

Criteria for Proposals

(About 10 Pages. Written in German or English)

I. Introduction

1 Reasons for the submission of the proposal

Development of the building sector in Ukraine, increasing of citizens' incomes, changes in customers' tastes in Ukraine has led to rising of the production of wooden windows, made from three-layered glued timber. Besides, the great demand for wooden windows exists in European countries and Russia.

The main reason of this proposal is to find foreign partner for cooperation in organization of wooden windows and doors production in Ukraine.

II. Project Information

1 **Project Name:** organization of wooden windows and doors production in Ukraine

2 **Submitted by:** Private commercial company "Evrovikno"

3 **Topic:** production of wooden constructions (windows and doors), made from three-layered glued timber.

4 **Region :** Western region of Ukraine

5 **Contact Person (communication languages; contact details: tel., fax, email)**
executive director- Sidorenko Ivan, tel. 80505550000, speaks English

6 **Head of the enterprise (name, contact details)**
executive director- Sidorenko Ivan, tel. 80505550000, e-mail: evrovikno@ukr.net

III. Compliance with Business-Award Criteria

1. Project description (one page only)

Describe the general idea of the project and its attractiveness for investors

Question of ecology and ecological products is very actual now in Ukraine and abroad. Therefore the great demand for products, made from ecologically friendly materials, exists as on local level, national and international level as well. Ukraine has great raw resources potential, highly qualified staff and great market potential for wooden products' production. These factors make investments in this project very attractive. Besides partner's participation in production process, there is a possibility for the partner to sell ready-made products at European markets too. That means the additional profit might be received by the partner while selling products abroad.

The major advantages of the project are: great possibility for diversification of the production, target markets, great resources potential.

Describe overall strategy of company development

Our company provides wood processing, production of wooden constructions (doors and windows) and wooden furniture. The company has great production basis (premises, equipment, qualified staff, own transport), and also sales network (own shops, agreements with dealers). It is planned to broaden the production assortment, including wooden constructions, made from three-layered glued timber. That would increase sales volumes and therefore company's profits. In order to provide needed sales volumes and good customer service, it is planned to open shops in the regional centres of the western region of Ukraine.

Competitive advantages

The company has available good production basis, qualified staff, sales network, experience in that branch, resources supply, that gives positive advantages to the project. The project could be realized on the basis of the infrastructure of the existing production company, which will shorten launching period and costs, needed for the project. There is a possibility to broaden production area, using neighboring areas, in case of necessity.

2. Company

If your company already exists:

History of development

Our company was founded in 1990 on the basis of the state wood processing plant. During 15 years of work, the whole cycle of wood processing and production cycle of wooden constructions were organized, including resources supply and sales network. The company has its own production areas and premises (apprx. 1500.00 sq. meters), wood processing equipment, drying chambers, transport.

Legal form (owners, etc.)

Private company

Turnover / profit

During 2005 – monthly turnover was 150 000.00 UAH , 2006 – 180 000.00 UAH. Total net profit, received in 2005 – was 250 000.00 UAH

If you are a start up company:

Owner- and partnership planned

Legal form planned

Location of the company

3. Product or Service

3.1 Describe a product / service



The result of project realization should be the start of the production and selling of the wooden constructions (doors and windows), made from three-layered glued timber for further usage in habitable (high storey and private houses) and commercial premises.

Constructions made from three-layered glued timber have a lot of advantages:

- Ecologically friendly (they do not include lead),
- High strength achieved through the use of new technologies of three-layered glued timber production;
- Low heat and sound conductivity, according to isolation characteristics;
- High frost-resistance;
- Aesthetic look of a surface of natural material.
- Competitive price in Ukraine and abroad

Wooden constructions are available in different sets: opening, horizontal pivoted window, fixed light windows.

As for raw materials, for wooden windows' production is used oak and pine (with whole lamellas with the length of 0,6 – 4 m), that is joint in length on "finger-joint" (with the length of 6 m) with the section 72×86/105/115/125 mm (gluing 24×24×24 mm). The usage of some tropic sorts of wood is possible.

Main producers of the three-layered glued timber are concentrated in Western and Central regions of Ukraine.

A few words about facing and wood treatment. Windows could be faced with aluminium, in order to protect from outside influence, and of course wood, should be treated with enamel and lacquer (atmosphere and biological resistance).

All wooden constructions should be equipped with water-resistant profiles, made from plastic or aluminum.

3.2 Status of development of the product or service

Currently, wooden windows production in Ukraine is presented by several companies, mostly oriented to external market. Wooden windows are produced from three-layered glued timber. It is made from Ukrainian raw materials by Ukrainian producers. After all further production processes – cutting, milling, installing of accessories – the ready-made construction appears. After that double glass unit is installed.

It's worth mentioning that producers of the three-layered glued timber, window constructions, double glass units are usually different companies. Therefore it would be worthwhile to provide three-layered glued timber and ready-made products production in one place. That will give an opportunity to create production cycle independent from raw materials suppliers. Besides, there will be a possibility to get extra profit from selling ready-made double glass units to other PVC – windows producers.

It is planned to produce products, which are certified in Ukraine as well as abroad, in order to provide export.

Prime cost of such production in Ukraine is very competitive, in comparison with European, that gives an opportunity to orient sales strategy to European market, because wooden windows are very popular in Europe and cost more than PVC – analogue.

What is required to make a product ready for the market?

Know-how? Financing?

For the further development next points are needed:

- know-how and equipment for production of three-layered glued timber, as the main raw material for window production
- know-how and equipment for production of double glass units, for making the company independent from other suppliers and also get extra profit from selling to other producers (mainly PVC-windows)
- financing, know-how and equipment for production of window constructions from three-layered glued timber.

In summing up the project is aimed at implementing of new technologies in wood processing sector, in order to provide high quality three-layered glued timber for further windows and doors constructions. European experience is needed for high-quality production for further export to European countries, as well as selling in Ukraine.

3.3 Customer benefits and advantages

What needs does the product meet?

According to changes in customers' views wooden windows became more preferable than PVC ones. In European countries demand for wooden windows is constantly increasing. The same reaction was made by Ukrainian market. Volumes of wooden constructions' production are growing every year.

Wooden windows have perfect heat and sound resistance, aesthetic look of a surface of natural material, do not contain lead. Due to special technology of gluing the timber, wooden windows are resistant to mechanic damage, therefore could be used for years.

Wood is not electrostatic, therefore wooden products do not attract dust. Wood does not excrete poison while burning.

Using wooden constructions in habitable and commercial premises is very prestigious and is 100% proved.

4. Market and Competition Overview

4.1 General description of the market

European and Ukrainian market is divided between PVC and wooden windows according to the following table:

Window type	European market (2005)	Ukrainian market (2005)
PVC (plastic)	40%	80%
Wooden (three-layered glued timber)	33%	8 %
Aluminum	24%	10%
Wooden with Aluminum	3 %	2%

As could be seen from the table – the main customers of the wooden windows are in Europe, but according to growth of the Ukrainian population's wealth, using wooden windows in Ukraine became more and more popular.

European market's capacity is about 100 mln. windows per year. Main producers are located in central Europe – Germany, Italy, Denmark, Holland.

Ecological movement in Europe led to "renaissance" of wooden windows. Further development of the window construction could be seen in usage of aluminum. Main producers of the wooden windows such as Leitz, BUG, GUTMANN take great part in its development. Therefore a wide range of colours and available construction designs are offered for customers.

Thus wooden windows took big market share in Europe, because such windows are mostly installed in old houses, which form 70 % of all habitable premises.

Most usual customers of the wooden windows are private sector and low-storey houses. The same situation in Ukrainian market, but volumes of the market in Ukraine are still in process of growing, in comparison with European market.

Generally, wooden window has its market share as in Europe and in Ukraine, due to the constant development of its properties.

4.2 Market: chances, development, trends

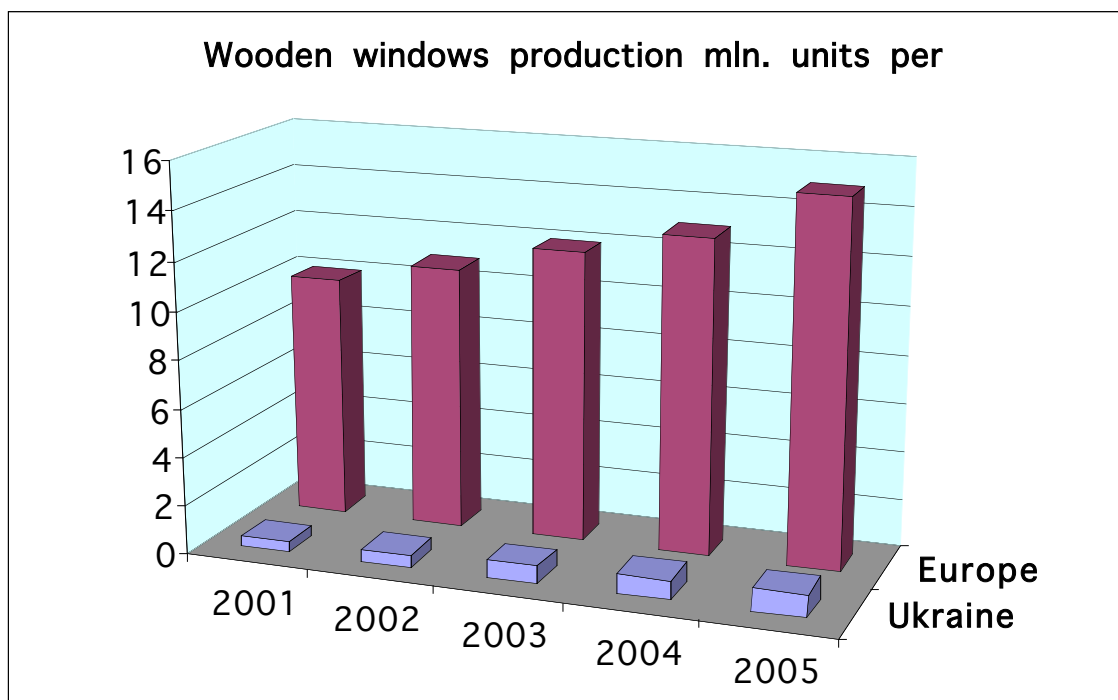
According to European trends, wooden products are mostly preferred to plastic ones, as regards house interior (doors, windows, furniture, etc.). Aim to be surrounded by ecological and aesthetically beautiful wood, motivates to abandon artificial and cheap materials.

Wooden windows became a symbol of family welfare, respectability at office and extravagance.

Customers, who are not sure in their choice, usually simply do not have enough information about new types of windows, therefore they choose plastic ones.

Development of Ukrainian economy leads to changes in structure and volumes of windows production.

The constant tendency could be seen in increasing of windows production generally and wooden ones particularly (pls. see the next table). That means growing of the demand and customer's trust in wooden windows.



4.3 Describe your target customers

Target groups of customers are:

- **Ukrainian customers of wooden windows:** constructing and building companies (multistorey apartment houses), companies, that build private houses and cottages, wealthy citizens, that are changing their old windows for new ones (on the local, regional, national level).
- **External markets of wooden windows:** Germany, Austria, other European countries, Russia and Baltic countries.
- **Ukrainian producers of plastic windows:** local production companies, that have no own double glass units' production.

Thus, planned demand structure is shown on the next table.

Target customers group	2007 (plan), %	2008 (plan), %
Ukrainian customers of wooden windows	20 %	25 %
Ukrainian customers for double glass units	20 %	20 %
External markets of wooden windows	60 %	55 %

4.4 Market potential

Current orientation towards external markets is temporary, according to market trends in Ukraine (substitution of plastic windows by wooden ones). Setting production in Western region of Ukraine is very much looking forward, cause it is situated near raw materials' base and has great potential of the internal sales market. Ukraine is characterized by building boom, which stimulates windows consuming. Besides, there is great market potential in old habitable premises – changing old windows for new ones. Approximately 80 % of habitable premises in Ukraine has no high-quality doors and windows that fit low heat and sound conductivity, according to isolation characteristics. Therefore a lot of extra energy is used for heating.

Thus, year by year volumes of old windows' substitution are increasing, that is also potentially great market for wooden windows.

4.5 Describe your competitors

a. Number of competitors in the region / country

In Ukraine officially are registered 603 companies-windows producers. Among them are such big producers as “Fastco”, “Kvin-Svig”, “Eurolex”, “Svitanok” and others.

In the western region of Ukraine a few big companies are located – in Lviv, Ivano-Frankivsk, Chernivtsy regions. They are oriented mostly for external markets and partly for Ukrainian customers.

Besides, wooden windows’ producers are located partially in centre of Ukraine (Kyiv) and eastern part (Sumy, Kharkiv). They export their production to big Russian cities – Moscow and S.Petersburg. Only 10-15% of their production is sold at regional markets.

b. Their market share

Among 30-35 % of the market is controlled by big producers of the central and eastern regions of Ukraine, but they are oriented mostly to Russian market, according to geographical location.

Producers, located in Western region, have 40-45 % of that market. These producers are oriented mostly to European markets.

Other producers (usually small companies), are oriented mostly to local markets with 20% market share.

c. Their main strength and weaknesses

Ukrainian producers of wooden windows have some advantages, in comparison with European: cheap raw material, electricity, wages, and geographical position. As a result it gives possibility to get high-quality product at low prices.

Among main disadvantages of Ukrainian producers are: absence of constant scientific work in that branch, lagging behind in quality and construction’s development, if compared to European companies.

In case of project’s realization together with the international partner, the possibility of using Ukrainian advantages simultaneously with European technologies appears. That will provide effective production and market share increase.

Marketing

5.1 Market development.

Regarding the current situation on the market (PVC windows sales exceeds the wooden windows sales volume) it is necessary to carry out the aggressive advertisement campaign informing the potential customers about the wooden windows advantages and particularly about the competitive advantages of this company’s product. It will enable the company to increase the sales on the regional market. And the tendency of EU-oriented development of the Ukrainian economy and future Ukraine’s joining to the World Trade Organization makes the European market very perspective.

Proper organization of the production and marketing will allow the company to claim the considerable part of the market because the market of the wooden windows production is on the starting point in the Ukraine.

5.2 Pricing

To increase the amount of potential customers it is planned to produce the wooden windows of the three different price ranges.

1. Low price range. (€ 100 per m²) This product doesn’t require any complicated structural and technical features. It will be orientated mainly to the local customer. The main business purpose is to provide the best possible quality\ price decision for satisfying the mass market demand. The target customers are building companies, middle-income private customers etc.

2. Middle price range. (€ 150 per m²) The product is orientated to the Ukrainian and European market. High quality of the wooden windows is combined with moderate price. Target groups of customers are building companies, high-income Ukrainian private customers and European mass market.

3. High price range. (€ 200 per m²) This product features different structural and technical decisions which will provide additional durability, noise insulation, better external design etc. The target customers are buyers with very high requirements, both on the Ukrainian and European market.

The diversification of the production will allow the company to claim bigger market share, increase the production volume and profitability of the project.

5.3. Sales concept.

1. Local and regional market sales.

The distribution policy will be built on sales through the regional representative offices and dealer distribution network. It is planned to open representative offices\ stores (2-3 in the nearby regional city centers), which would be also regional dealer service centers. There also will be signed agreements with dealers about windows and doors distribution. To motivate dealers and to reach the planned sales volume, the effective discount system will be established along with the advertisement support, staff training etc.

2. Sales on the European market

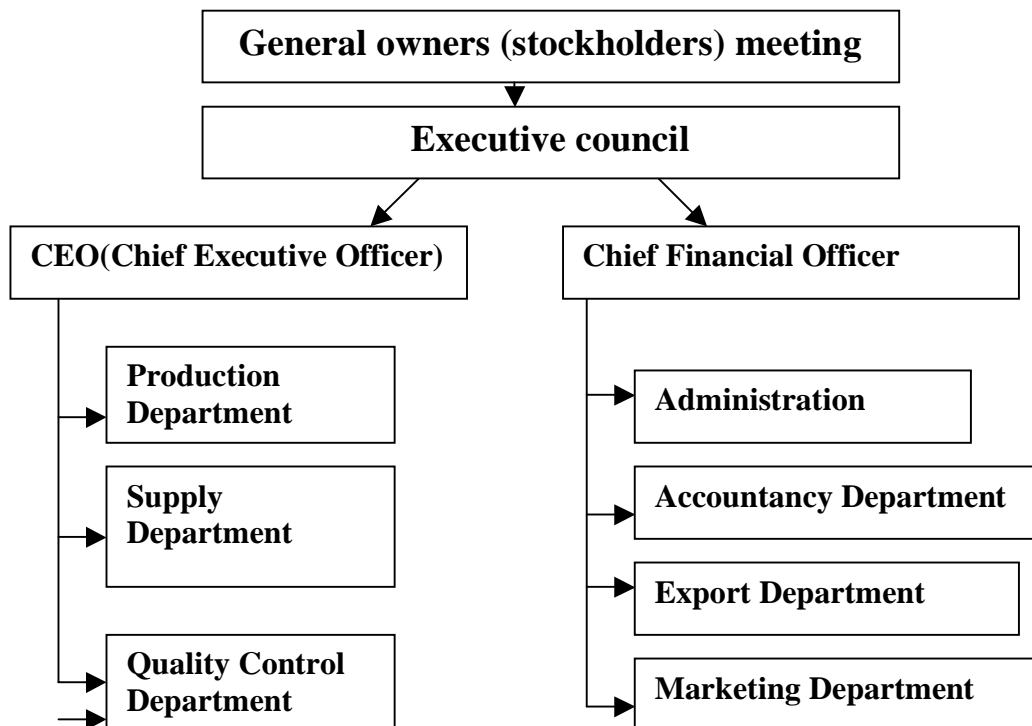
Substantial part of production output is planned to be sold on the European market. For reaching the estimated export volume the participation of the foreign partner with wide distribution network is desirable. So, except the know-how and partial financing of the product it is necessary to attract the potential partner able to provide the distribution network and secure the sales abroad. Except that it is very important to sign the agreements about product sales in others European countries.

6. Management and key persons.

6.1 Organizational structure.

For organizing of joint activity it is planned to create a Joint company or company with the limited liability.

Planned organizational structure:



The total number of staff:

- administrative personnel- 5
- operative personnel- 25- 40 (depending on the output volume)

6.2. Responsibilities of different bodies of the organization (board of directors, management, shareholders)

The highest management body is the general owners (stockholders) meeting, they establish the Executive council, which elects and controls the Directors: CEO (is responsible for the production process) and CFO (is responsible for the finances and sales).

In case of expanding the production it is possible to create other departments according to the partner's request.

6.3 Outside consultants.

For some tasks it is useful to involve the outside consultants such as marketing specialists, auditors, technology experts etc. Involving those consultants is supposed to be done on the temporary basis, because it is important for the usual production activity to provide the optimal number of the main staff with necessary skills.

7. Implementation planning.

7.1 Schedule of the project activities.

1. Negotiations with the potential partner; organizing of the legal base for the joint activity, agreement on the form and volume of investment.

2. Preparing the necessary permits and other documentation for the production (2-3 months) and registering legal form of the joint activity (1-2 months)

3. Employing and training the administrative and production staff (1-2 months).

4. Signing the agreement with timber and other materials suppliers

5. Delivery, assembling and launching the equipment for the three-layered glued timber, wooden windows and double-glazed windows (5-6 months).

6. Creating the distribution network (advertisement campaign, representative offices opening, signing the agreements with the dealers).

7. Launching the export of the product.

Total period of the project implementation and reaching the planned production capacity - 1,5-2 years.

7.2 Not necessary, but good: milestones of company growth.

The main steps of company development are:

1. Launching the production process (production of the three-layered glued timber, wooden windows and double-glazed windows) reaching the planned capacity.

2. Creating the distribution network.

3. Export at the European market.

4. Expanding the range of products, production of the internal doors, battens.

8. Chances and risks.

What fundamental chances and risks does business project have in terms of technology:

It is planned to create the quality control and technology control system accordingly to the European requirements. With the participation of the foreign partner, able to bring the advanced technology and experience of production the level of this kind of risk isn't significant.

customers behavior

According to the market tendencies, the share of wooden windows is constantly growing in Ukraine and Europe, that's why the increase in sales volume is expected. Except that, side production (the internal doors, battens) will give the additional profit and will diversify the risks. Growing demand for this kind of product, fuelled by huge growth in building industry will secure the planned sales volume.

competition

At the moment there are few big operators on the wooden windows production market. But carefully planned marketing strategy, aggressive advertisement campaign after project

implementation will allow the company to take its place among the first ten biggest wooden windows producers in Ukraine.

politics etc.

Diversification of the production and outlets allow to minimize the political influence.

9. Financial requirements

For the project implementation about \$ 300 thousand is needed, including:

1. Equipment for the three-layered glued timber production– \$ 80-100 thousand.
2. Equipment for the wooden windows production – \$ 50-80 thousand.
3. Equipment for the double-glazed windows production – \$50-80 thousand.
4. Materials and instruments supplies- \$15-20 thousand.
5. Office equipment - \$15-20 thousand.

9.1 What is the sum of company’s financial requirements according to liquidity planning.

To provide the necessary for continuous running liquidity company has to have about \$ 30 thousand a month. But considering the possibility of up-front production sales this amount could be reduced to \$ 15 thousand.

9.2 Which financing sources can we exploit to cover the financial requirements and to what % of it

The necessary for the project implementation amount of the financial investments is \$ 300 thousand. The company offers its own production base, staff and covers the part of financial costs – \$ 50 thousand.

9.3 Describe the anticipated profitability of the project.

The chart below shows the planned indicators of company’s activity for the next 4 years:

Liquidity planning		Thousand US dollars							
		2007		2008		2009		2010	
1.	Expences	375		435		515		585	
	Rent and others constant expences	20	20	20	20	20	20	20	20
	Salaries	100	110	120	130	120	130	120	130
	Raw materials expences	200	250	320	380	320	380	320	380
	Tax	40	40	40	40	40	40	40	40
	Banks commission	5	5	5	5	5	5	5	5
	Others	10	10	10	10	10	10	10	10
2.	Income	460		580		700		820	
	Windows sales on the Ukrainian market	1700 windows	\$250	2000 windows	\$300	2300 windows	\$350	2600 windows	\$400
	Windows sales on the European market	1000 windows	\$150	1200 windows	\$200	1500 windows	\$250	2000 windows	\$300
	Double-glazing sales	1000 m ³	\$30	1200 m ³	\$40	1600 m ³	\$50	2000 m ³	\$60
	Three-layered glued timber sales	1000 m ³	\$30	1200 m ³	\$40	1600. m ³	\$50	2000 m ³ .	\$60
3=2-1	Gross profit	\$85,00		\$145,00		\$185,00		\$235,00	
4=3*0,75	Net profit	\$63,75		\$108,75		\$138,75		\$176,25	
Total for 4 years		\$487,00							

Calculation made is based on next output volume:
first year – 9 windows per day
second year – 10 windows per day
third year -12 windows per day
fourth year - 15 windows per day

9.4 Payback period.

The payback period is 3 years after reaching the planned production capacity.

10. Partner requirement

What do we expect from international partner?

Expertise (know-how)

For the quality wooden window production corresponding to the European standards, is very important to involve the partner able to provide advanced technology and experience in this kind of production. Also regarding the export and operating on the European market the participation of foreign partner would be beneficial for creating the successful distribution network.

Equipment

Using the advanced modern equipment is vital for reaching the desirable quality of final product. That's why the partner participation in choosing the right processing line, its adjusting and launching would be very useful.

What % of the investment needed, other assets

For the project implementation amount of the investor costs is 85%, other 15% is covered by Ukrainian part.

Describe the manner of participation or cooperation you desire.

The possible legal form of cooperation – the joint company establishment, equipment leasing, organization of joint production through the signing the agreement about joint activity etc.