



OJSC Lakokraska

Investment opportunity

September 2018



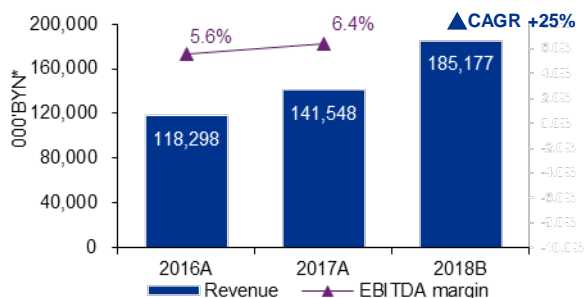
OJSC Lakokraska

Overview

- KPMG is pleased to introduce an opportunity to invest in OJSC Lakokraska ("the Company", "Lakokraska"), the leading producer of paints and coatings in the Republic of Belarus
- KPMG Limited has been retained as an exclusive financial advisor to National agency of investment and privatization (NAIP) in respect to the potential investment in Lakokraska by a strategic partner ("Proposed Transaction")

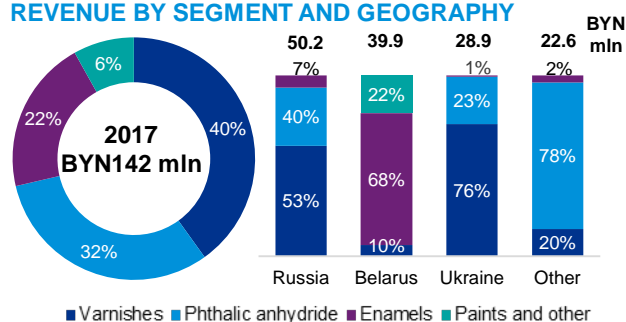
This preliminary investment overview is intended to introduce the Company to potentially interested parties as a precursor to signing of a confidentiality agreement and access to more detailed information and discussions

REVENUE

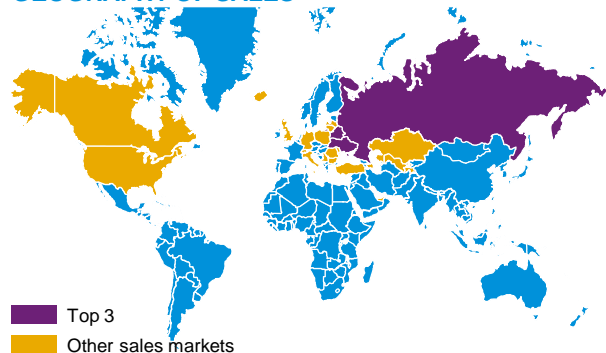


*Note: as of 10.08.2018 BYN / USD exchange rate stood at approximately 0.49

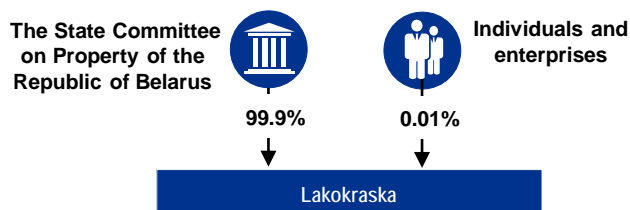
REVENUE BY SEGMENT AND GEOGRAPHY



GEOGRAPHY OF SALES



COMPANY'S OWNERSHIP STRUCTURE



Source: Company data



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BUSINESS OVERVIEW

- Founded in 1965, the Company is the leading Belarusian producer of paints and coatings with a focus on production of wide range of varnishes and enamels (for architectural, industrial and special applications) as well as phthalic anhydride
- Lakokraska is the exclusive producer of phthalic anhydride in Belarus and one of the leaders in the Russian market owing to cost efficient production and high quality. Approximately 70% of the Company's revenue comes from exports mainly to Russia and Ukraine
- The Company's paints and enamels are highly regarded by domestic and foreign consumers for a decent combination of competitive price and high quality
- Attractiveness of the Company's anti-corrosion products is additionally enhanced by the license for usage of internationally recognized brand names Baril and Magyar Lakk
- Lakokraska operates own R&D function which allows to successfully research and introduce new materials and products that better address the needs of consumers. Share of innovative products in total volume constitutes approximately 10%
- Production facilities of Lakokraska are located in Lida, Grodno region. The Company uses equipment of the leading German manufacturers with a total annual capacity of 54,000 tons of phthalic anhydride, 43,000 tons of varnishes and 18,000 tons of enamels
- The Company's strong revenue growth budgeted in 2018 is attributed to the planned increase in varnishes sales and the recent launch of additional production line of phthalic anhydride
- Lakokraska has strong potential for further development, coming from export opportunities, including sales to Asia Pacific region and launch of new products, such as maleic anhydride

PROPOSED TRANSACTION

- The Government of the Republic of Belarus is contemplating Lakokraska's partnership with a strategic investor in order to accelerate implementation of the development plans
- NAIP on behalf of the Government is ready to consider various forms of cooperation that may include purchase of the existing state-owned stock, purchase of newly issued stock, launching joint ventures and other widely used models
- The key priorities of the Government in the context of the potential transaction are as follows:
 - employee retention during 3 years after the deal and maintaining remuneration at the level not lower than average level in Grodno region of the Republic of Belarus
 - partial or full financing of envisaged investments potentially including equipment upgrade, processes improvement and development of new products

Key Investment Highlights



ATTRACTIVE MARKET SHOWING SUSTAINABLE GROWTH

- ❑ In 2018, analysts expect further acceleration of the Belarusian economy with the GDP growth projected to reach 3%. This sets the basis for the further positive dynamics in Lakokraska's top line and profits as the local market is seen as key for the most marginal products of the Company
- ❑ Machinery, one of the key sectors of paints and coatings consumption, is expected to be among the fastest growing, owing to gradual recovery of the Russian economy resulting in ample export opportunities for Belarusian manufacturers
- ❑ Projected reduction of interest rates in Belarus is expected to drive recovery of construction sector, a key consumer of paints and coatings
- ❑ The Company has already proven its export capabilities by selling the products to Latin America and Asia Pacific region, and there is still untapped potential for growth of export revenues. In particular, the opportunity to enter the Chinese market is currently being investigated
- ❑ As the market is shifting from traditional alkyd materials to more environmentally friendly water based ones, Lakokraska would be able to exploit the spare capacity and triple the respective output



LEADING MARKET PLAYER

- ❑ Lakokraska is the unrivalled leader on the domestic paints and coatings market controlling around 27%, while its 6 largest competitors jointly hold approximately 37%
- ❑ Lakokraska is the exclusive producer of phthalic anhydride in Belarus and holds 16% of the respective Russian market
- ❑ Lakokraska puts significant efforts into research and development of new materials. Strong R&D competencies of Lakokraska allow it to successfully bring new products to the market, with recently launched materials having accounted for more than 10% of its 2017 volume
- ❑ The envisaged launch of maleic anhydride production is expected to further enhance the Company's market leading position, both domestically and globally



COST-EFFICIENT PRODUCTION

- ❑ The Company's cost efficient production and high quality allows to successfully compete on CIS markets as well as in Europe and Americas. It also facilitates numerous contract manufacturing arrangements with the foreign clients and DIY retail chains operating in the market
- ❑ Recent investments in phthalic anhydride production and power station allowed to increase energy efficiency: the Company fully replaced external thermal energy sources and by the end of 2018 plans to substitute 30% of electric power supply
- ❑ Through 2016 - 1Q 2018 the Lakokraska management has achieved 9% reduction in headcount and 72% increase in revenue per employee through operational improvements



ADVANCED DISTRIBUTION NETWORK

- ❑ Lakokraska enjoys seamless access to a wide base of international customers through the distribution network of its partners, including Belneftekhim holding
- ❑ The Company operates own truck fleet, rail infrastructure and 9 regional distribution centers across the whole Belarus that ensure availability of the entire range of products to the end user, and allow to respond quickly to customers' requests

Source: Company data, Sberbank CIB macro research

Operational profile

Differentiated product range



Varnishes

\$ 40% of 2017 revenue

Capacity: 43,000 tons/year

Production volumes, tons

	2016A	2017A	1Q 2018A
	36,223	38,090	9,250

Mainly condensation resin based varnishes, produced by azeotropic method

>30 different types: ready to use varnishes for various surfaces and intermediate varnishes for enamel production



Phthalic anhydride

\$ 32% of 2017 revenue

Capacity: 54,000 tons/year

Production volumes, tons

	2016A	2017A	1Q 2018A
	25,755	30,967	13,699

In 2017 the second production line of phthalic anhydride was installed, which more than doubled the production capacity

According to the Company's quality management department, quality and technical characteristics are in line with the samples from leading European producers



Enamels

\$ 22% of 2017 revenue

Capacity: 18,000 tons/year

Production volumes, tons

	2016A	2017A	1Q 2018A
	11,251	10,228	2,245

Mainly condensation and polymerization resin based enamels, produced in beaded mills and dissolvers

Perspective focus is on development of anticorrosive coatings, high-viscosity materials with a high level of dry residue, materials with low energy consumption during application

Other products

\$ 6% of 2017 revenue

Paints

Solvents

Hardeners

Car fluids

Efficient production



Equipment from leading German manufacturers



2MW out of 6MW will be generated by own power station by 3Q 2018



Manufacturing process is in conformity with ISO 14001

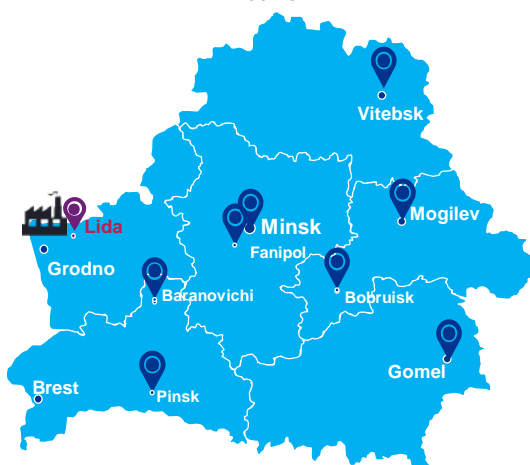
Headcount



Source: Company data

Access to wide customer base

Domestic distribution network



Distribution centers (owned)

Production facility

Retail store (owned)

International distribution network



Distribution through Belneftekhim network

Distribution through other partners

Further steps and communications

This company overview provides an introduction to the Company, and its future prospects. Potentially interested parties will be required to sign a Confidentiality Agreement to gain access to more detailed information and enter into further discussions

Should this be of interest to you, please contact the following professionals using the telephone or e-mail details listed below



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