drinkable water
- Extra proceeds to budgets by means of payment of taxes and charges

CITY DEVELOPMENT INSTITUTION

- Providing an investor with information for making optimal decisions
- Support at getting all approval documents and assistance at investment project implementation



PRIVATE SECTOR

- Expert knowledge and technologies
- Business risk-analysis
- Investment in therapeutic and table mineral water production
- Competence at business management



- Profit from successfully functioning business
- Opportunity of intensive growth and expanding production capacity that will enable increasing profits, sales volumes and sales markets





APPENDIX

The largest deposits of mineral water in Ukraine

No	Region/ Name of mineral water deposit and place	Commence- ment of operation	Reserves, m ³ /day	Usage water type	No	Region/ Name of mineral water deposit and place	Commence- ment of operation	Reserves, m ³ /day	Usage water type
Autonomous Republic of Crimea					Kyiv region				
1.	Sakske, Town of Saki	1957	1745,0	balneological	20.	Bilotherkivske, town of Bila Tserkva	1955	1485,0	balneological
2.	Yevpatoriyske (marine), City of Yevpatoriya	1975	16403,0	balneological	21.	Myronivske, town of Myronivka	1945	423,0	balneological
3.	Yevpatoriyske (subthermal), City of Yevpatoriya	1969	2174,0	therapeutic and drinkable / balneological	Lviv region				
Vinnitsya region					22.	Velykolyubenske, village of Velykyi Lyubin	XV century	576,0	balneological
4.	Khmilnyk, Town of Khmilnyk	1961	2237,0	balneological	23.	Ckhidnytske, city of Drohobych	1964	64,6	therapeutic and drinkable
Donetsk region					24.	Naftusya, town of Truskavets	1827	47,2	therapeutic and drinkable
5.	West-Slovianske, town of Slovyansk	1860	89,0	therapeutic and drinkable	25.	Truskavetske, town of Truskavets	1833	495,8	therapeutic and drinkable / balneological
6.	Slovianske, town of Slovyansk	1978	620,0	therapeutic and drinkable / balneological	26.	Morshynske, town of Morshyn	1877	30,0	therapeutic and drinkable / balneological
7.	Svyatogorskyi, city of Svyatogirsk	1955	143,0	therapeutic and drinkable / balneological	Mykolaiv region				
Transcarpathian Region					27.	Koblevska, town of Koblevo	1996	532,0	balneological
8.	Beregisve, town of Beregovo	1973	871,0	balneological	28.	Ochakivske, town of Ochakiv	1994	898,0	balneological
9.	Gornotisovske, town of Rakhiv	1958	422,0	therapeutic and drinkable / balneological	Odesa region				
10.	Nova Polyana, town of Khust	1952	303,0	therapeutic and drinkable / balneological	29.	Karolino-Bugazke, village of Zatoka	—	1800,0	balneological
11.	Shayanske, town of Khust	1957	252,0	therapeutic and drinkable / balneological	30.	Sergiivske, village of Sergiivka	1979	729,0	therapeutic and drinkable / balneological
12.	Soimenskoe, village of Mizhgyrya	1958	743,0	therapeutic and drinkable / balneological	31.	Kuyalnytske, village of Kuyalnyk	1904	1385,0	therapeutic and drinkable / balneological
13.	Synyakske, village of Synyak	1956	90,0	balneological	32.	Odeske (thermal), city of Odesa	1986	173,0	balneological
14.	Polyanske, village of Polyana	1946	535,0	therapeutic and drinkable	33.	Odeske city of Odesa	1966	2212,0	balneological
15.	Golubynske, village of Golubyne	1956	342,0	therapeutic and drinkable / balneological	Poltava region				
16.	Ploskivska, village of Ploske	1965	88,0	therapeutic and drinkable	34.	Myrgorodske, town of Myrgorod	1914	2127,0	therapeutic and drinkable
17.	Tysovskogo, village of Bushtyna	1986	103,0	balneological	Ternopil region				
					35.	Novo-Zbruchanske, village of Gusyatyn	1983	152,0	therapeutic and drinkable / balneological
					Kharkivske region				
					36.	Berezivske, town of Dergachi	1862	1065,0	therapeutic and drinkable



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