

OJSC “Construction and Mounting Trust No.8” An Investment Opportunity

PILOT PRIVATISATION PROJECT



15 May 2014

Based on the government decision the State institution “National Agency of Investment and Privatisation” is searching a strategic investor for and offering a sale of a 99,791% stake in Open Joint-Stock Company “Construction and Mounting Trust No.8” (hereinafter OJSC “CMT No.8” or “the Company”). The national regulation requires the purchaser of the stake to make a mandatory offer to the minority shareholders.

The Consortium led by KPMG acts as an advisor to the agency in this process. The search of the investor follows the international practices and is supported and financed by the World Bank.

For further information on this opportunity, please, contact as provided below.

General information

OJSC “CMT No.8” is a large state-controlled company specializing in the construction and repair of roads, industrial and civil construction and production of construction materials. Since it has been founded the trust built over 830 km of public roads, produced more than 3 million tons of asphalt mixture.

The Company started operations in 1991; in 2009 it was reorganised through a corporatisation into OJSC “CMT No.8”. At the beginning of 2014 the process of privatization began. Shareholders are the state (99.791%) and 132 individuals (0.209%). The Company includes 3 branches and has no subsidiaries. Executive office and two branches are located in Minsk (DSU 43, PMK 1), the third branch (DSU 63) is located in Tolochin, Vitebsk region, Belarus.

Capacities of the Company allow to produce and pave up to 600 thousand tons of asphalt concrete. The Company’s market share among the 12 local competitors (all state controlled) is estimated at about 11% in 9 months of 2013. Number of employees was 633 in September 2013.

The Company web-site is <http://smt8.open.by/>

Key Investment Considerations

One of the leaders in the local market

✓ The Company is one of the leaders in the local market among the 12 specialised companies, taking about 11% share

Track record of major and international projects

✓ Have built some major highways in Belarus. In 9m 2013 33% of the revenue came from TODINI S.p.A., a general contractor for a major road reconstruction project in Belarus

Favourable location of operating facilities

✓ Operating branches of the Company are located in the capital and in a town of Tolochin on the major highway M1 not far from other major highways and the Russian border

Broad range of road construction works

✓ Opportunity to offer the complete cycle of road construction after building a bitumen plant and establishing a capacity for construction of bridges

Established processes and raw materials supply

✓ The Company has long term relationships with the suppliers of key inputs and established and structured operating processes

Maintained production assets

✓ The Company undertakes capital expenditures to maintain its production fixed assets



Executive office (administrative unit) is located in Minsk. Two Branches of the Company are located in Minsk and Tolochin

The total area of occupied land plots is 39.77 ha and it is used by the Company on a permanent use arrangement with the state

The total area of real estate facilities is about 22 thousand m²

Works and services

OJSC «Construction and Mounting Trust No.8» provides following types of works and services including auxiliary production:

- construction, reconstruction and repair of all types of roads and structures;
- construction of grading and installation of pavements;
- earthwork (mechanic excavation and special foundation works in the ground);
- roads infrastructure development (setting signal posts, barrier fencing, road signs, etc.);
- production of asphalt mixtures;
- production of lumber;
- concrete products, commercial concrete and construction mixtures production.

In 2011 the Company's major project was damage repair of Minsk ring road; over the year the Company commissioned 10.8 km or 120.9 thousand m² of roads. The works in 2012 covered mainly the project of reconstruction of M-4 highway Minsk-Mogilev, as well as repairs of Minsk ring road, and the Company started also the reconstruction of M-5 highway Minsk-Gomel. Altogether the Company reported commissioning of 26.7 km of roads (208.4 thousand m²) in 2012.

In 9 months 2013 the Company continued works on reconstruction of M-4 and M-5, that generated about 78% of revenues for the period.

Auxiliary production volumes

Type of product	Unit	2011	2012	9m 2013
Asphalt concrete	th. tons	184.5	420.4	314.9
Metal structures	tons	29.0	167.5	58.5
Lumber	m ³	141.8	225.0	248.0
Construction mixture	m ³	137.8	75.4	88
Concrete	m ³	1,457.8	359.5	1,423

Production and process

The Company has various construction and road-building machinery: excavators, scrapers, bulldozers, graders road, tower and other special cranes, asphalt plants, batching plants, lumber sections and etc.

Mobile asphalt mixing machine of the German company "Benninghoven" type ECO- 3000 was purchased in September 2011, and it allows to produce asphalt mixtures near construction sites. Its capacity up to 240 tons per hour.

The average accumulated depreciation of fixed is about 57% but varies significantly as some buildings and equipment were recently commissioned or purchased and a large share of old vehicles has been depreciated by more than 70%. The Company undertakes capital expenditures to maintain the fixed assets; e.g. in 2011 capital investments exceeded depreciation more than 2 times.

The Company has its quality management system certified in accordance with the requirements of STB ISO 9001-2009. The Company's activities are in accordance with environmental regulations and meet the requirements of STB ISO 14001-2005.

Revenues

The Company's revenue for 9 months of 2013 amounted to USD 35.47 million. The main activity of the Company is construction, reconstruction and repair of all types of roads and structures on it. Share of these operations in the total revenue was 92% in 2013, 85% in 2012 and 90% in 2011. Other activities include services such as rental of construction equipment, earthworks, sales of auxiliary products. Asphalt concrete takes 99% of auxiliary production volumes.

The significant growth of revenues in 2012 compared to 2011 by 1.23 times was driven by major volumes of reconstruction works done on M-4 highway Minsk-Mogilev in 2012. The revenues in 2013 decreased by estimated 25% compared to the peak in 2012 to a .

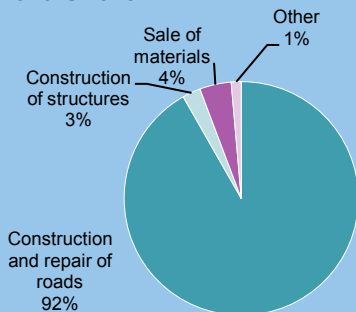
The revenue is influenced by seasonal factors: increased activity is observed in 2-3 quarters due to the specific technological process and weather conditions.

The Company provides works and services in the Belarusian market only but occasionally acts as a sub-contractor of foreign companies, which is recorded as export revenue. Such quasi-export reached USD 11.74 million in 9 months 2013 or 33% of revenues.

The main customers of the Company are state controlled road operators and general contractors on road construction and reconstruction projects. Five largest customers of "CMT No.8" bring the Company 86% of the revenue. The two key customers in 9 months 2013 were the Italian Todini S.p.A. (33% of the revenues) and the state road operator RUE "Minskavtodor-Center" (31%).

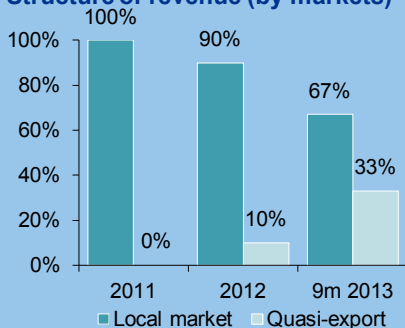


Revenue by types of operations, 9 months 2013



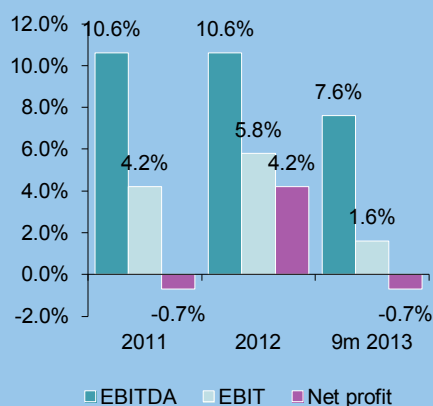
Source: The Company, KPMG analysis

Structure of revenue (by markets)



Source: The Company, KPMG analysis

Profitability ratios



Source: The Company, KPMG analysis

Revenue per employee (thousand USD)

- 2011 – 46.63
- 2012 – 101.1
- 9m 2013 – 56.04

Source: The Company, KPMG analysis

Financials of the Company

The Company does not make financial reporting in accordance with IFRS. The financial information provided below has been prepared exclusively for the purposes of this and other documents within the pilot privatisation context on the basis of statutory accounting information of the Company using the principles of IFRS.

The Company shows stable and improving profitability of sales in the years after the crisis starting from 2011 (7.7% - 9 months 2013, 5.8% - 2012, 2.7% - 2011).

The Company has relatively low indebtedness: loans comprise about 13% of the total of liabilities and equity.

Profit and loss account			
thousand USD	2011	2012	9m2013
Revenues	26,459	59,099	35,475
COGS	(24,234)	(49,579)	(31,533)
Gross margin	2,225	9,521	3,942
Other income	76	257	279
Administrative expenses	(3,291)	(4,618)	(2,636)
Other expenses	(287)	(1,015)	(569)
Operational income	(1,277)	4,145	1,016
Financial costs	(207)	(687)	(904)
Net non-monetary position	2,221	(227)	55
Income before tax	737	3,232	166
Tax expenses	(921)	(721)	(422)
Net income	(184)	2,510	(255)
EBITDA	2,803	6,289	2,697

Source: The Company, KPMG analysis

The major item of the cost of goods sold (about 44-46%) is the key raw materials and inputs, primarily asphalt concrete and crushed rock, which are supplied mainly by big local state companies.

The average monthly salary in the Company was USD 770 in 9 months of 2013.

Balance sheet			
thousand USD	30 Dec 11	31 Dec 12	30 Sep 13
Assets			
Fixed assets, uncompleted construction	16,264	14,951	13,927
Intangible assets	1	1	2
Account receivables	-	914	-
Current assets	4,001	8,814	22,475
Total assets	20,266	24,679	36,404
Equity			
Statutory equity	15,067	15,071	15,109
Retained earnings	(1,031)	1,464	679
Total equity	14,036	16,535	15,788
Liabilities			
Long term liabilities	2,815	1,387	364
Short term liabilities	3,414	6,758	20,251
Total liabilities	6,230	8,144	20,616
Total liabilities and equity	20,266	24,679	36,404

Source: The Company, KPMG analysis

Fixed assets and trade and accounts receivables take the largest share of the Company's assets, 38% and 49%, accordingly, as of 1 October 2013. Significant amounts were invested also in inventory (about 12%).

As of 1 October 2013 the Company had long term liabilities on a sum of USD 0.36 million, while the short term liabilities were over USD 20 million and consisted mainly of payables (78%) and short term loans (13%).

For further information, please contact the people noted below :

KPMG Advisory (Hungary)

Tamás Simonyi

Director, Corporate Finance

Phone:+36 1 887 7128

Mob.: +36 70 333 1501

Fax:+36 1 887 7392

E-mail: tamas.simonyi@kpmg.hu

Laszlo Fendrik

Director, Corporate Finance

Phone: +36 1 887 7248

Mob.: +36 70 333 1428

Fax: +36 1 887 7392

E-mail: laszlo.fendrik@kpmg.hu

KPMG Ltd. (Belarus)

Vassily Tarasevich

Manager, Corporate Finance

Phone: +375 17 306 08 03

Fax: +375 17 306 08 12

Mob.: +375 29 104 75 15

E-mail: vtarasevich@kpmg.by

National Agency of Investment and Privatisation of Belarus

Andrei Yuranov

Deputy Head of the Privatisation Department

Phone: + 375 17 200 05 49

Fax: + 375 17 226 47 98

E-mail: andrey_yuranov@investinbelarus.by

Mailing addresses

KPMG Advisory (Hungary)

KPMG Tanacsado Kft.

Vaci ut. 99, H-1139 Budapest, Republic of Hungary

Phone +36 (1) 887 71 00

Fax +36 (1) 887 71 01

Mob. +375 29 104 75 15

Internet www.kpmg.hu

KPMG Ltd.

5 Dimitrova str., Office 9

220004 Minsk, Belarus

Phone +375 17 306 08 03

Fax +375 17 306 08 12

Mob. +375 29 104 75 15

Internet www.kpmg.by

National Agency of Investment and Privatisation of Belarus

14 Bersona Street, Minsk, 220030

Phone +375 17 200 81 75

Fax +375 17 226 47 98

Internet www.investinbelarus.by



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