



UNITER



Dairy industry



DAIRY INDUSTRY

About 4-5% of the world dairy products are exported from Belarus

Belarus remains to be a recognized leader in the international trade of dairy products. The share of 4-5% on the international market of dairy products has remained stable. The most exported products are powdered milk, butter and cheese. According to the Milk Market Observatory, Belarus maintains its position among the TOP-10 countries in the cheese and powdered milk trade (fifth place) as well as displaces the USA, taking the third place in butter exports.

Total production of Belarusian dairy products in 2015 has made up to 1.966 million tons

Production volumes of raw milk in Belarus have increased compared to 2014 by 5.1% and in 2015 reached 7.044 mn tons. Total production of Belarusian dairy products in 2015 amounted to 1.966 mn tons, which is 3.4% more than in 2014. Production volumes of butter in 2015 reached 113.3 thousand tons (growth rate of 106.5% YoY). Cheese production reached (growth rate of 107.9% in 2014). According to the "Development program of the dairy industry for 2016-2020", total production of raw milk should be increased to 9.2 mn tons by 2020.

In 2015, per capita consumption of dairy products was 107 kg.

Product range on the market of Belarus has more than 1000 items. More than 32% of domestic dairy products are sold on the domestic market. Population of Belarus spends about 8% of total consumer spending on dairy products. However, in 2015 there was a decrease in consumption by 3.5% to 107 kg per person. Market capacity also decreased by 4% in 2015 and amounted to 1012 thousand tons.

Since 2015 government regulation of prices for dairy products has been canceled gradually

Since 2015, the government regulation of prices for livestock products has been canceled gradually. In accordance with the Resolution of the Ministry of Agriculture and Food dd November 11, 2015 № 38 "On the Repeal of certain decisions of the Ministry of Agriculture and Food of the Republic of Belarus" from November 22, 2015 decisions that set prices for livestock products, purchased for the state needs, are invalidated. Thereby the purchase prices for milk and cattle "were released." Market participants have the right to regulate prices in the conditions of free trade and market competition by themselves.

There are more than 40 dairy processing enterprises in Belarus

More than 40 enterprises are engaged in the processing of milk. The largest enterprises of the sector are JSC «Savushkin product», Holding «Mogilyov dairy company «Babushkina Krynka», OJSC «Milk Products», Volkovysk JSC «Bellakt», Vitebsk OJSC «Milk», OJSC «Berioza cheese-producing plant», OJSC «Slutsk Cheese Factory», OJSC «Glubokoe DCF».

Concentration of enterprises is one of the main trends in the sector

Nowadays there is a trend towards concentration of enterprises in the dairy industry. Moreover, the government is increasing its share in the industry by purchasing of shares from private individuals, by accession state-controlled small and unprofitable companies to the bigger and more efficient operating ones, and by transferring shares from collective farms to the state.

The state has drawn the agriculture development program of the Republic of Belarus for 2016-2020

The dynamics of the dairy sector are reflected in the subsection of the subprogram "Development of livestock, processing and marketing of livestock products." According to the program, by 2020 the gross volume of milk production is expected to reach 9.2 million tons. The volume of processed milk is expected to grow by 31% and amounted to 8740 thousand tons. The volume of cheese production is expected to increase by 30%, butter - by 32%, milk powder - by 56%, dairy products - by 39%. For the program development in 2016-2020 it is planned to spend 20 956.3 billion rubles, including credit resources; it is planned to involve 18 593.2 billion rubles from the republican budget - 282.8 billion rubles and 2.0803 billion rubles from local budgets.



DAIRY INDUSTRY

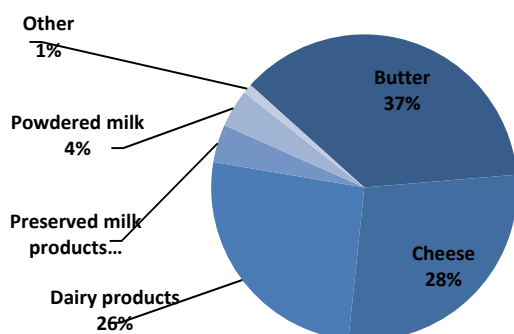
Production

Production volume of raw milk totaled 7.044 million tons (+ 5.1%) in 2015. Since 2008, production volumes of raw milk in Belarus have increased at a CAGR of 1.8%, despite a slight decline in production in 2011 and 2013. Production of dairy products demonstrates a CAGR of 5.7%, however a slight decline was observed only in year 2009, which was due to contradictions with Russia about the supply conditions of dairy products. In 2015, the production of dairy products was 1.966 million tons (3.4% growth since 2014). Production volume of butter in 2015 amounted to 113.3 thousand tons (growth rate of 106.5% since 2014). Since 2008, the average annual growth rate of butter production remained at the level of 2.1%. In cheese production fluctuations are observed: recessions in 2011 and 2013. However, CAGR for the past 8 years remained 4.9%. In 2015 it has been produced 178.8 thousand tons of cheese, which is 107.9% of the 2014 year's volume.

Processing structure of dairy products in Belarus is quite diverse. 37% of processed milk is used in butter production, 28% in cheese production, 26% in the production of dairy products. Whole milk powder and preserved milk products take 4% of milk processing structure.

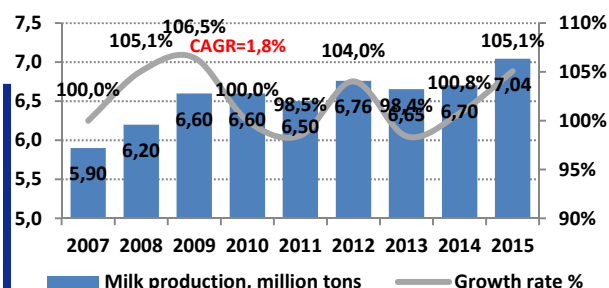
Perspectives of the production of dairy products in Belarus in the next 3-4 years are quite positive, which is determined by the growth of domestic demand, as well as the expansion of export geography of dairy products. Meanwhile the market of dairy products with a long shelf life is characterized by a strong dependence on the market situation, which contains a number of countries (New Zealand, the EU, Australia and the United States), which form the global pricing. The competitiveness of Belarusian producers is inferior to them.

Structure of milk processing



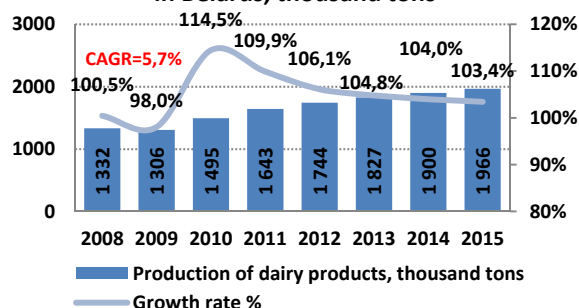
Source: Belstat, UNITER

Dynamics of production of raw milk in Belarus, mln. tons



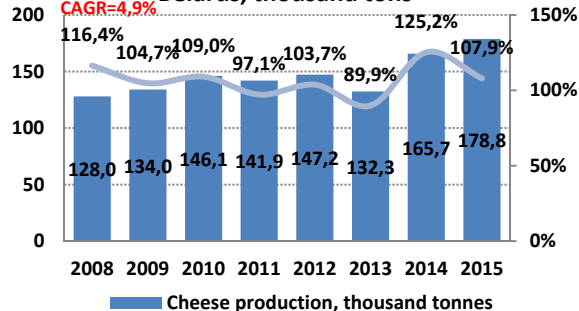
Source: Belstat

Dynamics of production of dairy products in Belarus, thousand tons



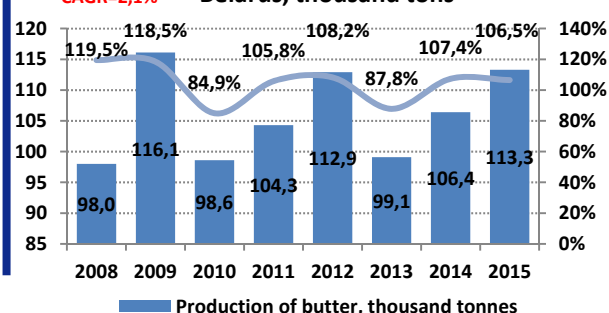
Source: Belstat

Dynamics of production of cheese in Belarus, thousand tons



Source: Belstat

Dynamics of production of butter in Belarus, thousand tons



Source: Belstat



DAIRY INDUSTRY

Consumption

According to opinion polls, only 7.8% to 11.4% of Belarusian population do not buy dairy products at all. The most popular product among Belarusian dairy's consumers is milk (95.3%), on the second place is kefir (66.2%). The least popular are the milk desserts (3.9%).

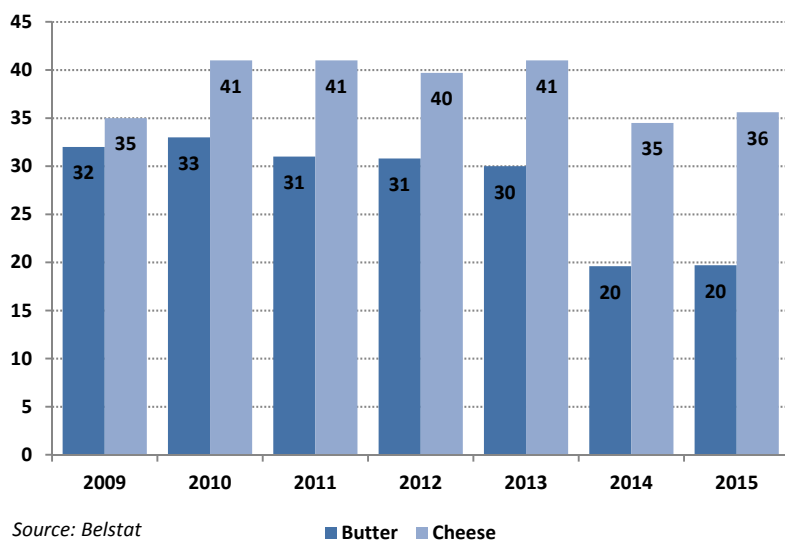
Fluctuations are observed in the consumption dynamics of dairy products and the market capacity of Belarus. There were recessions in 2009 and 2012. After the growth in 2013 and 2014, in 2015 decline has occurred as well. Dairy products consumption amounted 107 kg per person in 2015 (3.5% decrease compared to the year 2014).

In 2013, the index value of market capacity began to recover after a sharp drop in 2012. The lowest rate of market capacity in 2012 can be explained by increased exports of dairy products with an insignificant increase in production. Dairy products market capacity in 2015 amounted to 1012 thousand tons, while in 2014, market capacity amounted to approximately 1.056 million tons. Thus, the reduction of market capacity was 4% in 2015.

According to the National Statistics Committee of Belarus, population of the country spends on dairy products about 8% of total consumer spending.

The retail sales of cheese in 2015 amounted to about 35.6 thousand tons (34.5 thousand tons in 2014). The retail sales of butter in 2015 increased slightly from 19.6 thousand tons in 2014 to 19.7 thousand tons in 2015.

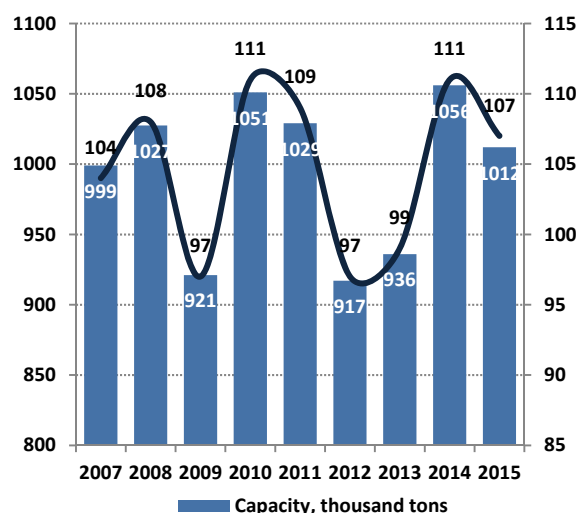
Retail sales, thousand tonnes



Source: Belstat

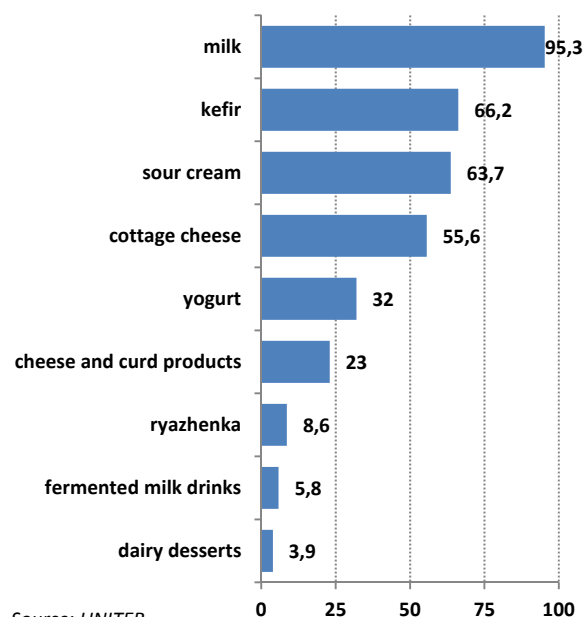
■ Butter ■ Cheese

Consumption of dairy products



Source: Comtrade, UNITER

Consumer preferences of dairy products in Belarus, % of the total number of consumers



Source: UNITER



DAIRY INDUSTRY

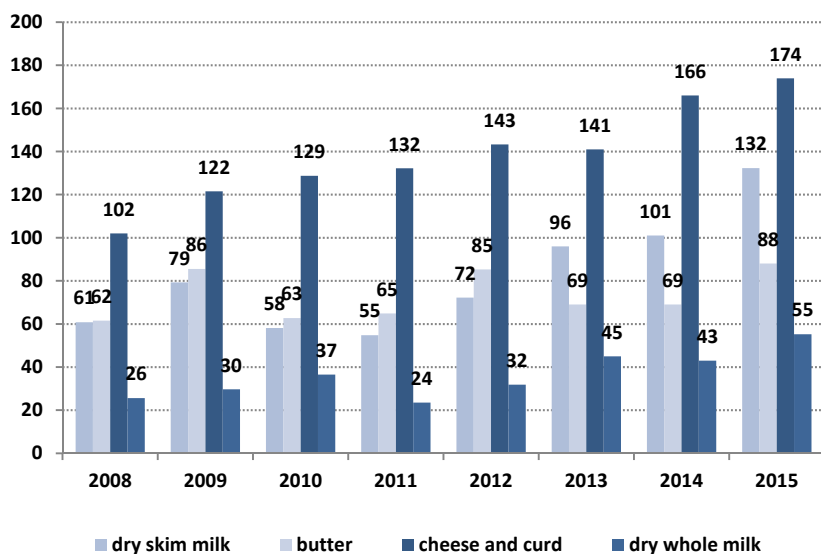
Foreign trade

More than 70% of dairy products made in Belarus were sent for export in 2015. The total share of export in relation to the total volume of dairy production in 2015 according to preliminary estimates was 72%, while in 2000 it was only 15%, in 2005 - 40%, in 2010 - 57%.

Belarus is one of the main exporters of dairy products in the world. According to reports from IDF (International Dairy Federation) Belarus occupies the fifth position in the world (having the share 5.5% of world exports), on the list of the world's leading exporters of dairy products (excluding trade between the EU countries) in the segment of hard cheeses; in dry skim milk segment having the fifth position (3,2%); dry whole milk - sixth (1.2%), Belarus displaced the USA, taking the third place in butter export.

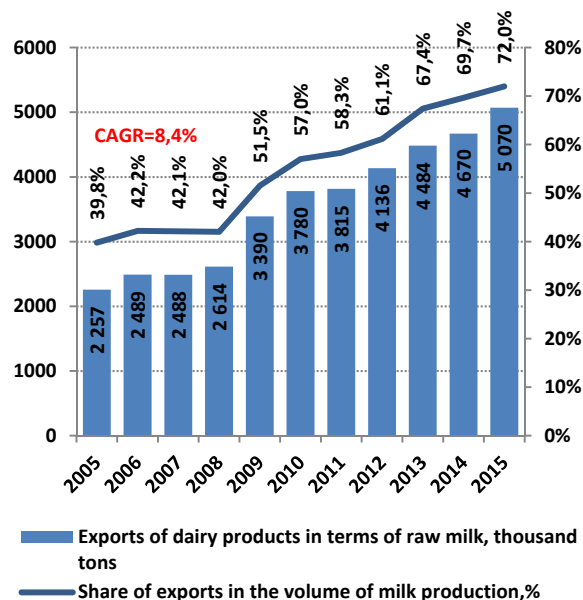
In 2015, Belarus exported more than 5 million tons of dairy products in terms of milk with a total value of almost \$ 1.7 billion. Exports of Belarusian dairy products have grown with a CAGR of 8.4% each year in real terms between 2005 and 2015. Decrease of exports in terms of value was only in 2009. That happened due to so called "milk war" with Russia, which accounts for over 90% of exports of Belarusian dairy products. In 2015, exports also decreased in terms of value, due to a fall in export prices on the world market, including Russia, and the devaluation of the Russian ruble.

Exports of major dairy products, thousand tons



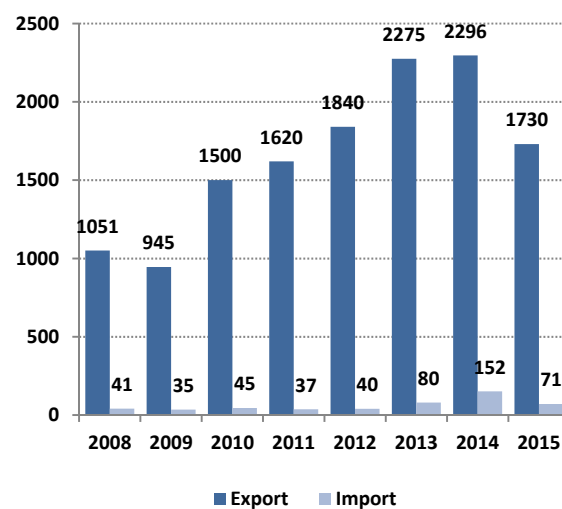
Source: Belstat, Comtrade

Exports dynamics of dairy products



Source: Belstat, Comtrade

Dynamics of export-import of dairy products in terms of value, mln. USD.



Source: Comtrade, UNITER



DAIRY INDUSTRY

Foreign trade

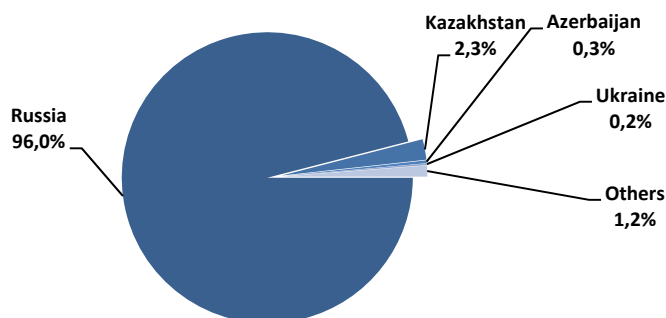
In 2015 Belarus exported 325 thousand tons of not sweetened or condensed milk and cream (31.2% of the total volume of exports of dairy products) 22.4% of the total volume were sweetened condensed milk and cream (234 thousand tons). The lowest share of exports accounted for buttermilk, kefir and yogurt - 8,1% (84 200 tons). Also, foreign markets with were supplied 181 thousand tons of Belarusian cheese and cottage cheese (17.4%), 131 thousand tons of whey (12.6%) and 87.8 thousand tons of butter (8.4%).

The largest share in the commodity structure of imports of dairy products in 2015 accounted for non-condensed milk and cream - 63.7% (56.8 thousand tons.) and buttermilk, yogurt and kefir - 18.4% or 16.4 thousand tons. Imports of other products such as cheese and cottage cheese - 9.6% (8.6 thousand tons.), whey - 5.1% (4.6 thousand tons.), sweetened condensed milk and cream - 2.6% (2.3 thousand tons) and butter - 0.5% (0.4 thousand tons).

Currently, Belarus exports dairy products to 50 countries worldwide. At the same time, the major importer is Russian Federation. 96% of all exported dairy products (in value terms) are delivered to Russia. According to Russian customs statistics, products manufactured in Belarus are dominating by imports in all major groups of dairy products, including cheese and cottage cheese group. On the second place with a large gap between the first place is the second partner of Belarus in the Customs Union - Kazakhstan having share of 2,3%. Shares of Azerbaijan and Ukraine in 2015 were at the level of 0.3% and 0.2% respectively.

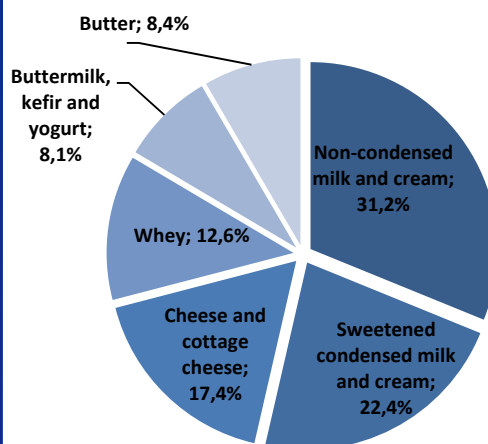
Assessing the prospects for supply in the long term, it is worth noticing that Russia conducted the work on the development of the national dairy sector and set the threshold for milk and dairy products, where 90% of total consumption should be provided by domestic products. Therefore, it is possible that in 3-4 years the volume of Belarusian dairy products exported to Russia can be significantly reduced.

Geographical export structure of the Belarusian dairy industry in 2015



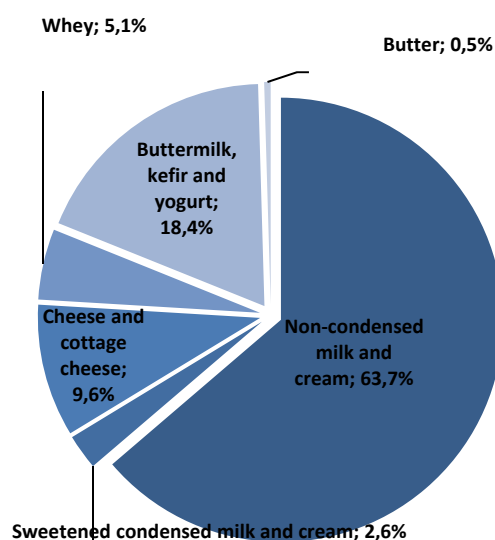
Source: Belstat, Comtrade

Commodity export structure of the Belarusian dairy industry in 2015



Source: Belstat, Comtrade

Commodity import structure of the Belarusian dairy industry in 2015



Source: Belstat, Comtrade

DAIRY INDUSTRY

Key players

In Belarus there are about 40 enterprises engaged in milk processing. The largest enterprises of this industry are JSC «Savushkin product», Holding «Mogilyov dairy company «Babushkina Krynka», OJSC «Milk Products», Volkovysk JSC «Bellakt», Vitebsk OJSC «Milk», OJSC «Berioza cheese-producing plant», OJSC «Slutsk Cheese Factory», OJSC «Glubokoe DCF».

There is a consolidation trend in the dairy industry: state-controlled small and unprofitable enterprises join the larger and more efficient working ones, making consolidation of milk processing enterprises. Furthermore JSC "Meat & Dairy Company" established by the government initiative helps to compete successfully on foreign markets.

At the same time there is increased competition on the domestic market due to high degree of saturation of the domestic market with dairy products. It is worth noting that the competitiveness of domestic dairy products has increased considerably, thanks to the introduction of modern technologies to improve product quality to ensure a longer shelf life and guarantee its safety for the consumer.

One of the competitiveness of Belarusian dairy products is brands' diversity. A few years ago on the market there weren't any professionally branded dairy product except of "Savushkin product". Nowadays the situation changes. The consumer knows and chooses such brands as "Babushkina Krynka", "Zdravushka" "Bellakt", "Kalinka", "Moya Slavita" and etc.

In year 2010 agency MPP Consulting launched a long-term project evaluating national brands, under which was listed rating "BelBrend 2010 - TOP-100 Belarusian brands." The main task of "BelBrend" project was to identify the 100 most expensive brands Belarus.

In this rating in 2015 were included 12 representatives of the dairy industry. The first place of the rating "TOP-100 Belarusian Brands" in 2015 took "Babushkina Krynka", the brand value was estimated at US \$ 66.5 million. It's worth to mention that in 2010 he brand was evaluated at US \$ 3.0 million and took the 78th place. Fifth place in the ranking takes the brand "Savushkin product", the cost of which is estimated at US \$ 47.7 million. Unlike "Babushkina Krynka", "Savushkin Product" since 2010, consistently ranks in the top 7 rankings, brand value ranges in the between of US \$ 45-50 million.





DAIRY INDUSTRY

Рейтинг белорусских молочных брендов в БелБренд – ТОП -100 белорусских брендов

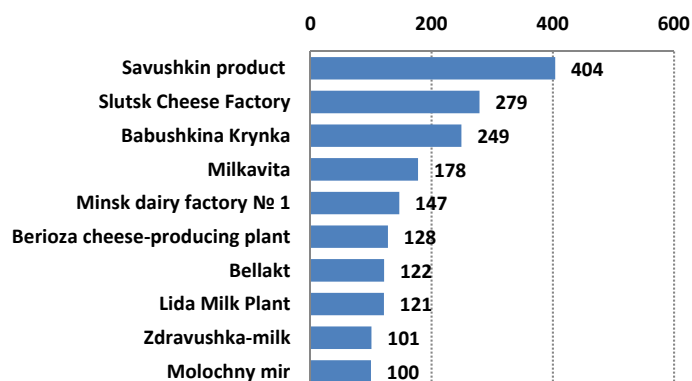
Brand	Logo	Enterprise	Brand value in million US \$ (position in rating)							
			2010	2011	2012	2013	2014	2015		
Babushkina Krynka		JSC «Babushkina Krynka»	3,0 (78)	5,55 (57)	49,2 (3)	65,4 (3)	71,4 (2)	66,5 (1)		
Savushkin product		JSC «Savushkin product»	43,5 (7)	50,0 (4)	46,0 (7)	46,4 (7)	48,1 (5)	47,7 (5)		
Slavic traditions		JSC "Minsk dairy factory № 1"	6,8 (51)	7,05 (49)	6,6 (50)	10,1 (31)	12,9 (25)	11,3 (25)		
Lepelka		OJSC «Lepel Plant of Dairy Products»	3,2 (75)	5,3 (58)	4,3 (64)	7,55 (48)	13,2 (23)	14,8 (19)		
Zdravushka		JSC «Zdravushka-milk»	1,6 (94)	2,2 (84)	2,4 (80)	4,95 (60)	6,7 (50)	6,1 (47)		
Lidskaya burenushka		OJSC "Lida Milk Plant"	3,3 (74)	5,9 (54)	4,55 (62)	4,9 (61)	9,0 (35)	8,7 (36)		
Bellakt		JSC «Bellakt»	-	3,4 (74)	2,9 (76)	4,85 (62)	5,0 (61)	8,2 (38)		
Rogachev		JSC "Rogachev milk canning plant"	-	-	4,7 (59)	3,9 (69)	4,5 (64)	3,75 (67)		
Minska marka		JSC "Minsk dairy factory № 1"	2,5 (84)	2,4 (80)	2,05 (85)	3,25 (74)	6,0 (50)	9,0 (33)		
Laskovoe leto		JSC «Savushkin product»	2,3 (87)	2,25 (83)	2,7 (77)	2,6 (81)	3,8 (71)	4,2 (61)		
Berjozka		OJSC «Berioza cheese-producing plant"	4,7 (62)	4,1 (70)	3,6 (71)	2,2 (83)	-	-		
Molochny mir		JSC "Dairy Products"	-	-	1,8 (91)	1,4 (94)	1,45 (96)	0,95 (99)		
Moya Slavita		JSC "Dairy Products"	-	-	1,5 (99)	1,1 (99)	2,0 (86)	2,4 (83)		



DAIRY INDUSTRY

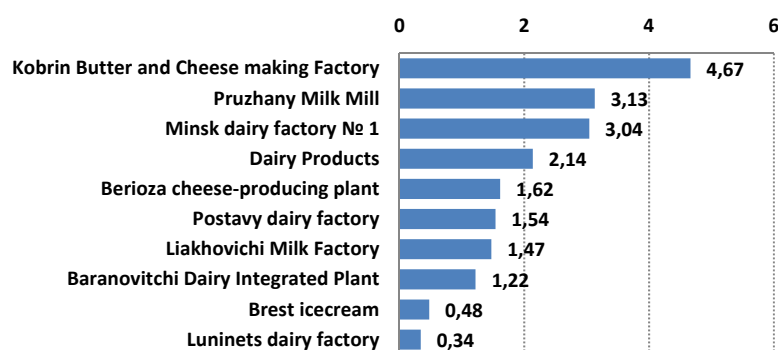
Key players

TOP-10 of JSC in terms of revenue in 2015, US \$ million



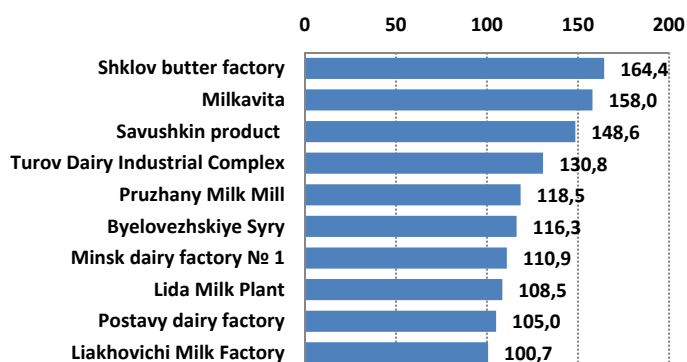
Source: Ministry of Finance

TOP-10 of JSC in terms of net profit in 2015, US \$ million



Source: Ministry of Finance

TOP-10 of JSC in terms of revenue per employee in 2015, US \$ million



Source: Ministry of Finance

According to the operations results in 2015, the leader in terms of revenue among the dairy factories was the company "Savushkin product" (US \$ 404 million), which maintains its leadership position. On the second place was JSC "Slutsk cheese-making plant" with revenues of \$ 279 million. JSC "Babushkina Krynka" is still among the top 3 largest dairy factories in Belarus. Revenues for 2015 amounted to \$ 249 million. In the Top 5 also included JSC "Milkavita" (US \$ 178 million) and "Minsk Dairy Plant №1" (US \$ 147 million).

However, in terms of net profit the largest dairy enterprises of Belarus were far from the leaders. The first place according to net profit for 2015 took JSC "Kobrin IGC" with the index of \$ 4.67 million. "Pruzhany Dairy Plant" has earned \$ 3.13 million and took the second place in the rating. And only on the 3rd place is located "Minsk Dairy Plant №1" (\$ 3.04 million) occupying fifth place in terms of revenue. Also the top 5 includes "Molochny mir" (\$ 2.14 million) and JSC "Berioza cheese-producing plant" (\$ 1.62 million).

In terms of revenue per 1 employee in 2015 "Shklov butter factory" is in the lead having 164,4 thousand US dollars per 1 employee. It is followed by JSC "Milkavita" with the index 158 thousand US dollars per employee. JSC "Savushkin product" is located on the 3rd place with 148.6 thousand US dollars per employee. At the end of Top 5 are Turovsky and Pruzhany dairy plants with revenues 130.8 and 118.5 thousand US dollars per employee respectively.



DAIRY INDUSTRY

Key players



JSC "Savushkin product" is the largest producer of dairy products in Belarus.

Distribution network of JSC "Savushkin product" includes 6 commercial branches, 1 sales office and more than 50 sales representatives in Belarus.

During the last couple of years the company demonstrates a rapid growth. Since July 1, 2012 JSC "Savushkin Product" has the right to supply dairy products to the EU countries.

The products range has a great diversity (over 200 items).

Volume of investments into the development of the main production for the years 2011-2015 exceeded US \$ 188 million. Demonstration Project is the construction and launching automatic factory for the production of soft cheese and cottage cheese worth \$ 40 million. Also was built modern 12-storey logistics center for 6.7 thousand pallet places, which allows to optimize transport costs for 15-20%.



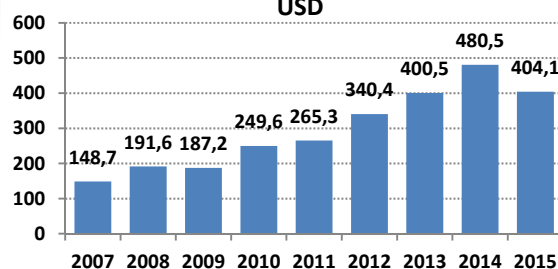
JSC "Babushkina Krynka" is one of the largest dairy producers in Belarus. Capacities of the enterprise allow to process up to 1,700 tons of milk per day.

Products of "Babushkina Krynka" are exported to all regions of the Republic of Belarus, as well as Russia, Ukraine, Poland, Germany, France, Egypt, Pakistan and the Philippines.

The main products of "Babushkina Krynka" are the skim milk powder, butter, hard and semi-hard cheese, soft cheeses, whole milk products such as kefir, sour cream, cottage cheese, cream, drinkable and heat-treated yogurt; glazed cheese curds; ice cream; mayonnaise; milk replacer (WMS).

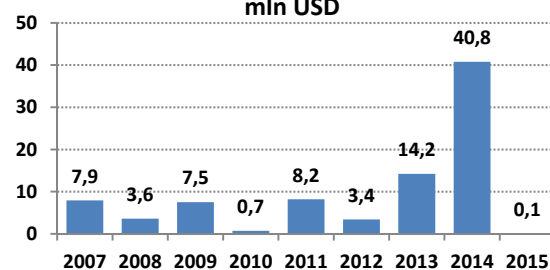
The structure of "Babushkina Krynka" consists of its main enterprise in the city of Mogilev, seven dairy factories in Mogilev Region, and agricultural enterprise in Khotimsk area. During 2011-2015, for the purchase and installation of equipment has been spent around one and a half trillion rubles. The biggest investment project is the modernization of the Bobruisk branch. It is planned to invest 15 million euros in equipment renewal annually.

Revenue of JSC "Savushkin product", mln USD



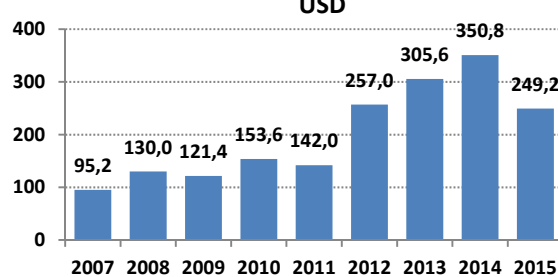
Source: Ministry of Finance

Net profit of JSC "Savushkin product", mln USD



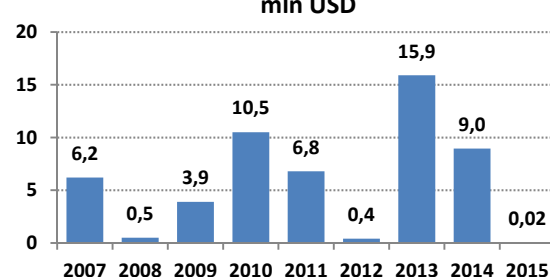
Source: Ministry of Finance

Revenue of JSC "Babushkina Krynka", mln USD



Source: Ministry of Finance

Net profit of JSC "Babushkina Krynka", mln USD



Source: Ministry of Finance

DAIRY INDUSTRY

Foreign capital

Belarusian government is considering the consolidation of the industry as part of the intensification mechanisms of export. This process has already begun. For example, in 2009 143 company operated in the dairy industry, then in 2013 only 40 have remained.

Belarus planned to create a dairy holding, which would be established, using the facilities of 6 dairy enterprises. "Savushkin product" would act as a unifying center there. Besides, the holding would include OJSC "Berioza cheese-producing plant", JSC "Minsk dairy factory № 2", JSC "Kobrin Butter and Cheese making Factory", JSC "Minsk dairy factory № 1" and JSC "Luninets dairy factory." However, later on the government abandoned plans to create a holding company.

In June 2009, the largest Russian milk processing company "Unimilk" concluded with the Mogilev regional executive committee, district executive committee and Shklovsky dairy plant agreement on realization of the investment project to create the production of dairy products. Currently, the company "Danone-Unimilk" has two enterprises in Belarus - "Unimilk Pruzhany" and "Unimilk-Shklov." The share of French-Russian company in both the joint ventures makes 51%.

The company "Unimilk" is also planning to invest into the creation of a cluster to produce cheese and canned milk in Belarus in partnership with "Unimilk-Shklov." The investment will amount to about 80 million euro until 2017. The main market for the future cluster - the Russian Federation. The investment will amount to about 80 million euro up to 2017. The main market for the future cluster is Russian Federation.

Furthermore, now in Lepel on the basis of the dairy plant a joint venture is being created with the participation of a Russian investor.

Lithuanian companies have shown a certain interest in privatization of the enterprises of the dairy industry. In particular, the plan sounded a possible purchase of shares of the 1st and 2nd Minsk Gormolzavod by Zabolis and Partners together with Zemaitijos Pienas and Rokiskio Suris. In particular, there is a possibility of purchasing shares of the 1st and 2nd Minsk Dairy Plants by Zabolis and Partners together with Zemaitijos Pienas and Rokiskio Suris. However, on this issue the Ministry of Agriculture has developed a clear position on the inexpediency of selling these enterprises due involvement into establishing the holding.

Another Lithuanian company Pieno žvaigždės planned to purchase a large dairy plant in Belarus, OJSC "Berioza cheese-producing plant" in particular (Brest region). Considering that the "Berioza cheese-producing plant" is on the list of companies, planned to unite in the framework of the creation the National Dairy Company, its purchase by Pieno žvaigždės is unlikely to happen.

Concept of creation of the National Dairy Company



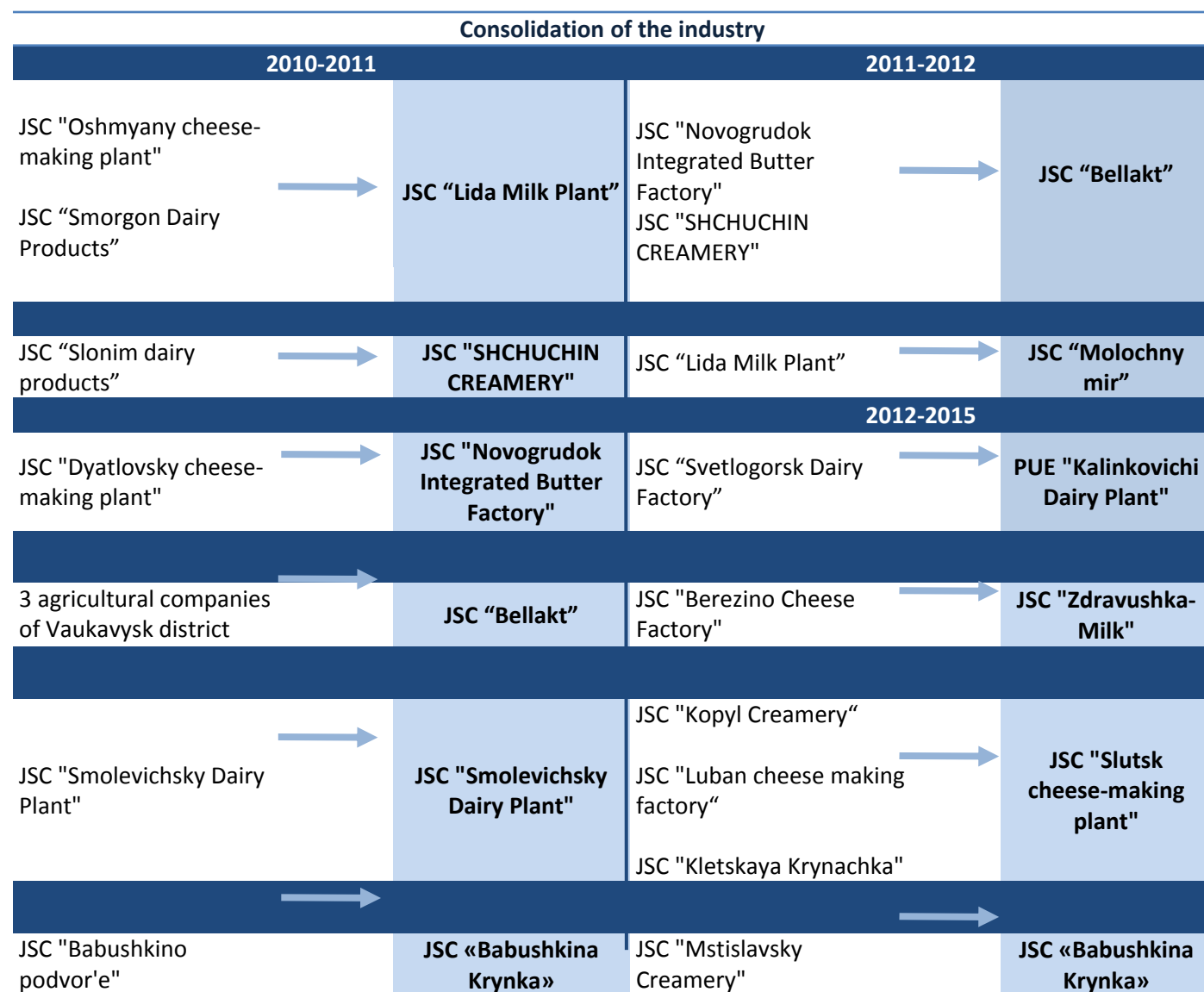


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Foreign capital

Nowadays the dairy industry is moving towards the concentration of enterprises. Moreover, the government is increasing its share in the industry by shares acquisition from private individuals and accession of the state-controlled small and unprofitable companies to the bigger and more efficient operating ones as well as by transferring shares from collective farms to the state.

In 2007, the Shareholders of JSC "Bellakt" (Volkovysk, Grodno region) has taken a principle decision to sell 51% of shares to the state. It has been reported that this decision was made due to the need to attract large-scale borrowings to conduct the second stage of reconstruction of the enterprise. Therefore more than 50% of the shares of the Vaukavysk JSC "Bellakt" was purchased by Grodno Executive Committee. Until that moment all of the shares were owned by the private individuals.





DAIRY INDUSTRY

Investments and modernization

Italian company Granarolo showed interest in the Belarusian dairy industry

One of the leading Italian companies Granarolo is considering production of dairy products in Belarus. Granarolo is Italy's largest agro-industrial group having eight production facilities in Italy and two in France. Granarolo annually processes about seven million. hectoliters of milk. The company is mainly focused on the domestic market, although the group is also selling its products in Europe, North America and Asia. It is planned to produce dairy products using the facilities of local companies. Gomel, Turov and Vitebsk are being considered for this purpose. It is assumed that in partnership with Belarusian companies dairy products that have not previously been made in our country will be produced. Meaning as well release of functional foods, lactose-free milk and baby food.

OJSC "Berioza cheese-producing plant" is entering the sports nutrition market

OJSC "Berioza cheese-producing plant" started producing concentrates of sports drinks under the brand ProSport. Whey protein concentrates derived from cheese whey are used as raw materials. Currently this lineup consists of only one product which is "Athlete-S", and is sold in packs of 920 grams. It is made from KSF 55 and contains the amino acids man needs such as lysine, methionine + cystine, fenilalalin + tyrosine, threonine, and especially important for the body the essential amino acids (BCAA) - leucine, isoleucine and valine. This is the basis of the amino acid group around which the metabolism of proteins is build and acts as an energy source in muscle work.

Bonfesto produces mozzarella for grilling and is planning to expand the range of semi-hard cheeses

JSC "Turov Dairy Plant" (trademark Bonfesto) in 2016 plans to start selling a new product Grill Cheese. The cheese Pasta Filat's group will be a kind of semi-hard mozzarella, specially prepared for cooking on a barbecue and grill. Moreover, in the first half of 2016 under the brand name Bonfesto began to produce semi-hard cheese mozzarella for pizza in a package of 400 grams. This cheese was previously presented in the format 200 and 1000 grams. Additionally, JSC "Turov Dairy Plant" has continued to expand the range of ricotta with fillers in the two-chamber cans with new flavors.

Italians are going to set up the production of mozzarella in Molodechno

Company L'Industria Alimentare Tanagrina operates in Italy for over 35 years and now intends to enter with their products the foreign markets. Release of cheeses are planned using the facilities of JSC «Molodechno Dairy Plant". Company L'Industria Alimentare Tanagrina and Molodechno Dairy Plant have signed a letter of intent. The document specifies the implementation period of the project which is fairly short. In January 2016 the representatives of the Italian company visited the company in Molodechno and got acquainted with its production cycle. Planned term of implementation is the end 2016 - beginning 2017.

"Molochny gostinec" will produce brie and camembert

UE "Molochny gostinec" in 2016 is launching a project to build a plant for the production of soft cheese. Implementation period is year 2017. Near the village Rakov it is planned to install a new processing line for the cheese production. In this respect, business plan and calculation of the amount needed for the construction and installation works is currently carried out. It is not possible to accurately estimate the cost of the project at this point. It will partially include the investments of the enterprise itself. Imported equipment will be purchased because such technologies simply do not exist in Belarus. There is even the possibility of allocating credit lines by foreign banks. Appearance on the Belarusian market of a new species of domestic cheese with a white mold will allow to reduce the prices of similar imported products. Domestic cheese will be 1.5 times cheaper than existing analogues on the Belarusian market.



DAIRY INDUSTRY

Legal Environment

Belarusian dairy industry is under state control, in particular, there is a regulation of selling and purchasing prices. Additionally, private initiative is controlled too which means that privatization of dairy enterprises in Belarus is unlikely to happen.

Prices for raw milk until 2015 were regulated by the Belarusian government - separate prices are set for each class of milk. Usually decisions on price changes were accepted 2 times a year (spring / autumn) by the government. Since 2015 the phasing out of state price regulation for livestock products is introduced. In accordance with the Decree of the Ministry of Agriculture and Food dd November 11, 2015 № 38 "On the Annulment of Certain decisions of the Ministry of Agriculture and Food of the Republic of Belarus" since 22 November 2015 decisions that set prices for livestock products and products purchased for public needs are declared invalid. Thereby purchasing prices for milk and cattle "set free". Market players have the right to regulate prices themselves in the conditions of free trade and market competition.

Access to raw materials (raw milk) for producers is also regulated on the state level. Each milk processing company has secured for themselves the raw materials area, consisting of the agricultural organizations of the surrounding areas. Raw materials areas are assigned to dairies by the relevant decisions of regional executive committees. The dairy producers work with suppliers of raw milk on a prepaid basis and thus are serving as a support to agricultural enterprises.

From September 1 2015, Belarus has entered a new version of the national standard STB 1598-2006 "Cow milk. Requirements for the procurement"

Three grades of milk are introduced: Extra, the Highest and the First. The second class is no longer exist. Furthermore, the range of microorganisms in 1 ml of milk in the old standard reached 4 million units (second grade). According to new standard the requirements for standard plate count are tightened to: Extra - 100 thousand units, the Highest - up to 300 thousand, the First - up to 500 thousand units. Thereby maximum amount of the microbial cells in the milk is 500 thousand units, otherwise milk processing is not allowed.

As for somatic cells, previously the range of up to 1 mln was allowed for the second grade. Now the requirements are as follows: Extra - up to 300 thousand, the Highest - 400 thousand and the First - up to 500 thousand, earlier for first grade threshold was up to 750 thousand.

Belarus will continue to tighten the requirements for milk quality

Since 2017 SPC and somatic standards will be raised once again. This decision was made due to the gradual preparation for accession to the WTO.

Belarus applies high European standards, while in Russia standards and norms for milk quality are less strict. Additionally, from December 31, 2015, all dairy products should be manufactured in accordance with the requirements of technical regulations of the EAEC. Failure to comply with the requirements will lead to the ban on the export. According to the Decision of the Board of ECE: on the December 31, 2015 the transition period for the adaptation of economic entities of countries (members of the EAEC) would be completed. All dairy products will have to comply TP TC 033/2013 and other technical regulations for safety the EAEC such as production, processing, storage, transportation, sale, disposal, labeling and packaging.

Ukraine has suspended restrictions on imports from Belarus

On November 13, 2015 Ukraine has decided to introduce the special duty on milk and dairy products, cheeses of all kinds, produced in Belarus. Limitations planned to introduce from 20 January (as a retaliatory step on the unfriendly actions on the part of Belarus in relation to the Ukrainian confectionery and brewing enterprises).

However, as a result of negotiations Ukraine until September 15, has suspended decision of the Interdepartmental Commission on International Trade on the introduction of a special fee in the amount of 39.2% on imports of certain products originated from Belarus.



DAIRY INDUSTRY

Trends and Forecasts

Development Programme for 2010-2015 of the dairy industry has been successfully completed in Belarus. During implementation of this program Belarus managed to increase production volumes of milk by 23% compared to 2010 which amounted to 7.044 million tons, cheese production also increased by 23% since 2010 which amounted up to 178.8 thousand tons, butter - by 16% to 113.3 thousand tons, whole milk powder - by 7% to 35.4 thousand tons, skim milk powder - by 61% to 120.3 thousand tons and other dairy products - by 29% to 1 966 tons in milk equivalent.

Funding of \$ 4.48 trillion rubles was identified for the realization of technical re-equipment of dairy companies, but in fact during 2011-2015 were spent 6.5879 trillion rubles, from which 61.5% are borrowed funds, 34.1% - own funds, 4.4% - other funds.

Despite the instability of world markets, the potential for development of the dairy industry remains high. Analysts predict that by 2050, the population will increase by 2 billion people, which will increase the demand for milk and dairy products. Moreover milk production in Central Europe will increase by 10% till the 2020. The main strategy of milk producers in the years 2016-2020 is to increase quality of dairy products and reduce its cost. Development Programme has been created for the further successful growth of the industry during the years 2016-2020.

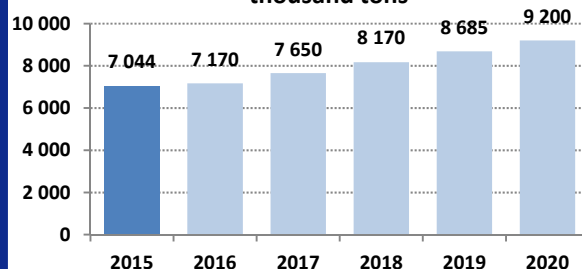
Development Program of the dairy industry for 2016-2020

In 2016, State Programme for the Development of agrarian business in the Republic of Belarus for 2016-2020 has been approved, under which were developed a sub-program "The development of animal husbandry, processing and marketing of livestock products", that will determine the strategy for development of the dairy industry in the years 2016- 2020. The implementation of this sub-program will contribute following:

- achieve milk production in 2020 at a level of not less than 9.2 million tons;
- increase in fat cheese production by 2015 by 30%, butter - by 32%, milk powder - by 56%, dairy products - by 39%;
- increase supply volumes for export up to 5845 tons of milk and dairy products. (fat cheese - up to 188 thousand tons, butter - up to 108 thousand tons, milk powder - up to 225 thousand tons and other dairy products - up to 1164 tons.);
- improve product quality and expand the export opportunities, increase competitiveness and profitability of production.

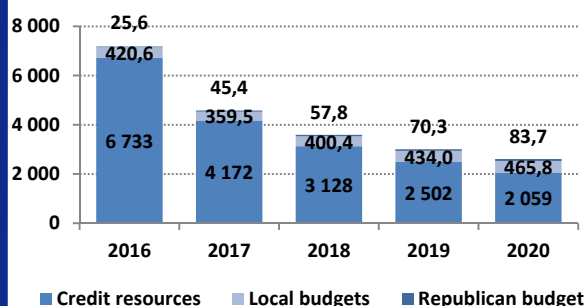
For the program development in the years 2016-2020 is planned to spend 20 956.3 billion rubles, including credit resources 18 593.2 billion rubles, funds from the republican budget - 282.8 billion rubles, funds of local budgets - 2080.3 billion rubles.

Forecast of milk production by farms of all categories in the 2016-2020 years; thousand tons



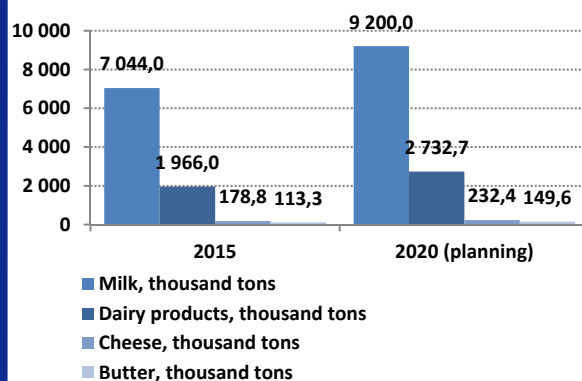
Source: UNITER

Financing of state livestock development programs, processing and marketing of livestock products; billion rubles.



Source: UNITER

Production forecast of the dairy products industry



Source: UNITER



DAIRY INDUSTRY

Statistical Appendix

Key economic indicators

Index	Unit	2007	2008	2009	2010	2011	2012	2013
Nominal GDP	BYR trillion	97.165	129.791	137.442	164.476	297.158	530.356	636.784
Nominal GDP *	USD billion	45.2	60.6	49.1	54.9	50.9	63.4	71.5
Real GDP growth	% year/year	8.6	10.2	0.2	7.7	5.5	1.7	0.9
Industrial production	% year/year	8.6	11.3	-3.1	11.7	9.1	5.8	-4.8
Agricultural production	% year/year	4.1	8.9	1.0	2.5	6.6	6.6	-4.0
CPI	% year/year s / n	8.4	14.8	13.0	7.7	52.3	67.5	18.5
CPI	% year/year k / n	12.1	13.3	10.1	9.9	108.7	21.8	16.5
Industrial producer price index	% year/year s / n	16.3	14.8	15.0	13.5	69.2	90.5	14.0
Industrial producer price index	% year/year k / n	22.2	15.4	11.3	18.9	149.6	20.6	10.7
Export of goods and services(USD)	% year/year	24.5	34.9	-32.9	20.5	58.8	11.4	-15.5
Import of goods and services (USD)	% year/year	28.7	37.8	-26.8	23.0	29.7	2.3	-6.7
Current account	USD mln	-3013	-4959	-6133	-8280	-5053	-1688	--
Current account*	% GDP	-6.7	-8.2	-12.5	-15.1	-9.9	-2.7	--
FDI (net)	USD mln	1792	2157	1774	1343	3877	1308	--
International reserves	USD mln k / n	4182	3061	5653	5031	7916	8095	6651
State budget balance	% GDP	0.4	1.4	-0.7	-2.6	2.1	0.5	0.2
Internal public debt	% GDP k / n	6.3	6.6	5.7	5.6	10.9	9.3	10.7
Gross external debt*	% GDP k / n	27.6	25.0	45.0	51.7	66.8	53.5	--
Monetary base	% year/year k / n	38.4	11.7	-11.5	49.5	84.1	61.6	13.4
Exchange rate (NBB official)**	BYR/USD s / n	2146	2136	2793	2978	4623	8336	8876
Exchange rate (NBB official)**	BYR/USD k / n	2150	2200	2863	3000	8350	8570	9510
Exchange rate (NBB official)**	BYR/EUR s / n	2937	3135	3885	3950	6432	10713	11782
Exchange rate (NBB official)**	BYR/EUR k / n	3167	3077	4106	3973	10800	11340	13080

*** In April and October 2011, there was a multiplicity of exchange rates.

Production of dairy products; thousand tons

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1122	1282	1326	1332	1308	1432	1559	1 744	1 827	1900	1966

Source: Belstat

Production of cheese and butter; thousand tons

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Butter	82,0	98,0	116,1	98,6	104,3	112,7	99,1	106,4	113,3
Cheese	110,0	128,0	134,0	146,1	141,9	146,2	132,3	165,7	178,8

Source: Belstat



DAIRY INDUSTRY

Statistical Appendix

Maximum limit of selling prices for dairy products

	Maximum limit of selling prices in rubles per unit weight of packaging
Cow milk pasteurized, Without flavorings and Fillers, in plastic Bags (1L) with fat content of:	
3,50%	5007
2,50%	4024
1,50%	3075
Kefir from cow's milk without Flavorings and Fillers, in plastic Bags (1 kg) with fat content of:	
3,50%	5051
3,20%	4845
2,50%	4112
1,50%	3189
0%	2810
Sour cream without Flavorings and Fillers (1 kg) with fat content of:	
25%	20091
20%	16086
15%	12352
Cottage cheese without Flavorings and Fillers (1 kg) with fat content of::	
9%	20941
5%	18695
0%	16232

Source: Appendix №2 to the Ordinance of the Ministry of Economy of the Republic of Belarus 01/15/2015 №2

Export / import of dairy products, mln USD

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Export	474	583	872	1051	945	1500	1620	1852	2294	2296	1730
Import	17	29,1	35,9	40,9	35,1	45,4	37	40,5	76,6	152	71

Source: Comtrade

Market capacity of dairy products / consumption

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Market capacity, thousand tons	999	1027	921	1051	1029	917	936	1056	1012
Per capita consumption (kg per person per year)	104	108	97	111	109	97	99	111	107

Source: UNITER



DAIRY INDUSTRY

Statistical Appendix

Export structure in 2015

Export	thousand tons	mIn USD	
Non-condensed milk and cream	325,0	187921,2	31,2%
Sweetened condensed milk and cream	234,0	493324,7	22,4%
Cheese and cottage cheese	181,0	634152,6	17,4%
Whey	131,0	50992,9	12,6%
Buttermilk, kefir and yogurt	84,2	89487,9	8,1%
Butter	87,8	273795,9	8,4%
Total	1042,9	1729675,2	100,0%

Source: Contrade

Import structure in 2015

Import	thousand tons	mIn USD	
Non-condensed milk and cream	56,8	22561,6	63,7%
Sweetened condensed milk and cream	2,3	3013,1	2,6%
Cheese and cottage cheese	8,6	23877,1	9,6%
Whey	4,6	3779,5	5,1%
Buttermilk, kefir and yogurt	16,4	16632,2	18,4%
Butter	0,4	1286,8	0,5%
Total	89,2	71150,3	100,0%

Source: Comtrade

Financial indicators of TOP 10 companies of the dairy industry, 2015

	Revenue in 2015, US \$ million		Net profit, US \$ million		Revenue per employee in 2015, US \$ million
Savushkin product	404,1	Kobrin Butter and Cheese making Factory	4,7	Shklov butter factory	164,4
Slutsk Cheese Factory	279,0	Pruzhany Milk Mill	3,1	Milkavita	158,0
Babushkina Krynka	249,2	Minsk dairy factory № 1	3,0	Savushkin product	148,6
Milkavita	177,6	Molochny mir	2,1	Turov Dairy Industrial Complex	130,8
Minsk dairy factory № 1	146,8	Berioza cheese-producing plant	1,6	Pruzhany Milk Mill	118,5
Berioza cheese-producing plant	128,0	Postavy dairy factory	1,5	Byelovezhskiye Syry	116,3
Bellakt	121,7	Liakhovichi Milk Factory	1,5	Minsk dairy factory № 1	110,9
Lida Milk Plant	121,4	Baranovitchi Dairy Integrated Plant	1,2	Lida Milk Plant	108,5
Zdravushka-milk	100,9	Brest icecream	0,5	Postavy dairy factory	105,0
Molochny mir	100,0	Luninets dairy factory	0,3	Liakhovichi Milk Factory	100,7

Source: Ministry of Finance

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UNITER



220114 Belarus, Minsk, 117A Nezavisimosti avenue 12 floor (Aleksandrov Passage Business Center)

Office +375 17 385 24 65, Fax +375 17 385 24 64, uniter@uniter.by, www.uniter.by

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