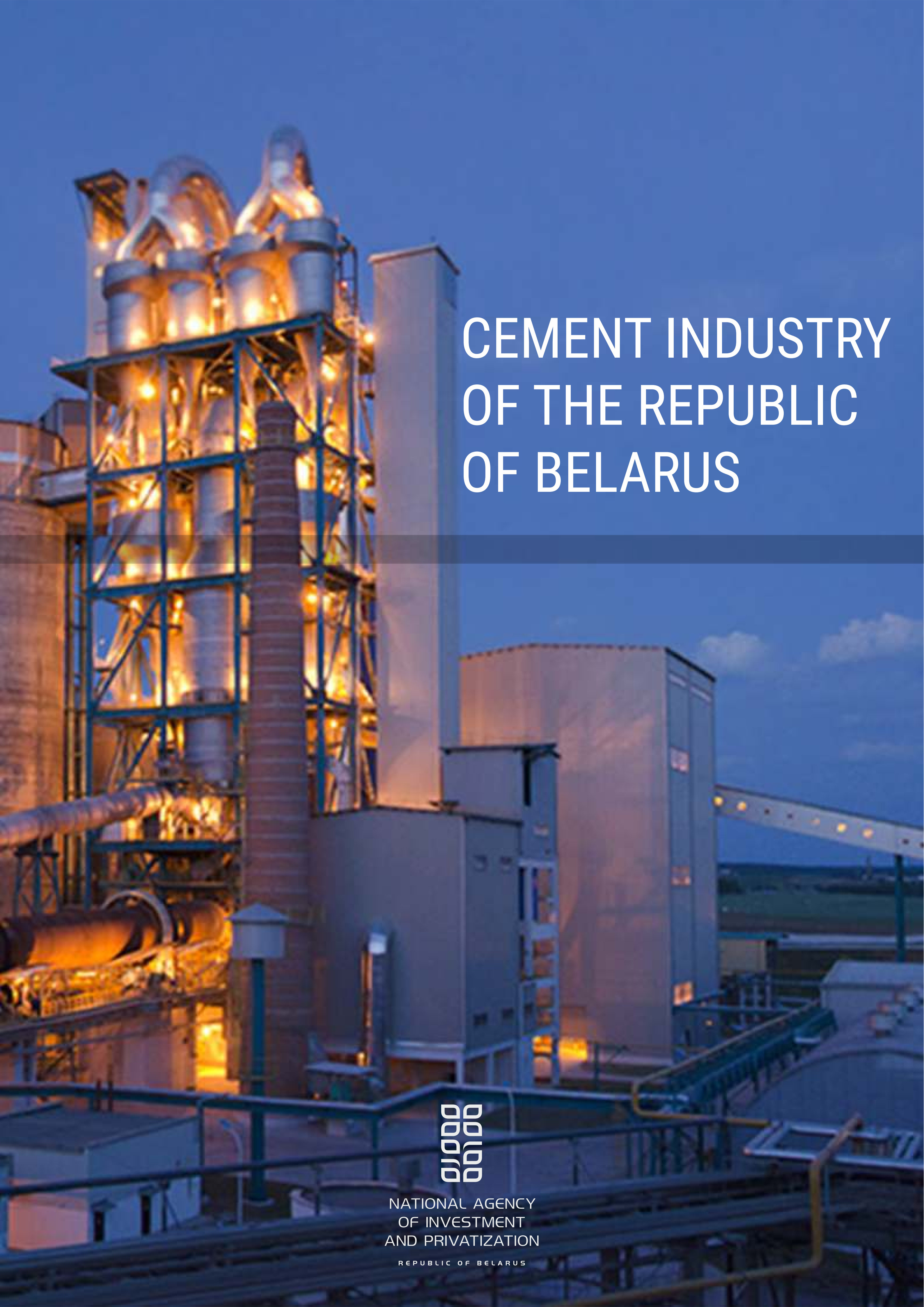


CEMENT INDUSTRY OF THE REPUBLIC OF BELARUS

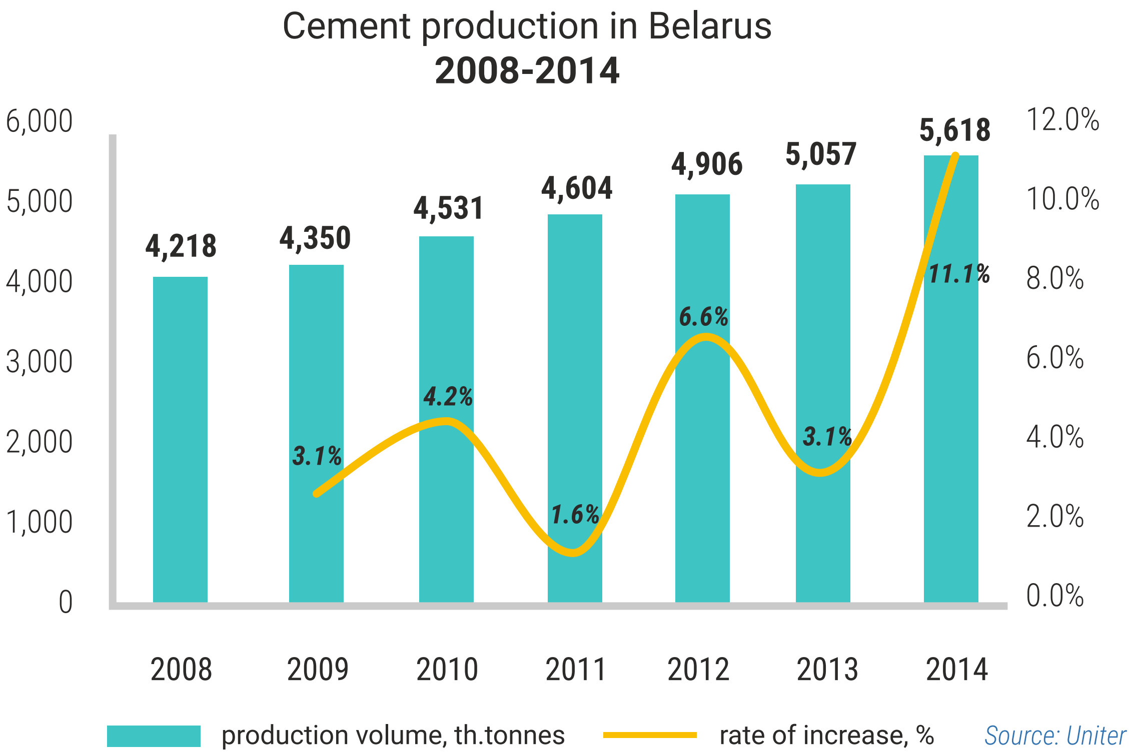
NATIONAL AGENCY
OF INVESTMENT
AND PRIVATIZATION

REPUBLIC OF BELARUS

Cement Industry of the Republic of Belarus

Production.

The cement industry in Belarus is represented by three state-owned cement plants. Until 2012, the total production capacity of the plants amounted to 4.5 million tonnes per year. During the last 6 years the volume of cement production was increasing in average by 3.7% annually, despite the decline of growth rates since 2009. In 2014, 5618.3 thousand tonnes of cement or just 66% of total production capacity was produced. The growth rate amounted to 11.1%. As of the end of January-September, cement production in Belarus decreased compared to the same period in 2014 by 15.4% to 627.5 thousand tonnes. The expected amount of cement production in 2015 is around 5000 thousand tonnes.



In Belarus, three state-owned enterprises are engaged in cement production:

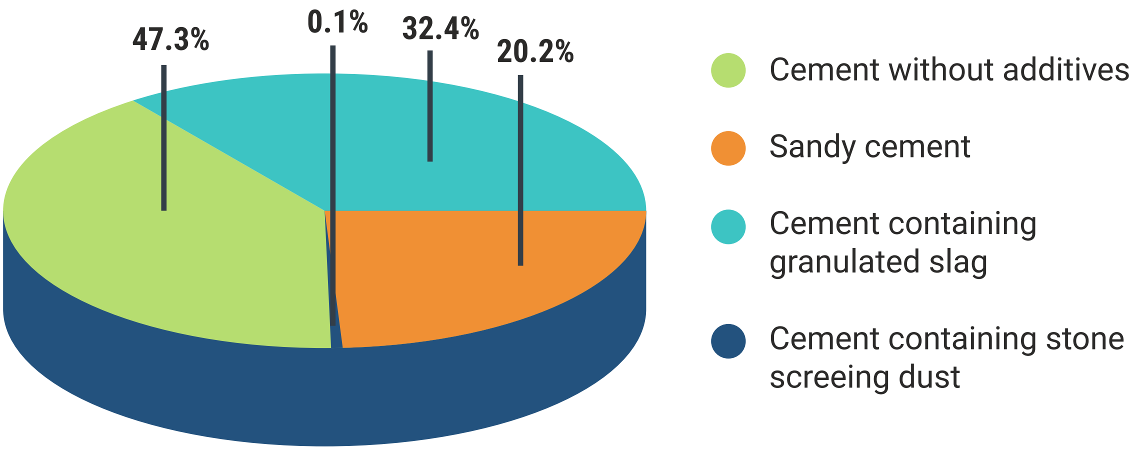
1. Krasnoselskstroimaterialy, OJSC – KSM (Volkovysk, Grodno area). The state share is 91% (significantly increased since 2002, when the state share was equal to 50%), the share of other shareholders is 9% (legal persons (958 companies, mostly represented by collective farms) and natural persons (3671))
2. Belarusian cement plant, OJSC – BCP (Kostyukovichi, Mogilev area). The state share is 100%.
3. Krichevcementnoshifer, OJSC – KCSH (Krichev, Mogilev area). The state share is 100%.

It should be noted that Krasnoselskstroimaterialy was transformed into a joint-stock company in the 90s, two other enterprise were incorporated in early 2012.

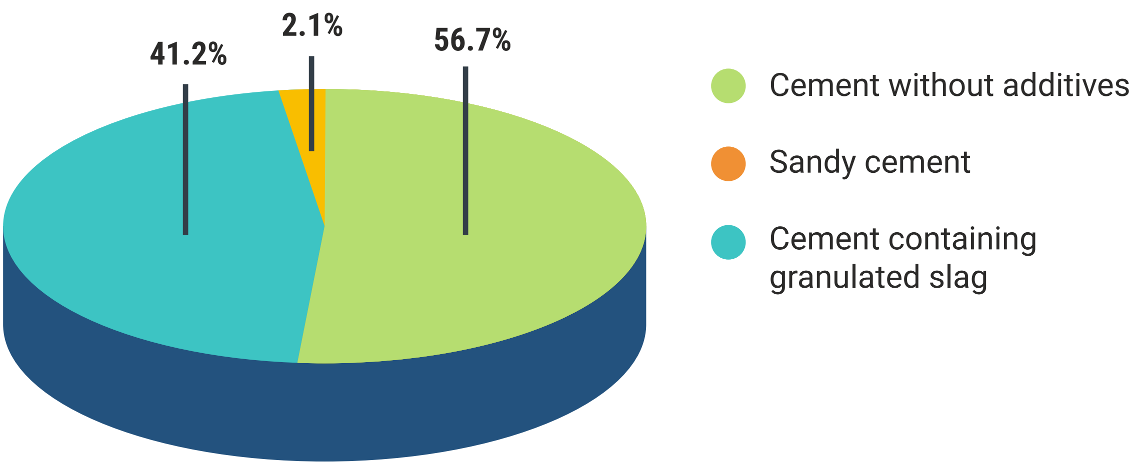
The plants are listed in the register of the companies that occupy a dominant market position (25% limitation of profitability). Since its listing, the plants when pricing of the goods supplied to the domestic market have to include the profit that does not exceed the specified limits to the total cost.

The major share of cement products belongs to cement without additives. The plants also produce other types of cement products: cement containing granulated slag, to a lesser extent, sandy cement and small share of cement containing stone screening dust.

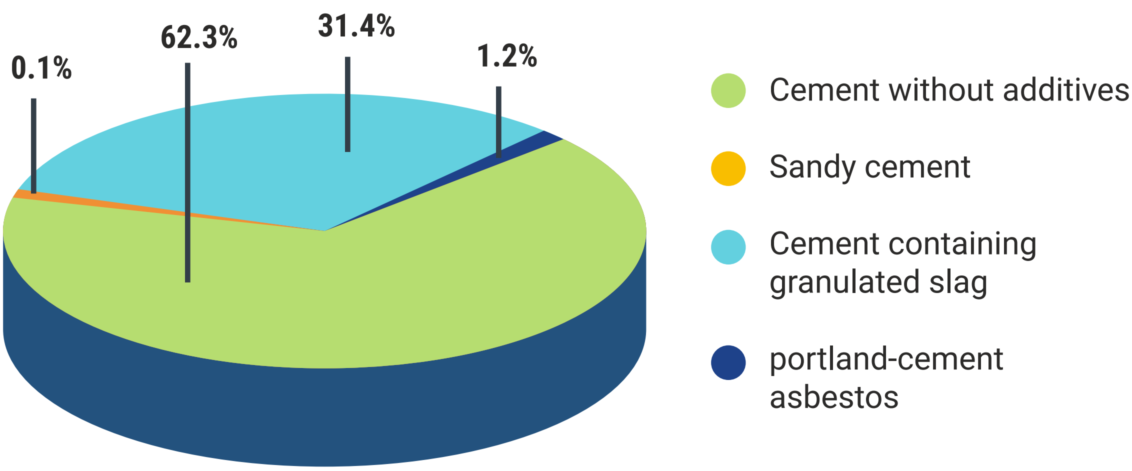
The structure of cement produced by type
Krasnoselskstroimaterialy, OJSC, 2014



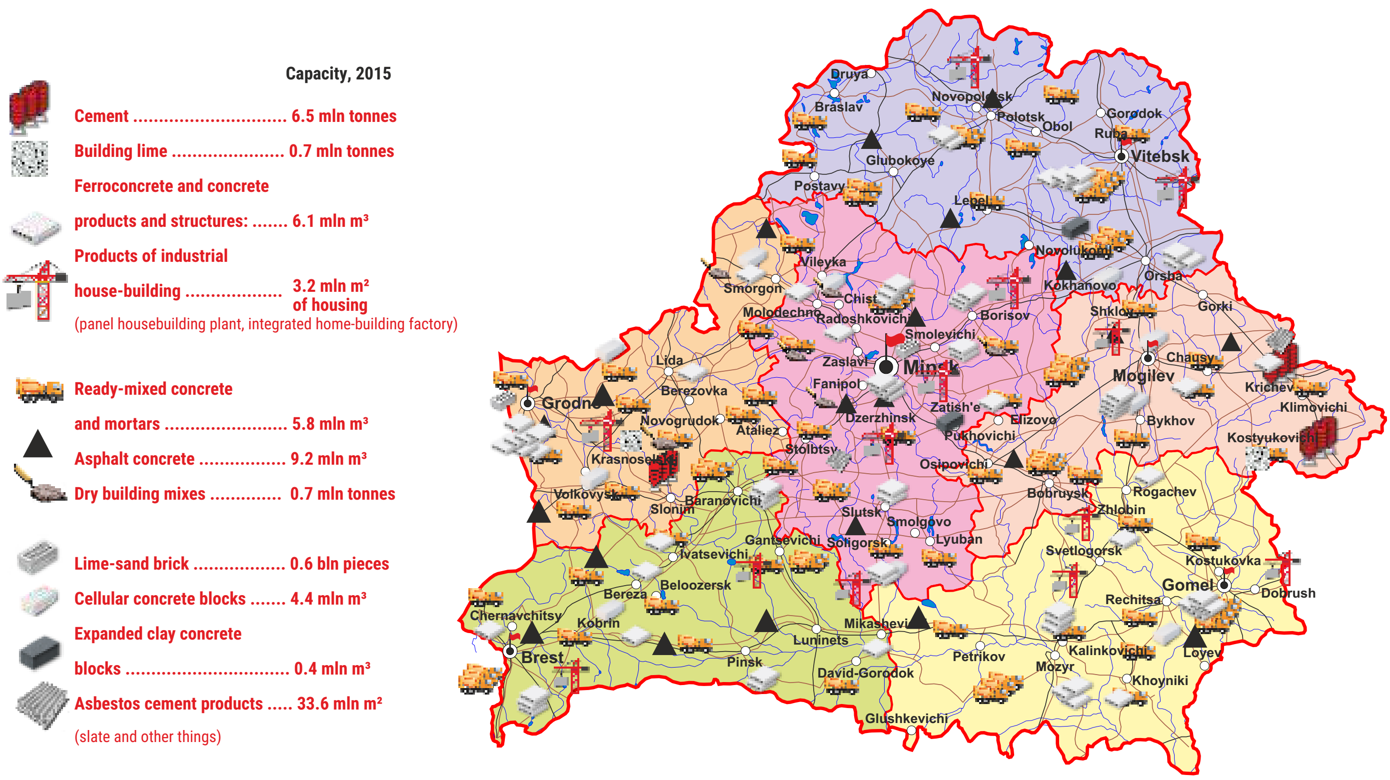
The structure of cement produced,
Belarusian Cement Plant, OJSC, 2014



The structure of cement produced,
Krichevcementnoshifer, OJSC, 2014



Layout chart of building materials production capacities

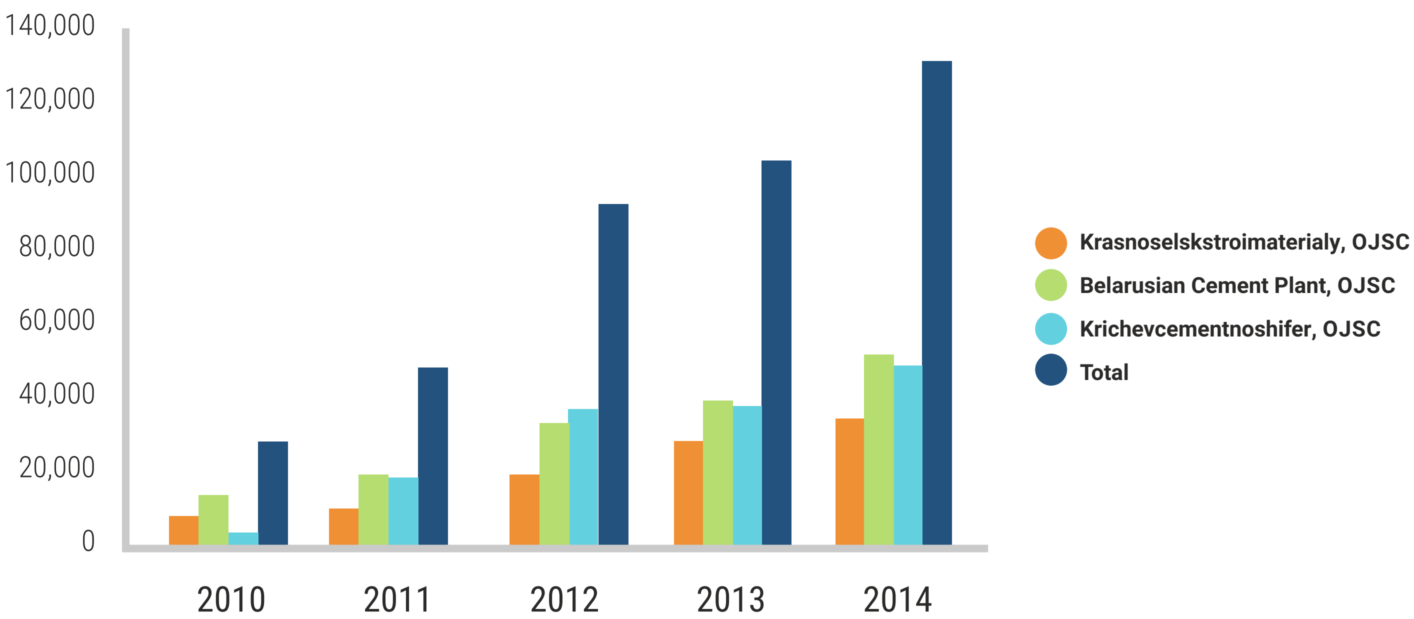


Source: Niptis

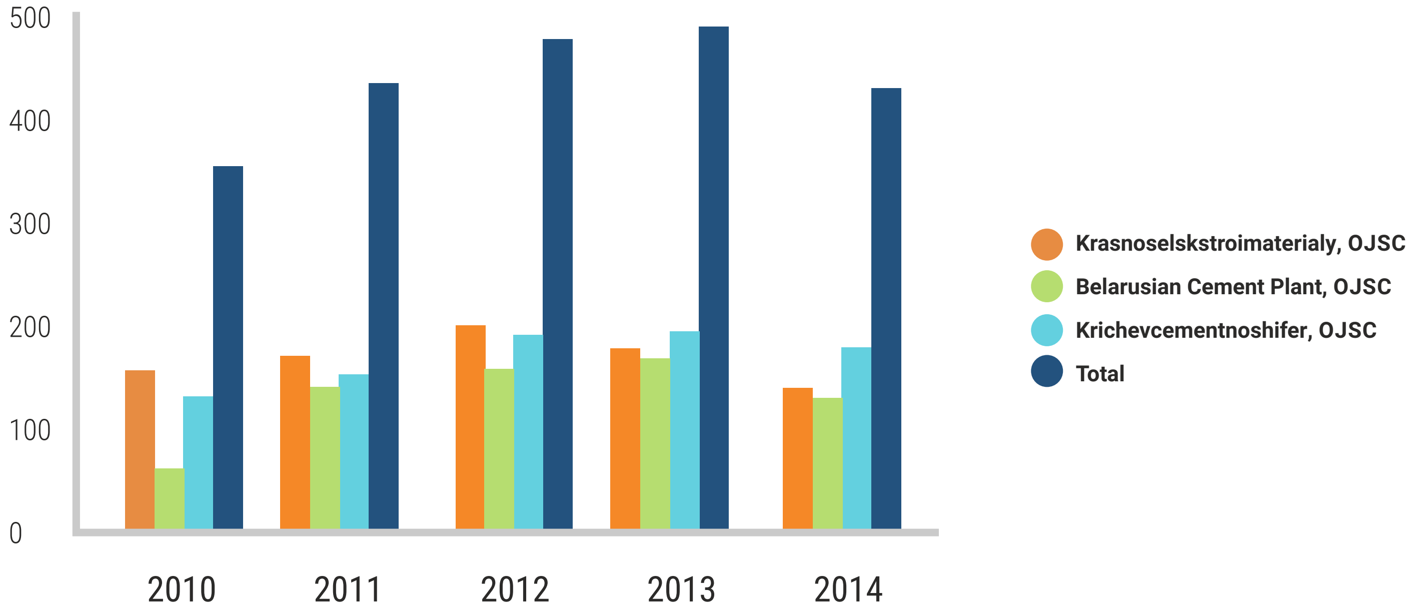
The layout chart shows the plants that use cement in their production process, as well as those that manufacture products needed for cement production. The plants are situated close to each other, which reduces time and transport costs.

Cement production in Belarus, 2008-2014

Exports of cement, USD thousand

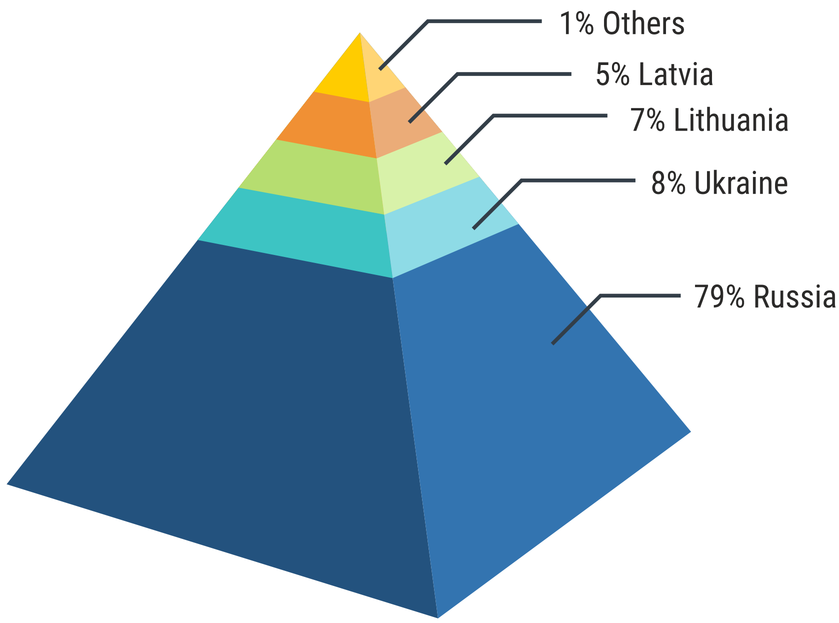


The volume of production, USD million



In 2014, export share increased up to 31.5%, showing a 3.5 percent growth compared to 2013. Belarus exported 1773 thousand tonnes of cement in 2014 which was 23% more than earlier. The main reasons for export growth were production growth, weak domestic market dynamics accompanied by the state policy to expand exports of construction materials. Most of the cement was exported to Russia. Nevertheless, in 2014, Belarus managed to expand the sales geography, exports to Russia decreased, while to Lithuania and Ukraine exports increased by 4%.

Structure of cement export destination in 2014



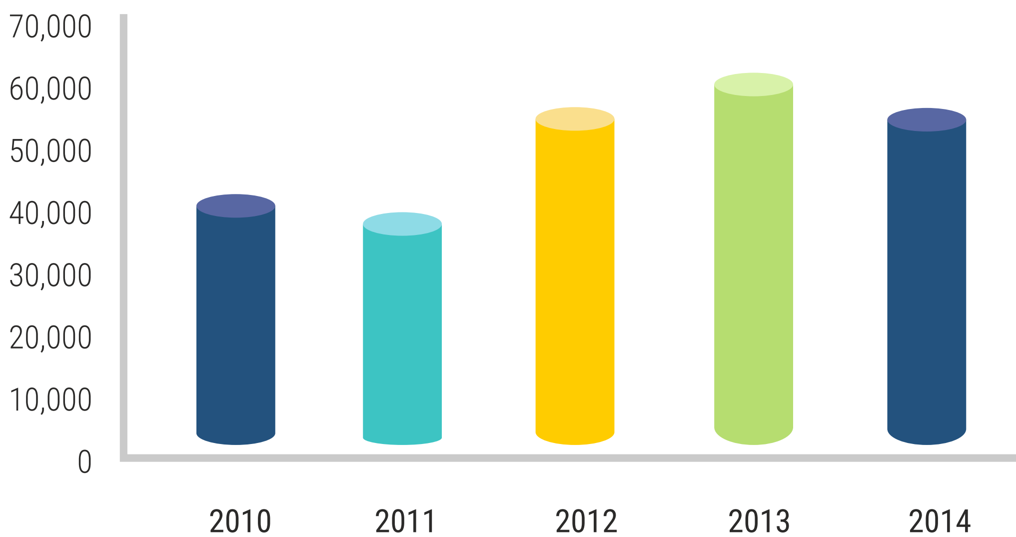
Source: Niptis

In 2008-2014, excl. 2010, exports were outstripped by imports. At the same time, due to the rapid growth of housing construction and lack of domestic production during the summer time, the deficit was covered by imports. In 2010, imports of cement doubled up to 599 thousand tonnes that exceeded exports by 124 thousand tonnes. In 2014, instead of the growth, imports declined by 18 thousand tonnes. In 2014, the sales geography was constricted: most of the cement was imported from Russia (90%), Lithuania – 6% and Poland – 4%.

The average selling prices of cement PC 500 D0 USD/Tonne (FCA net of VAT) in the Republic of Belarus and in the markets of bordering countries, freight rail costs per tonne October, 2015

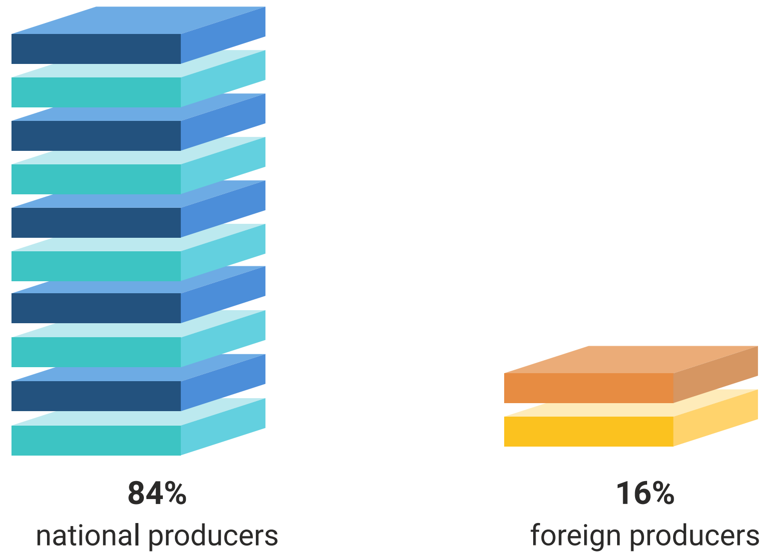
Source: Niptis

Imports of cement, USD thousand



Imports are projected at about 0.6 mln tonnes in 2015.

The share of foreign and national producers in the Belarusian market
January-September, 2015, 0.48mln tonnes



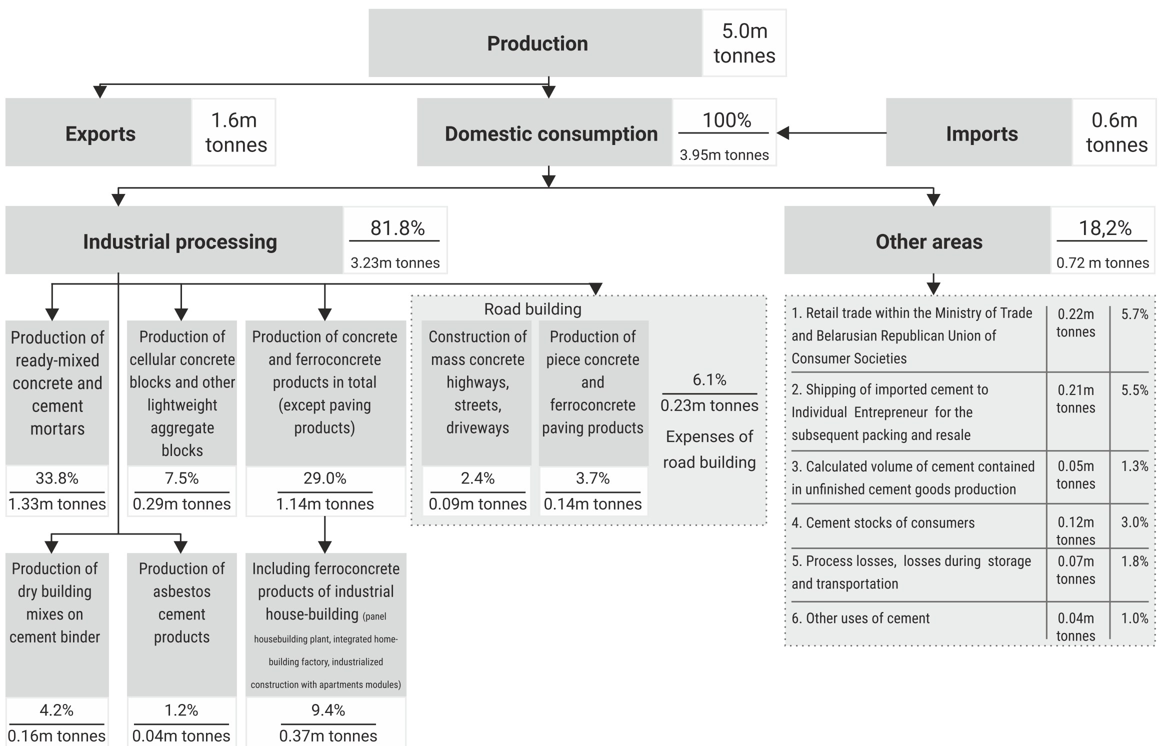
Source: Colliers

Consumption

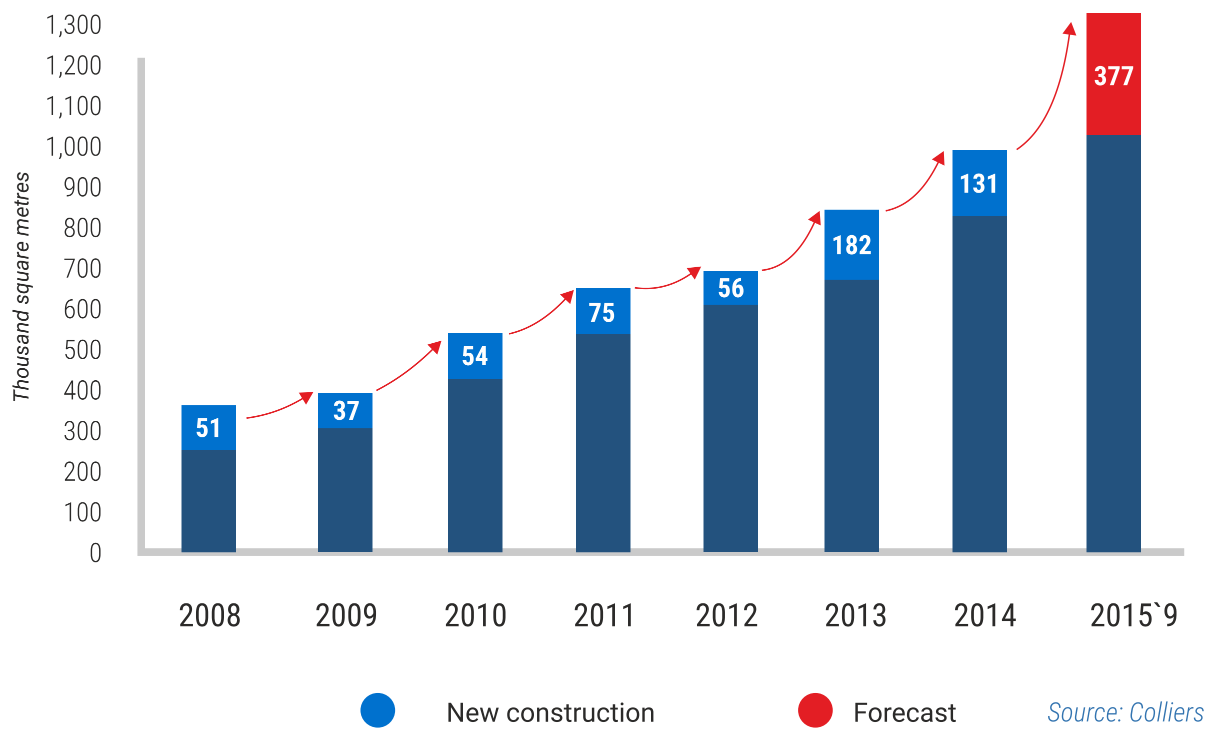
During 2008-2014, the domestic cement market was growing by 2% per year, though in 2013 a 1.6 percent decrease was observed. Nevertheless, cement consumption started to grow again by 3% in 2014. Cement consumption is closely related to the volume of construction and installation works. During the recent years, fluctuations in volume of construction and installation works have been observed. In spite of a 10 percent fall in 2012, in 2013 the volume of construction and installation work was almost restored to the level of 2011. However, due to irregular demand in 2014 it decreased again by 5.4%. The growth of domestic cement consumption in 2014, despite reduction in imports, was related to the growth of domestic production output.

More than 1/3 of consumed cement in Belarus is used in concrete goods production, including panel housebuilding. Less than 1/3 of cement is used for commercial concrete and cement mortar production. For production of cellular concrete, expanded clay and other aggregates 8.1% of total cement production is used, 6.2% of cement is sold by retail

Production and directional distribution of cement in 2015

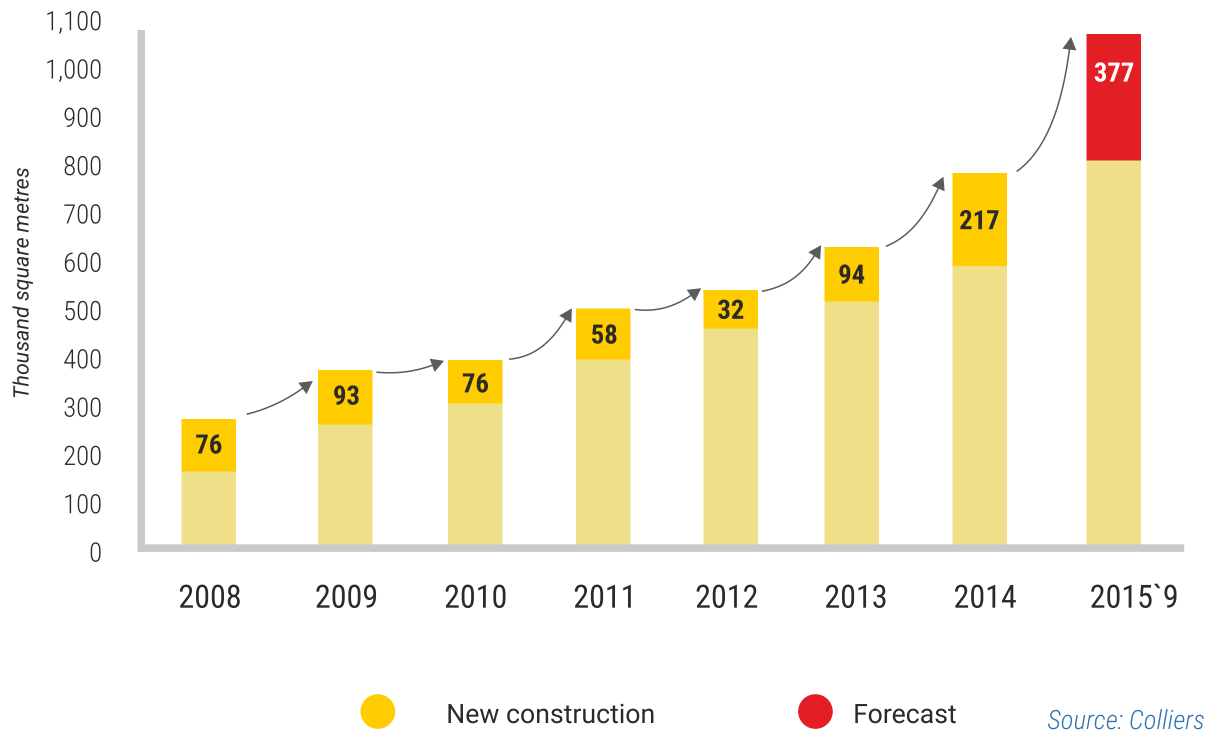


Retail property market
2008-2014



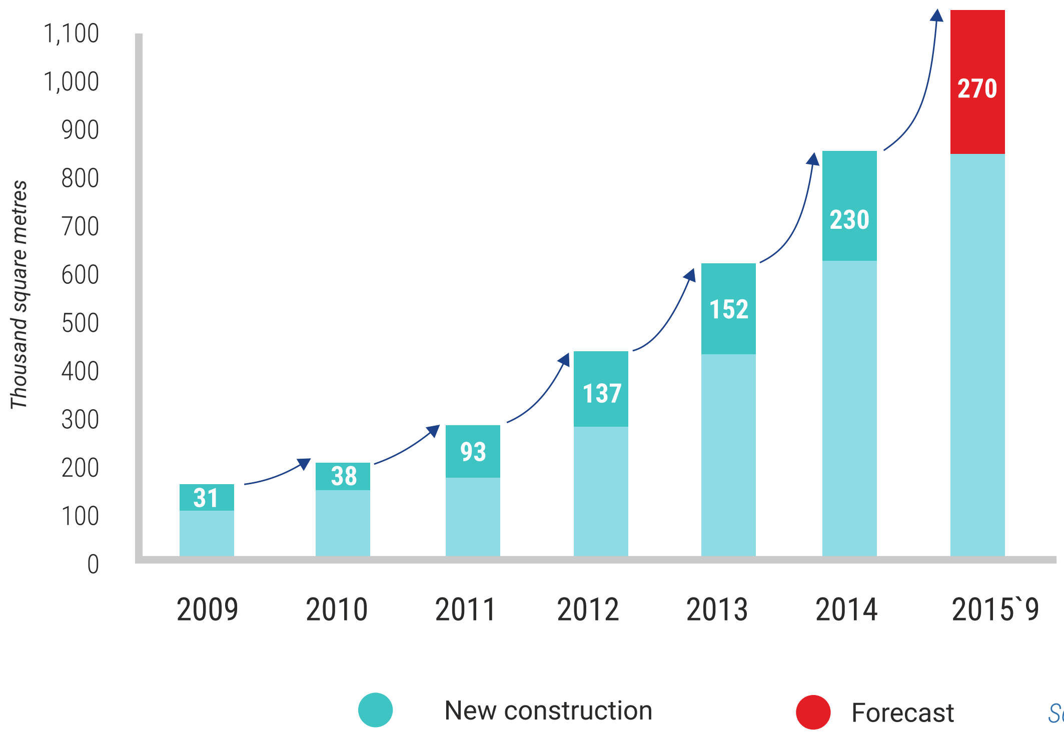
Source: Colliers

Office property market
2008-2014



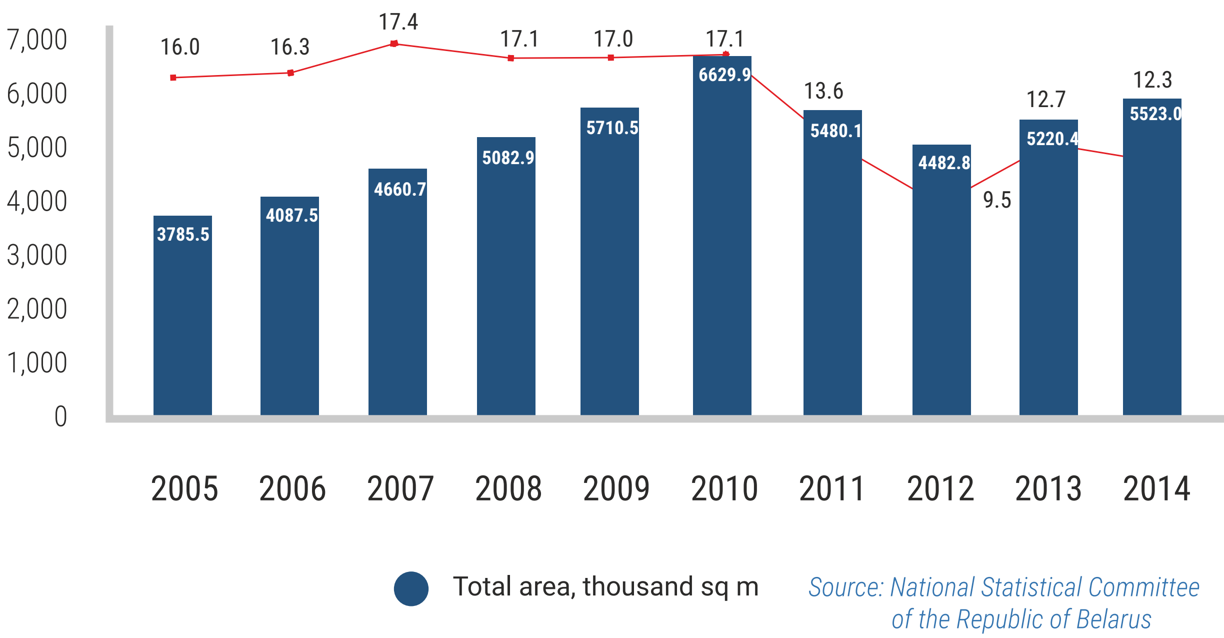
Source: Colliers

Warehousing property market
2008-2014



Source: Colliers

Property delivery of residential buildings



Source: National Statistical Committee of the Republic of Belarus

'The program of effective use of capacities of the organizations of the cement industry for 2015-2020' (hereinafter the 'program'), and the instructions given by the Head of State stipulate for a significant increase in the use of domestic cement in the construction of concrete roads and streets, approach roads to facilities (driveways) in cities and major population centers.
Depending on the use of cement as a main binding agent in concrete mixes when building road bases and surfaces, as well as pedestrian areas, its utilization can be divided into three areas:
- Use of cement for the production of concrete when arranging monolithic concrete roads (streets, driveways and platforms) with concrete bases.
- Use of cement in the production of piece concrete goods (paving slabs and road panels) to surfaceroads, driveways and pedestrian zones.
- Use of cement for the production of concrete to manufacture ferroconcrete products and structures when building road constructions and facilities (concrete structures of bridges, over bridges, water drains, curbstones, etc.)

The National Infrastructure Plan

The National Infrastructure Plan developed by the Inter-institutional Infrastructure Coordination Council assesses the need for the infrastructure until 2030. In general, the plan includes 100 Public-Private Partnership projects.
The projected average annual volume of expenses for the development of Belarusian infrastructure would be around 1.8 billion US dollars.

Competiveness of the domestic cement

Transfer wholesale prices for cement portland cement in October 2015 in the Republic of Belarus and neighbouring countries, having regard to the relatively high logistical costs, allows to confirm the sufficient price protection of the internal market.
The volumes of cement imports from Russia (to 400 thousand tonnes in 2015) are stipulated by the approved balance of the mutual foreign trade turnover of cement of the Union State for 2015 and favourable for the Republic, because the positive balance of the physical volumes of cement supplies is more than 1 mln tonnes.
It became possible due to the drastic (more than twofold compared to 2013) cost reduction of the production based on returned to service and developed capacities.
Reduction in expenses in the process of cement manufacturing occurred because of the transition to pulverized coal fuel and elimination of the investment component from the cost structure. The deactivation of the old wet-method facilities and relief of non-core assets exercised a significant influence on the increase of the competitive price sustainability of the domestic cement in the internal and external markets.
As a result of the purposeful actions on the increase of the domestic cement competiveness, the internal transfer prices per 1 tonne of portland cement have declined from 100 USD in 2013 and 86 USD in 2014 up to 53 USD in the current year.

Cement market forecast for 2016

Providing a zero growth rate of investments in the fixed capital (favourable forecast of the Ministry of Economy) in 2016, the condition of the domestic cement market and foreign trade operations will be likely to repeat the situation of the current year (in general).
However, if the GDP growth turns negative, it should be borne in mind that each percent of reduction in GDP leads to the decline in demand for cement in the domestic market by 4-5% and corresponding decline in the marketable production volume.
In 2016, it is planed to maintain the volume of cement deliveries to the Russian Federation, and should any unfavourable situation in the Russian construction market appear, compensate the exports decline in a given direction by the increase in supplies to Poland.