VMCH Corporation

To the shareholders of VMCH Corporation,

It is the beginning of a journey. Like the sailors of old, we are heading into the unknown hoping for favorable winds and a rich bounty. In this journey, I will act as your captain.

First, a few words about myself and what could be reasonably expected in the future with regard to performance, investment scope and shareholder communication. I have been privately investing in equities since 2005, and by my account have done quite well compared with the S&P500 if not spectacularly so. After managing funds for several clients for 2 years, in late 2010 I decided to follow an old dream and start an investment company, which became VMCH Corporation. The company was modeled after other successful investment companies, such as Warren Buffett's famous Berkshire Hathaway. My primary role in the company is that of Investment Manager. In addition, I currently perform the duties of the Director of the company, which are administrative in nature.

The measure of investment success is a tricky one, and can only be performed with approximation and over many years. However, some sort of yardstick is still necessary, and that would be the performance of the S&P500. Although many of the company's investments are expected to be made in various currencies and across different exchanges, the S&P500 sufficiently represents the global markets to serve as a useful guide to relative performance.

As described in the explanatory memorandum, the company is not limited as to its choice of investments. However, it can be fairly assumed that at least initially, most investments will be made in publicly traded equities, primarily in Europe and North America. At current interest rates, bonds are generally not attractive investments for the long term, which is the proper time frame of an investment operation. Also, the company will tend to avoid investing directly in developing markets due to lesser standards of governance, financial reporting and the rule of law. Illiquid investments such as real estate or private businesses may be considered on their own merit, and potential yield will have to be substantial in order to justify lesser liquidity.

As for shareholder communication, each year you will receive a report explaining in detail the events of the past year. For further questions, you can contact me at any time at: edward@vmchcorp.com.

Second, to go somewhat beyond the scope of the explanatory memorandum which I am confident you have inspected carefully. The company was formed on 10th of March, 2011 in the British Virgin Islands (BVI). As of this time, the company does not retain a trustee, an auditor, or an administrator for the fund represented by the Class A shares. This was done primarily to achieve lower fixed operating costs as opposed to a full fund structure. The difference is quite significant, as the running fixed costs of the company constitute about one fifth of those of a typical small mutual fund. Lower costs equal more gain for shareholders (including myself). As long as the company remains reasonably small, the issue of fixed costs will retain primary importance.

As the Investment Manager, I have and will continue to have a significant portion of my net worth invested with the company. It is my belief that a money manager who is not significantly invested in his fund will, at some point, do a disservice to his investors. To add a further incentive, the main component of the management fee is a 10% of the annual change in NAV, in addition to a 0.5% of end-year NAV fixed management fee(as described in the explanatory memorandum). This is to assure that only by making money for the shareholders can the manager ever hope for a truly comfortable retirement.

To further reassure the shareholders, a reserve Director has been appointed to the company. The reserve director has but only one function – to wind up the company in the event the current Director is suddenly and unexpectedly incapable of performing his duties. This may include death, injury, or any other reason. In such an event, the reserve director by default is expected to do the following things:

1. Ascertain that the current Director is indeed indisposed.
2. Contact the registered office in the BVI, the bank, and the broker in order to receive all necessary information and access to the funds.
3. Convert all investments to cash, and to settle any outstanding liabilities.
4. Distribute the NAV to all shareholders of the Class A shares.
5. Wind up the company.

The company began its operations on the 1st of November, 2011. As November and December of 2011 constituted the initial setup time for the company and the funds were not fully invested, any management fees due for this period were waived by the Investment Manager. Furthermore, performance reporting will begin from the 1st of January, 2012.

Eduard Gorban

As of 31/12/2011, these were the main investments of the company:

Investment	% of Assets
Cash	22.6
Arbor Realty Trust	4.4
NRG Energy	10.3
SUPERVALU	10.2
Transocean	7.3
France Telecom	9.9
Renault	13.2
Enterprise Inns	11.0
Finsbury Food Group	10.8
Subtotal	100.0

The company had a substantial cash position as of end-year, which is expected to be reduced to around 10% or below during 2012. Cash is a lousy long term investment.

Arbor Realty Trust is a US REIT specialized in real estate loans. It has a great manager, Ivan Kaufman who holds over 20% of the stock. The REIT experienced some difficulties during 2008-2009, and emerged in a good condition relative to some of its peers. In addition, the company retains its 3 CDO's issued in 2005-2006, which are a great source of cash flow. The company has around USD 300M in economic book value, and generated USD 15-20M in free cash flow(FCF) in the last year, which could rise to USD 30M during the following 1-2 years due to reinvestment of cash. Market cap is around USD 100M, a great discount to book value and good FCF yield – 15%-30%.

NRG Energy is a mix of wholesale and retail power supplier, primarily in Texas. The company is led by David Crane, a great CEO in the energy industry. The business is somewhat boring, and generates a solid USD 800-1,000M per year in FCF, compared with a market cap around USD 4B for the business, a 20%-25% FCF yield. The company has decent growth prospects as well with some major solar projects and as a pioneer of charging networks for electric cars.

SUPERVALU is a food retailer and wholesaler in the US. The company is a laggard in its industry from the perspective of operating margins and sales growth. In 2006, the company made a massive USD 13B acquisition of the Albertsons supermarket chain, which in retrospective was both overpriced and saddled the company with a large debt. However, the company retained strong FCF, around USD 500-600M per year and this coupled with some asset sales allowed it to repay USD 3B of debt since the acquisition. During that time, the share price dropped 80%, to a market cap of USD 1.5B. This represents a FCF yield of 30-40%.

Transocean is the largest provider of offshore drilling services in the world. The company has a massive fleet of around 140 rigs, which are contracted to oil and gas companies around the world. Lately the profitability of the company dropped due to relatively low levels of fleet utilization. However, with the ever increasing demand for oil and gas, that should return to normal levels with profitability following suit. Currently the company generates around USD 1.5B-2B in FCF per year, with USD 2.5-3B in FCF being the normal level with decent fleet utilization. Market cap is around USD 15B, providing a 10-13% FCF yield in current depressed levels, or around 17%-20% with normal profitability. It should be also noted that it is highly unlikely that the Gulf of Mexico spill should create any significant liability for the company, as it has full indemnification from BP.

France Telecom is a diversified telecom operator in France, across Europe and the Middle East. The business is quite unremarkable and solid in most markets, with the usual regulatory and competitive “noise”. Management has pledged to keep a minimum EUR 1.4 dividend per share for 2011 and 2012, which represents a 12% dividend yield. However, the FCF yield is much higher as the company generates around EUR 7B in FCF per year, and its market cap around EUR 30B, giving a FCF yield of around 23%.

Renault is an automotive manufacturer based in France. 55% of sales are currently in Europe. The company has 3 main components: The Renault automotive business, RCI bank for vehicle financing, and a 43% holding in Nissan shares. The Renault automotive business is generally profitable, however not consistently so with auto FCF hovering between EUR 0 and 1B per year. However, CEO Carlos Ghosn has announced an average auto FCF target of EUR 0.7-1B per year for 2011-2013. In addition, RCI bank generated great operating results in the past 10 years, and earns around EUR 400-450M in net profit per year. Together, I believe that Renault auto and RCI are worth around EUR 10-15B. In addition, there is the 43% stake in Nissan which as of end-year had a EUR 30B market cap, of which EUR 13B represents Renault’s stake. There are also a 16% controlling stake in Volvo and a 25% stake in AVTOVAZ which are valued at around EUR 2B combined.

So as a whole, in my opinion, Renault’s value is around EUR 25B-30B. The market cap of Renault is EUR 8B, a 68%-74% discount. On a FCF basis, the combined FCF of Renault auto, RCI and the holdings in Nissan and other companies are around EUR 2.5-3B per year, which compared to a market cap of EUR 8B gives a FCF yield of around 30%-37%. In addition to these figures, some further good news. First, Carlos Ghosn, the CEO is a great leader and manager. He rescued Nissan from bankruptcy in 1999, and turned it to one of the most innovative and profitable companies in the world. He was appointed CEO of Renault in 2005, however due to the 2008-2009 crisis his influence has not yet been recognized in the results of Renault. Second, the global auto market is growing 5%-7% annualy, with Renault sales up 3.5% and Nissan sales up 14% in 2011. Third, Renault and Nissan have jointly taken leadership on zero-emission vehicles and are years ahead of the competition. In 2015, Renault-Nissan will have a combined annual production capacity of 500M electric cars and batteries. This may be a huge opportunity for the company as oil becomes ever more expensive.

Enterprise Inns is a pub holding company in the UK. It operates under a model by which it leases its pubs to an operator, and receives a combination of rent and participation in the profits of the pubs. In 2008, the company had GBP 1B in short term bank debt, which has been since reduced to GBP 450M, a more manageable level given the business generates around GBP 80M in FCF. Due to fears around the long term viability of the business, debt load, and the 2008-2009 credit crunch the stock dropped over 90% in the last few years. However, the business is, in my opinion, a solid one, the debt spread over many years and is manageable, and the company has a great CEO in Ted Tuppen who founded the company 22 years ago. Currently, the market cap is GBP 150M compared with an annual FCF of around 80M, over 50% in FCF yield.

Finsbury Food Group is a pastry products manufacturer in the UK. The business is a relatively steady and “boring” one, which is exactly what shareholders need it to be. In 2007, the company merged with Lightbody, another pastry products manufacturer owned and managed by the Lightbody family over the past 100 years. As part of the merger, Martin Lightbody now holds 26% of the shares of Finsbury. The company generates an annual FCF of GBP 5M, compared to a market cap of GBP 15M, a 33% FCF yield.