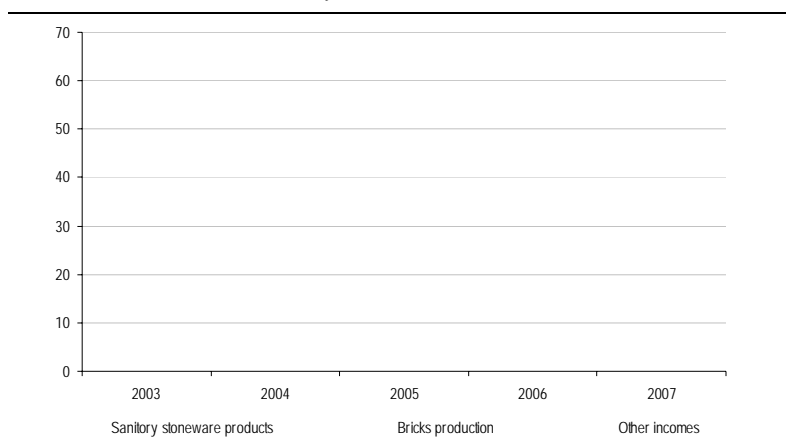


Company's profile

Company's primary activity

Strojpolimerkeramika's (SPK) activity started in 1946 with factory construction, which produced solid bricks. Then, in 80s company's business was expanded to production of the air-bricks and sanitary stoneware. Today, the factory produces such goods as toilet bowls, bidets, sink and accompanying pedestal of economy and middle classes. The factory also produces consumer goods, such as vases, flower pots, cache-pots, crockery, souvenirs etc.

Income dynamics and structure, mn USD



Source company's data, Estimation Veles Capital

About 2/3 of company's income is formed by sanitary stoneware goods, less than 1/3 of income out of brick sales and other, about 8-10% fall on consumer goods. The major part of the production is sold in Russian Federation. The export sales form less than 10% of income. Thus, according to the results of 2007, the share of export income formed only 3.1% and 5.6% in 2006.

Company's market position

The company's position at the Russian market is very sound. Thus, according to the company's report, SPK is on the 6th place of the brick market, and just by 28.9% behind the leader in value and also holding the 1st place at the sanitary stoneware market. However, it should be mentioned that the brick market is balanced — about 900 factories on the territory of RF situated on the equal distance, whereas each supplies the proximity regions. The far deliveries, usually, are not profitable; therefore the level of competition at the brick market is low.

SPK takes, approximately, 1/5 of the Russian market of sanitary stoneware production in values. Today there is a high risk of cheap import, especially from such countries as China or Belarus. The competitive advantages of SPK's production are low prices and a high quality. That is why it looks better than rivals. Another important factor is well-organized distributions, partially due to contracts with the developers, which allow conducting wholesale of the sanitary stoneware for housing, under construction.

Main rivals of the company

	location	annual average output, mn units
Brick production		
Golitzensky Keramichesky factory	Moscow Region	117.00
Revdinsky brick factory	Sverdlovsk Region	114.50
Pobeda-Knauf	St. Petersburg	101.50
NPO Keramika	St. Petersburg	100.30
Lenstroykeramika	Leningrad Region	70.00
Strojpolimerkeramika	Kaluga Region	90.70
Norsky Keramichesky factory	Yaroslav Region	88.90
Chelyabinsky construction industry KEMMA factory	Chelyabinsk Region	68.90
Cheboksarsky construction materials factory	Cheboksary, Chuvash Republic	65.20
Stroyplastpolimer brick factory	Sverdlovsk Region	63.40
Ceramin wall materials factory	Krasnodar Territory	60.40
Ryazstrom	Ryazan Region	59.30
Mstersky factory of ceramic wall materials	Vladimir Region	50.90
Novo-Ierusalimsky brick factory	Moscow Region	50.80
Mikhnevskaya keramika	Moscow Region	43.70
Azarovsky factory of wall materials	Kaluga Region	42.60
Novomoskovsky factory of ceramic materials "Centrgaz"	Tula Region	40.50
Zheleznogorsky brick factory	Kursk Region	37.20
Zaraysky factory of construction materials	Moscow Region	33.70
Kerma	Nizhni Novgorod Region	32.20
Sanitary stoneware production		
Strojpolimerkeramika	Kaluga Region	1.80 (possible increase to 2.00)
Kirovsky stroyfarfor	Kaluga Region	1.50
Samarsky stroyfarfor	Samara Region	0.90
Santek	Cheboksary, Chuvash Republic	0.48 (possible increase to 1.00)

Source: company's data, Estimation: Veles Capital

Company's current financial position

Concerning the financial side of the company's business, we should mark the total financial independence. Thus, during last 5 years, the company did not attract any sources of financing. Company's activity is financed by 90% capital resources; the other 10% is interest free debts, such as a credit debt. From the financial point of view it is a positive factor, but the company is using non-optimal capital structure, which has a negative effect on weighted average cost of capital and also on total value of the business. We see the given influence could not be characterized as essential.

The income rate is on a high level and it is reached not only by EBITDA and net income margins but also by good turnover of invested capital. As the result, the real return of the business is 2-3 times higher than required by investors (shareholders) levels.

However, company's business can be characterized as financially independent and credit worthy and also as financially stable under high rate of assets, debtor and creditor turnover.

Regarding the dynamics, SPK's financial situation is constantly improving. Thus, on the background of high income rates, company improves its financial margin, which has a positive effect on company's value. The results of 2007 confirmed the given tendency. In the last year SPK's income increased by 46%, EBITDA – by 84.4% and net income increased more than 2 times in comparison with the last business period. Therefore EBITDA margin increased by 4.7 p.p., net income margin increased by 4 p.p.

GAAP report of SPK for 3Q2007 and 2008

	1Q 2007		Changes, %		1Q 2008		2006		Changes %		2007	
	mn RUR	mn USD	RUR	USD	mn RUR	mn USD	mn RUR	mn USD	RUR	USD	mn RUR	mn USD
Income	401	15.26	72	162	430	17.73	1,218	44.91	37.7	46.2	1,677	65.65
Costs	(274)	(10.41)	-0.7	7.7	(272)	(11.21)	(901)	(33.20)	31.0	39.1	(1,180)	(46.20)
Gross income	128	4.85	24.0	34.4	158	6.52	318	11.71	56.5	66.2	497	19.45
Gross income margin, %	31.8				36.8		26.1				29.6	
Operating income (EBIT)	90	3.43	33.1	44.4	120	4.95	195	7.17	78.0	89.0	346	13.55
Operating income margin, %	22.5				27.9		16.0				20.6	
EBITDA	98	3.74	30.8	41.9	129	5.30	220	8.09	73.7	84.4	381	14.92
EBITDA margin, %	24.5				29.9		18.0				22.7	
Income before tax	84	3.21	26.5	37.2	107	4.40	159	5.85	91.1	102.9	303	11.87
Income before tax margin, %	21.0				24.8		13.0				18.1	
Net income	62	2.35	25.7	36.3	78	3.20	117	4.32	95.6	107.7	229	8.97
Net income margin, %	15.4				18.0		9.6				13.7	

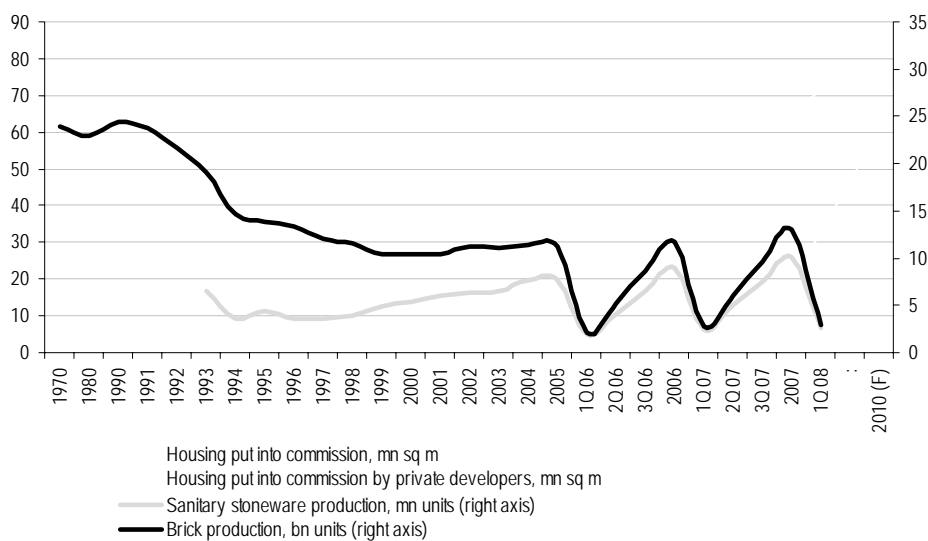
Source: company's data, Estimation: Veles Capital

The 1Q results show a positive trend, which maybe not as positive as the annual results. Thus, according to 1Q results company's income increased by 16.2% in comparison with the same period of last year, EBITDA – rose by 41.9% and net income expanded by 36.3%. Herewith, EBITDA margin is expanded +5.4 p.p., net income margin +2.7 p.p. The stable growth of efficiency is explained by constant prices growth and professional cost management. The income growth caused by the market enlargement, which allows the company to increase range of activities.

Factors influencing company's development

Company's activity depends on several macroeconomical factors. The first one is the volume of sales. The lion's share of production is sold on the territory of Russian Federation and a small part, according to company's report is exported to Kazakhstan. Company's production is used in construction purposes. Thus, the primary growth driver is construction growth rate in RF. During last 8 year the average construction growth rate of housings has formed, approximately, 10%. However, in 2006 it formed 16% and 19% in 2007; this fact shows a quick growth rate of housing sector. The Gosstroj's strategy of the sector development until 2010, involve housings 80 mn sq m of space put into commission against 60 mn sq m in 2007. Therefore, 80% of them will be put into the commission by the individual sector (in 2007 – 42.6%).

Dynamics of housing put into commission in comparison with sanitary stoneware and brick production.



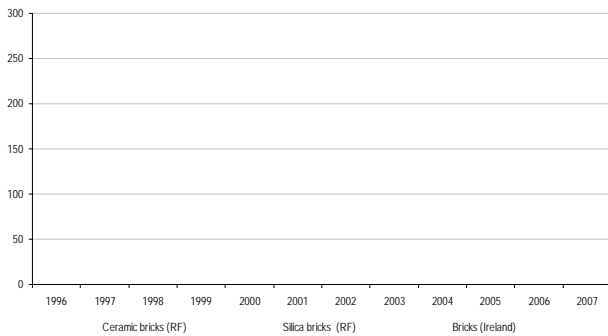
Source: GKS, Bloomberg, Estimat; Veles Capital

Thus, we see that consumption volumes of construction materials, also sanitary stoneware and brick consumption will be increased in the nearest future.

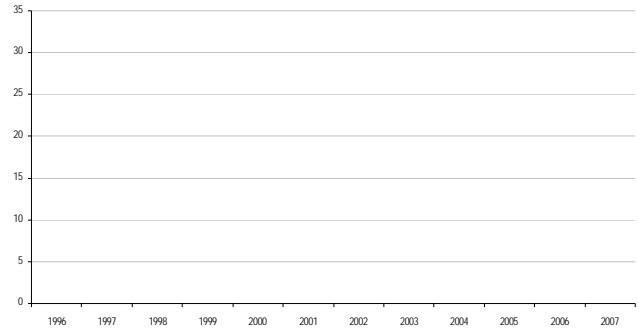
Although, brick consumption may lag behind the dynamic of construction development. The main reason is brick substitution by reinforced concrete and by other modern construction materials, which appeared in the beginning of 90s. However, brick has several advantages over alternative construction materials, for instance in individual construction sector. The sector is partially supports brick demand, the consumption of which can be increased up to 27-28 bn units a year to 2010 (against 13 bn units in 2007), according to Gosstroj's forecasts.

The second factor considerable growth of housing prices, which pushes up the construction materials prices, because everyone would like to get as much money from the building contractors as they can.

Brick prices dynamics, USD per units



The average prices dynamics of building contractors purchases of sanitary stoneware in Russia, USD per set



Source: GKS, Bloomberg, Estimat; Veles Capital

The brick prices have dropped deep in the end of the 90s. The following decrease occurred due to USD growth – the RUR prices in this period can be classified as stable. Another reason of prices decrease is low brick demand by building contractors which chose alternative construction materials. But since the year 2000 the trend was changed and prices rose with 20% annual rate of growth. However in 2006 – 2007 the prices growth was very high due to brick offer 2-3 times below. Therefore, if the following construction volume growth may not be attended by the adequate growth of brick production, than the brick prices can continue rising in the nearest future.

The sanitary stoneware prices are also rising since 2000. For instance, prices of faience sinks, which enjoyed to 25%, expanded purchases by building contracts. The growth can be related with increasing housing prices up, which “drag” the construction material prices. Moreover, this is the only factor of growth, because there is no sanitary stoneware deficit at the Russian market. Thus, if the housing prices continue rising, than the sanitary stoneware prices may increase too. It will have a positive influence on such companies as SPK.

Financial model

Balance sheet, mn USD

	2003	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011(F)	2012(F)	2013(F)	2014(F)	2015 F
Current assets	5.08	8.32	9.29	13.70	20.17	30.97	41.70	50.92	62.52	73.19	86.33	98.65	114.38
Cash and cash equivalents	1.25	1.06	2.22	5.43	8.54	13.69	22.51	30.17	40.07	49.25	60.80	71.85	86.24
Accounts receivable	1.31	2.82	2.78	3.23	3.88	5.92	6.58	7.11	7.69	8.20	8.75	9.18	9.64
Inventories (incl. VAT)	2.51	4.44	4.29	5.03	7.76	11.36	12.61	13.64	14.76	15.74	16.78	17.62	18.50
Other operating assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Nonoperating assets	11.40	13.20	13.15	15.96	21.18	25.30	27.43	29.68	31.69	33.79	35.54	37.32	37.51
PPE and intangible assets	10.36	11.91	11.64	12.72	19.35	22.78	24.63	26.65	28.41	30.30	31.81	33.40	33.40
Other assets	1.04	1.29	1.51	3.24	1.84	2.52	2.80	3.03	3.28	3.50	3.73	3.92	4.11
Total assets	16.48	21.52	22.44	29.66	41.35	56.28	69.14	80.60	94.21	106.98	121.87	135.96	151.89
Short-term liabilities	1.25	0.26	1.16	1.93	2.25	5.18	5.75	6.22	6.73	7.17	7.65	8.03	8.43
Short-term interest-bearing liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest-free liabilities	1.25	0.26	1.16	1.93	2.25	5.18	5.75	6.22	6.73	7.17	7.65	8.03	8.43
Long-term liabilities	0.09	1.99	0.12	0.16	0.19	0.25	0.28	0.30	0.33	0.35	0.37	0.39	0.41
Long-term interest-bearing liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest-free liabilities	0.09	1.99	0.12	0.16	0.19	0.25	0.28	0.30	0.33	0.35	0.37	0.39	0.41
Share capital	15.14	19.27	21.15	27.57	38.92	50.84	63.10	74.08	87.16	99.46	113.84	127.54	143.05
Shareholder's equity	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Additional paid-in capital	8.93	9.48	9.14	9.99	10.72	11.18	11.18	11.18	11.18	11.18	11.18	11.18	11.18
Retained earnings and reserves	6.21	9.78	12.01	17.57	28.19	39.65	51.91	62.89	75.97	88.27	102.65	116.35	131.86
Total liabilities	16.48	21.52	22.44	29.66	41.35	56.28	69.14	80.60	94.21	106.98	121.87	135.96	151.89

Source company's data, Estimation: Veles Capital

Profit and loss statements, mn USD

	2003	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011(F)	2012 (F)	2013 (F)	2014 (F)	2015 F
Sales	21.47	27.65	32.99	44.91	65.65	88.83	98.65	106.68	115.42	123.06	131.22	137.78	144.67
Cost of products sold	(14.40)	(18.82)	(24.70)	(33.20)	(46.20)	(64.79)	(69.12)	(77.73)	(81.62)	(89.65)	(93.28)	(100.36)	(103.39)
Administrative and commercial costs	(2.74)	(3.71)	(2.71)	(4.54)	(5.90)	(6.45)	(7.17)	(7.75)	(8.39)	(8.94)	(9.53)	(10.01)	(10.51)
EBIT	4.33	6.75	4.60	7.17	13.55	17.59	22.37	21.20	25.41	24.47	28.40	27.41	30.78
EBITDA	4.70	7.31	5.36	8.09	14.92	19.04	23.91	22.87	27.20	26.38	30.43	29.54	32.95
Non-operating income (losses)	(0.67)	(2.56)	(0.95)	(1.46)	(1.92)	(2.30)	(2.55)	(2.76)	(2.99)	(3.18)	(3.39)	(3.56)	(3.74)
Net interest income (expense)	0.00	0.00	0.04	0.14	0.24	0.04	0.05	0.04	0.06	0.08	0.10	0.12	0.14
EBT	3.66	4.20	3.70	5.85	11.87	15.33	19.86	18.48	22.48	21.36	25.11	23.97	27.17
Income tax	(1.00)	(1.12)	(1.08)	(1.53)	(2.90)	(3.74)	(4.77)	(4.44)	(5.40)	(5.13)	(6.03)	(5.75)	(6.52)
EAT	2.66	3.08	2.62	4.32	8.97	11.59	15.09	14.04	17.08	16.23	19.08	18.21	20.65
EPS, USD	1.47	1.71	1.45	2.39	4.97	6.42	8.36	7.78	9.47	9.00	10.57	10.09	11.44

Source company's data, Estimation: Veles Capital

Cash flow statements, mn USD

	2003	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011(F)	2012 (F)	2013 (F)	2014 (F)	2015 F
Operational activities													
EAT	2.66	3.08	2.62	4.32	8.97	11.59	15.09	14.04	17.08	16.23	19.08	18.21	20.65
Amortization	0.37	0.56	0.76	0.92	1.37	1.45	1.54	1.67	1.79	1.91	2.02	2.12	2.18
Net current assets change	(0.75)	(2.52)	(0.78)	(0.39)	(3.02)	(2.65)	(1.31)	(1.07)	(1.17)	(1.02)	(1.09)	(0.88)	(0.92)
Other adjustments	0.00	0.00	(0.04)	(0.14)	(0.24)	(0.04)	(0.05)	(0.04)	(0.06)	(0.08)	(0.10)	(0.12)	(0.14)
Operational cash flow	2.29	1.12	2.56	4.71	7.07	10.35	15.28	14.60	17.65	17.05	19.92	19.35	21.77
Investment activities													
Non-operating assets change	(3.28)	(2.36)	(0.70)	(3.74)	(6.59)	(5.57)	(3.68)	(3.92)	(3.81)	(4.01)	(3.77)	(3.90)	(2.37)
Shortrun financial investments change	(0.04)	0.15	0.38	(3.48)	(2.90)	1.97	(7.82)	(6.84)	(9.01)	(8.40)	(10.72)	(10.38)	(13.69)
Other items	0.00	0.00	0.04	0.14	0.24	0.04	0.05	0.04	0.06	0.08	0.10	0.12	0.14
Investment cash flow	(3.32)	(2.20)	(0.28)	(7.08)	(9.25)	(3.56)	(11.45)	(10.71)	(12.76)	(12.34)	(14.39)	(14.16)	(15.92)
Financial activities													
Debt provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shareholders capital provisions	0.96	1.04	(0.73)	2.10	2.38	1.79	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividends payout	0.00	0.00	0.00	0.00	0.00	(1.45)	(2.83)	(3.07)	(4.00)	(3.93)	(4.70)	(4.52)	(5.14)
Financial cash flow	0.96	1.04	(0.73)	2.10	2.38	0.34	(2.83)	(3.07)	(4.00)	(3.93)	(4.70)	(4.52)	(5.14)
Effect of exchange rates	(0.00)	0.00	(0.00)	(0.00)	0.00	0.00	0.00	(0.00)	0.00	0.00	(0.00)	(0.00)	(0.00)
Cash change	(0.08)	(0.04)	#MMR?	(0.27)	0.20	7.13	1.00	0.82	0.89	0.78	0.83	0.67	0.70

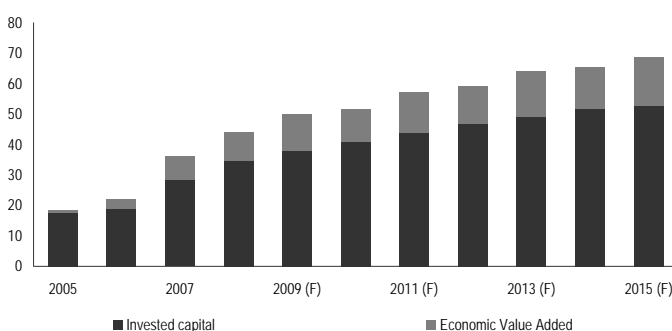
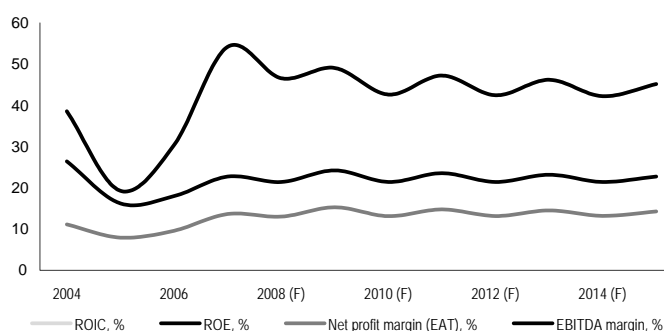
Source company's data, Estimation: Veles Capital

Business economic effectiveness analysis

		2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011(F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
ROIC factor analysis:													
	sensitivity												
EBITDA margin, %	1.84	265	16.3	18.0	22.7	214	242	21.4	23.6	21.4	23.2	21.4	22.8
effective tax rate, %	-0.49	266	29.2	26.2	24.5	244	240	24.0	24.0	24.0	24.0	24.0	24.0
amortization period, years	0.02	19.8	15.6	13.7	11.8	14.3	15.0	15.4	15.4	15.4	15.4	15.4	15.4
invested capital turnover	0.16	2.15	1.95	2.58	3.48	3.11	2.85	2.82	2.82	2.81	2.81	2.79	2.79
ROIC, %		38.6	19.3	30.4	54.2	46.6	49.1	42.6	47.2	42.4	46.2	42.2	45.2
ROE %		38.6	19.3	30.4	54.2	46.6	49.1	42.6	47.2	42.4	46.2	42.2	45.2
ROA %		18.7	12.2	19.2	30.2	28.0	26.8	20.3	21.2	17.2	17.8	14.9	15.2
Net profit margin (EAT) %		11.1	7.9	9.6	13.7	13.0	15.3	13.2	14.8	13.2	14.5	13.2	14.3
EBIT margin, %		24.4	14.0	16.0	20.6	19.8	22.7	19.9	22.0	19.9	21.6	19.9	21.3
Dividend payout ratio, %		0.0	0.0	0.0	0.0	125	18.8	21.9	23.4	24.2	24.6	24.8	24.9

Profitability dynamics, %

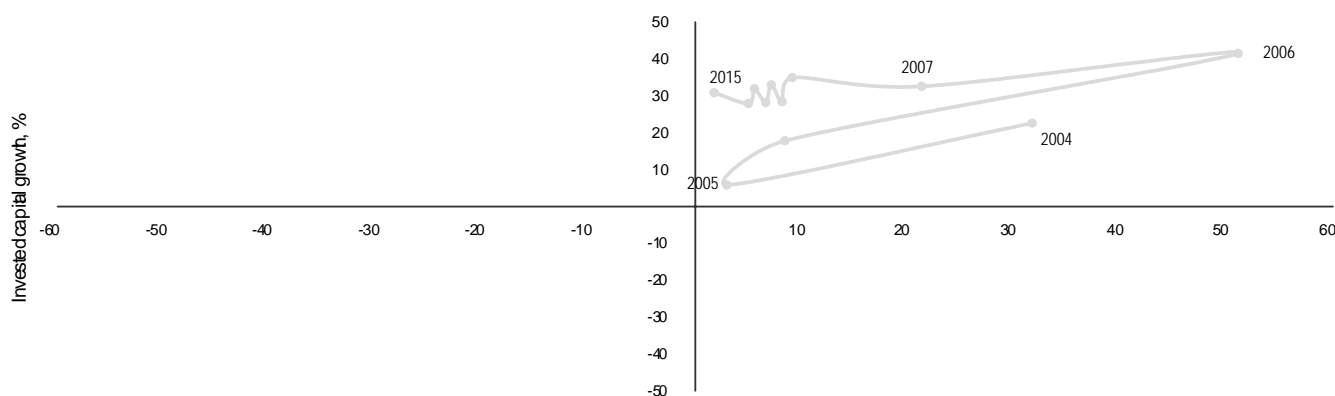
Business value dynamics, mm USD



Business development map

Debt development

Prosperity



Business destruction

EVAspread, %

Lost opportunities

Source company's data, Estimation: Veles Capital

Financial state analysis

	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011(F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Leverage:												
Financial leverage	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operational leverage effect	3.95	5.99	2.59	2.24	2.42	2.12	2.42	2.18	2.42	2.22	2.41	2.26
Financial leverage effect	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Financial leverage characteristics:												
Interest-bearing debt / EBITDA	-	-	-	-	-	-	-	-	-	-	-	-
Interest-bearing SR debt / EAT	-	-	-	-	-	-	-	-	-	-	-	-
Interest-bearing debt / sales	-	-	-	-	-	-	-	-	-	-	-	-
Interest-bearing debt / assets	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA / Interest payments	-	-	-	-	-	-	-	-	-	-	-	-
Company's liquidity:												
current ratio (>2)	-	7.99	7.08	8.97	5.98	7.25	8.19	9.29	10.20	11.29	12.28	13.56
quick ratio (>1)	-	4.30	4.48	5.52	3.79	5.06	5.99	7.10	8.01	9.09	10.09	11.37
absolute liquidity ratio (>0.2)	-	1.91	2.81	3.80	2.64	3.91	4.85	5.96	6.87	7.95	8.94	10.23
Turnover estimates (of days):												
accounts receivable	37	30	26	21	24	24	24	24	24	24	24	24
interest free liabilities	29	14	17	13	22	22	22	22	22	22	22	22
inventories	58	47	40	43	46	46	46	46	46	46	46	46
non-operating assets	172	143	128	116	103	100	100	99	99	98	98	93
net current assets	108	101	110	111	126	152	172	195	214	237	258	285

Source company's data, Estimation: Veles Capital

Estimated value

Calculation of share capital fair value(endof the year), mn USD.

	EV	TV	Cagr%	Net debt	SV	Target price,USD ord.	USD pref	weigh
Income approach								
1. Unified object estimation concept (SV calculation through EV)								
Classical DCF (through FCF calculation)	149	78	3.0	(14)	163	84.03	2941	0.20
EVA method (through calculation of economic profit)	149	57	3.0	(14)	163	84.09	2943	0.20
2. Direct calculation of share capital value (SV)								
DCF (through FCFE calculation)	149	78	3.0	(14)	163	84.03	2941	0.20
EBO method (through calculation of economic profit to shareholders)	149	57	3.0	(14)	163	84.09	2943	0.20
Comparables approach								
Valuation through multiples	109	-	-	(14)	123	63.45	2221	0.20
Cost-based valuation approach								
Net assets valuation	25	-	-	(14)	39	20.05	7.02	0.00
Weighted valuation	141				155	79.94	27.977	1.00

Source company's data, Estimation: Veles Capital

Free cashflows calculation, mn USD

	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011(F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
1. Unified object estimation concept (EV) DCF method (FCFF)												
NOPAT	4.96	3.26	5.29	10.24	13.30	16.99	16.11	19.31	18.59	21.59	20.83	23.39
Gross operational FCFF	5.52	4.02	6.21	11.61	14.75	18.54	17.78	21.10	20.51	23.61	22.96	25.57
Gross CapEx needs:	(4.63)	(1.26)	(2.39)	(11.02)	(7.53)	(4.71)	(4.76)	(4.72)	(4.82)	(4.63)	(4.59)	(3.09)
inc. PPE CapEx	(2.11)	(0.49)	(2.00)	(8.00)	(4.88)	(3.40)	(3.69)	(3.56)	(3.80)	(3.54)	(3.71)	(2.18)
net current assets change	(2.52)	(0.78)	(0.39)	(3.02)	(2.65)	(1.31)	(1.07)	(1.17)	(1.02)	(1.09)	(0.88)	(0.92)
FreeCash Flow to Firm	0.88	2.76	3.82	0.59	7.21	13.83	13.02	16.38	15.69	18.98	18.37	22.47
2. Direct calculation of share capital value (SV): DCF method (FCFE)												
Operational EAT	4.96	3.26	5.29	10.24	13.30	16.99	16.11	19.31	18.59	21.59	20.83	23.39
Attraction (coverage) of borrowings	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross operational FCFE	5.52	4.02	6.21	11.61	14.75	18.54	17.78	21.10	20.51	23.61	22.96	25.57
Gross CapEx needs:	(4.63)	(1.26)	(2.39)	(11.02)	(7.53)	(4.71)	(4.76)	(4.72)	(4.82)	(4.63)	(4.59)	(3.09)
inc. PPE CapEx	(2.11)	(0.49)	(2.00)	(8.00)	(4.88)	(3.40)	(3.69)	(3.56)	(3.80)	(3.54)	(3.71)	(2.18)
net current assets change	(2.52)	(0.78)	(0.39)	(3.02)	(2.65)	(1.31)	(1.07)	(1.17)	(1.02)	(1.09)	(0.88)	(0.92)
FreeCash Flow to Equity	0.88	2.76	3.82	0.59	7.21	13.83	13.02	16.38	15.69	18.98	18.37	22.47

Source company's data, Estimation: Veles Capital

Economic value added calculation, mn USD

	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011(F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
1. Unified object estimation concept (EV) EVA method												
EVA spread (ROIC-WACC) %	226	5.8	17.8	41.5	32.6	35.0	28.4	33.0	28.2	31.9	27.9	30.8
Invested capital	16.92	17.42	18.89	28.54	34.62	37.79	40.88	43.81	46.71	49.31	51.78	52.70
Economic Value Added	2.90	0.98	3.10	7.84	9.29	12.10	10.74	13.48	12.34	14.90	13.77	15.97
2. Direct calculation of share capital value (SV): EBO method												
SVA spread (ROEks), %	226	5.8	17.8	41.5	32.6	35.0	28.4	33.0	28.2	31.9	27.9	30.8
Invested capital attributable to shareholders	16.92	17.42	18.89	28.54	34.62	37.79	40.88	43.81	46.71	49.31	51.78	52.70
Shareholder Value Added	2.90	0.98	3.10	7.84	9.29	12.10	10.74	13.48	12.34	14.90	13.77	15.97

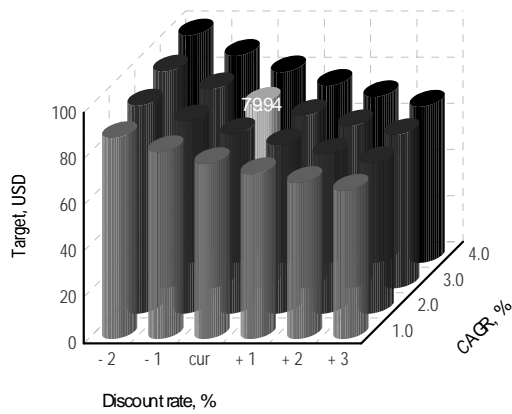
Source company's data, Estimation: Veles Capital

Weighted average cost of capital estimation (WACC)

	2004	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011(F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Risk-free yield rate (for RF) k_{rf} , %												
	8.11	5.57	4.66	4.78	5.95	5.95	5.95	5.95	5.95	5.95	5.95	5.95
Average yield for developed markets in 5 years, %												
	3.88	3.40	3.47	3.76	3.99	3.99	3.99	3.99	3.99	3.99	3.99	3.99
RF default spread %												
	4.23	2.17	1.19	1.02	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Shareholders' required yield rate k_s , %												
	16.01	13.47	12.56	12.68	14.02	14.13	14.20	14.25	14.28	14.31	14.32	14.33
Expected market return %												
	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
βL coefficient (according to financial leverage)												
	0.90	0.90	0.90	0.90	0.93	0.96	0.97	0.98	0.99	0.99	0.99	1.00
Premium for inequality of corporate governance, %												
	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40
Creditors' required yield rate k_d , %												
	9.91	7.37	6.46	6.58	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Premium for credit risk, %												
	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80
Capital's structure												
Share of source «shareholders capital», %												
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Share of source «debt finance», %												
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
WACC, %	16.01	13.47	12.56	12.68	14.02	14.13	14.20	14.25	14.28	14.31	14.32	14.33

Source company's data, Estimation: Veles Capital

Analysis of the share's weighted average fair value sensitivity



Discount rate, %	CAGR, %			
	1.0	2.0	3.0	4.0
- 3	94.40	98.45	103.47	109.87
- 2	87.09	90.17	93.92	98.57
- 1	80.99	83.38	86.24	89.71
cur	75.83	77.72	79.94	82.58
+ 1	71.42	72.92	74.67	76.73
+ 2	67.61	68.82	70.21	71.83
+ 3	64.28	65.27	66.39	67.68

Source: company's data, Estimation Veles Capital

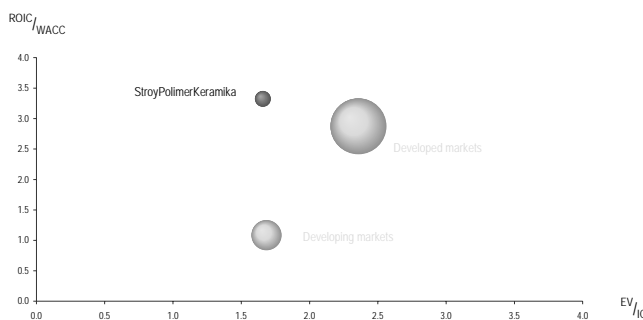
Public comparables

Sector companies' multipliers and coefficients

		Current capitalization, mln USD	Enterprise value, mln USD	Market multipliers					Financial coefficients				
				EV/S	EV/EBITDA	P/E	P/BV	EV/IC	ROE, %	ROA, %	ROC, %	EBITDA margin, %	ROIC/WACC
Developed markets													
Marazzi Group SpA	ITALY	1,128	1,504	0.98	5.70	12.82	1.46	1.31	10.19	5.22	1034	17.19	1.29
GranitFiandre SpA	ITALY	399	444	1.14	6.00	14.27	1.82	1.67	11.37	4.66	1251	1893	1.63
Panariagroup Industrie Ceramiche SpA	ITALY	253	370	0.68	5.16	12.35	1.12	1.08	8.04	3.79	7.09	13.14	0.93
Gruppo Ceramiche Ricchetti	ITALY	143	274	0.64	5.60	11.33	-	0.60	3.50	2.24	5.02	11.44	0.70
Villeroy & Boch AG	GERMANY	403	334	0.22	2.48	10.65	1.46	1.61	6.65	2.92	2137	8.70	2.29
Geberit AG	SWITZERLAND	6,754	6,563	2.69	10.53	16.43	5.20	5.92	31.23	1840	3759	25.54	3.51
Krosaki Harima Corp	JAPAN	262	323	0.39	4.19	9.28	0.93	0.94	13.87	4.01	8.16	9.26	0.64
Nikkato Corp	JAPAN	72	60	0.74	3.55	9.66	0.92	0.91	11.67	8.10	11.29	2077	1.31
Kikusui Chemical Industries Co Ltd	JAPAN	59	48	0.38	5.15	32.86	0.91	0.89	6.18	3.34	2.91	7.31	0.64
Isolite Insulating Products Co Ltd	JAPAN	51	110	0.70	4.80	11.52	0.75	0.86	7.48	2.50	6.99	14.60	1.32
Tsuruya Co Ltd	JAPAN	26	96	0.94	9.54	16.03	-	0.60	2.08	0.90	1.50	9.89	0.40
Developed markets weighted average		742	780	1.23	7.48	14.44	2.84	2.36	24.83	1429	2986	22.25	2.87
Developing markets													
Cersanit Krasnystaw SA	POLAND	1,389	1,773	2.16	8.50	15.16	3.69	2.33	20.67	1115	1839	25.42	1.39
Opoczno SA	POLAND	257	315	1.24	5.52	9.56	4.24	2.66	17.09	9.20	2295	2254	2.06
Ceramica Nowa Gala SA	POLAND	115	142	1.41	6.00	10.39	1.48	1.36	12.00	7.90	13.12	2344	1.13
Ceramica Iasi	ROMANIA	92	75	3.80	10.49	21.93	-	-	17.48	1364	2.09	36.27	0.19
Eagle Brand Holdings Ltd	CHINA	51	41	0.59	10.33	36.59	0.62	0.57	1.82	1.38	-	5.69	-
Nitco Tiles Ltd	INDIA	156	182	1.79	11.81	18.54	1.59	1.47	-	-	7.66	1518	0.67
Euro Ceramics Ltd	INDIA	66	105	1.01	2.92	4.27	2.90	1.69	18.10	-	9.44	3443	-
Kajaria Ceramics Ltd	INDIA	54	133	1.39	10.12	30.38	1.66	1.19	5.81	1.54	5.17	13.70	0.54
Ilgil Refractories Ltd	INDIA	56	76	0.81	7.69	7.96	2.64	1.86	38.18	1220	1468	10.48	1.26
Asian Granite India Ltd	INDIA	33	47	1.26	5.26	6.59	1.35	1.23	-	-	1599	23.97	-
Murudeshwar Ceramics Ltd	INDIA	27	71	1.29	4.36	4.15	-	0.65	12.87	5.80	8.53	29.62	0.78
Cera Sanitaryware Ltd	INDIA	18	22	0.92	4.98	8.87	1.71	1.51	23.87	8.91	16.13	1854	1.37
Orient Ceramics & Industries Ltd	INDIA	10	23	0.58	3.50	4.00	0.95	0.98	27.86	8.31	13.05	1643	1.28
Somany Ceramics Ltd	INDIA	13	39	0.64	5.97	23.01	1.01	1.00	4.71	0.97	4.93	10.68	0.70
Champion Building Materials Co Ltd	TAIWAN	209	235	2.69	13.81	11.75	1.42	1.36	13.51	9.34	5.84	19.49	0.47
Kobin Environmental Enterprise Co Ltd	TAIWAN	84	96	2.05	13.41	19.55	2.18	1.90	11.71	3.17	10.01	1532	0.86
China Glaze Co Ltd	TAIWAN	83	107	1.42	23.19	31.86	1.04	1.03	3.79	2.38	2.34	6.3	0.20
KPT Industries	TAIWAN	16	27	2.08	-	15.14	1.41	1.20	9.63	3.59	-	-	-
Yi-Lai BHD	MALAYSIA	48	33	0.89	4.18	7.04	0.83	0.77	10.40	8.30	10.85	2133	0.85
Johan Holdings BHD	MALAYSIA	39	66	0.48	3.93	7.06	0.79	0.86	12.46	2.16	21.02	1218	2.49
Malaysian Mosaics BHD	MALAYSIA	24	99	1.07	5.79	19.19	-	0.71	2.06	0.83	2.48	18.52	0.37
White Horse Bhd	MALAYSIA	94	133	1.10	4.48	5.65	0.59	0.67	9.92	6.20	8.91	24.58	1.03
KIM HIN Industry Bhd	MALAYSIA	63	39	0.59	5.71	26.24	-	-	1.95	1.72	1.03	1029	0.08
Arwana Citramulia Tbk PT	INDONESIA	39	59	1.06	4.27	5.83	1.45	1.26	20.51	7.83	15.74	2473	1.25
Dynasty Ceramic Pcl	THAILAND	234	257	1.66	5.83	10.50	2.97	2.53	30.46	1748	2.183	28.48	2.43
Taicera Enterprise Co Ltd	VIETNAM	32	51	0.72	5.49	6.96	0.86	0.91	13.21	6.59	10.30	1313	1.19
EGE Seramik Co Inc	TURKEY	100	139	1.14	8.87	22.20	1.06	1.04	-	3.57	1.96	12.84	0.11
Usak Seramik Sanayii	TURKEY	13	36	0.72	4.88	13.01	0.67	0.85	5.95	1.74	7.45	14.83	0.68
Saudi Ceramic	SAUDI ARABIA	882	1,004	6.12	21.32	25.91	5.39	3.51	22.00	1104	8.36	28.69	0.82
Saudi Vitrified Clay Pipe Co Ltd	SAUDI ARABIA	332	345	6.03	27.64	28.82	6.36	5.26	24.63	1470	1323	21.81	1.26
Ras Al Khaimah Ceramics	UAE	631	1,105	1.62	8.67	10.07	1.58	1.27	15.00	3.71	5.45	18.72	0.76
Lecico Egypt SAE	EGYPT	239	304	1.51	7.19	11.13	1.77	1.52	15.75	7.60	15.04	21.01	1.02
Arab Ceramic Co	EGYPT	89	77	2.64	10.63	10.89	5.21	15.79	42.24	2397	109.75	24.84	9.28
Ceramic Industries Ltd	SOUTH AFRICA	205	190	1.04	4.09	8.60	1.44	1.49	16.80	1708	2289	25.34	1.96
Merhav-Ceramic & Building Materials Center Ltd	ISRAEL	78	84	1.24	7.05	12.10	1.57	1.51	15.09	9.52	12.01	17.65	1.13
Negev Ceramics Ltd	ISRAEL	24	33	0.35	5.27	9.84	1.06	1.04	12.59	3.74	10.05	6.70	1.25
Al Anwar Ceramic Tile Co	OMAN	127	129	5.14	14.95	22.06	4.62	4.45	18.40	1577	1650	34.41	1.50
Grupo Lamosa SAB de CV	MEXICO	849	1,626	2.61	8.81	10.30	2.22	1.40	24.08	8.24	9.32	29.57	0.93
Developing markets weighted average		217	279	1.86	9.10	12.67	2.28	1.68	17.42	8.70	12.23	19.89	1.08
Russia													
StroyPolimerKeramika	RUSSIA	75	62	0.69	3.23	6.50	1.48	1.66	46.58	2803	4658	21.44	3.32
Russia weighted average		75	62	0.69	3.23	6.50	1.48	1.66	46.58	2803	4658	21.44	3.32

Source: company's data, Bloomberg; Estimation: Veles Capital

Company valuation vs profitability



Source: company's data, Bloomberg; Estimation: Veles Capital

Brief investor's guide

Methods, used for company's share evaluation				
Income approach			Comparables approach	Expenses approach
	DCF method	EVA method	Multiplicative method	Net assets method
Concept of evaluating the unified object (EV) *	FCFF discounting	EVA discounting		
Shareholders' value direct calculation (SV) **	FCFE discounting	EVA for shareholders discounting (Edwards-Bell-Ohlson method)		

*

Debt cost is calculated separately and then subtracted from the sum total cost of business (target EV), formed considering the cash flows/ economic profits of firm.

**

Debt is accounted integrated -via annual coverage. So the fair cost of shareholders' value (target SV) is formed directly - considering the cash flow / economic profits for holders.

Note:

DCF methods differ from the methods of economic profit by the way of investments calculation. The methods of unified object evaluation concept differ from these methods of direct calculation of shareholders' value costs - by the way of accounting cost and maintenance of debt liabilities.

Cost calculation within the frames of income approach:

	Business cost calculation (EV) within the frames of united object cost evaluation	Shareholders' capital value calculation (SV)
DCF method (FCFF)	$EV = \sum_{i=1}^n \frac{FCFF_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_i)^n} + NA$	$SV = EV - D$
DCF method (FCFE)		$SV = \sum_{i=1}^n \frac{FCFE_i}{(1+k_{S_i})^i} + \frac{TV}{(1+k_{S_i})^n} + Cash + NA$
EVA method	$EV = IC_1 + \sum_{i=1}^n \frac{EVA_i}{(1+WACC_i)^i} + \frac{TV}{(1+WACC_i)^n} + NA$	$SV = EV - D$
EBO method		$SV = BV_1 + \sum_{i=1}^n \frac{SVA_i}{(1+k_{S_i})^i} + \frac{TV}{(1+k_{S_i})^n} + Cash + NA$

Signs:

- EV - Enterprise Value
- SV - Shareholders Value
- TV - Terminal Value
- Cagr - development rates within the target period
- BV, E - Balance Value, Equity
- EBIT - operational profit from selling, profit before payments of credit interest and income tax
- EBITDA - operational profit before payment of credit interest, income tax and amortization
- EBT - Earnings Before Tax
- EAT - Earnings After Tax
- EPS - Earnings Per Share
- NOPAT - net operational profit, free from effects of debt financing
 $NOPAT = EBIT * (1 - \text{income tax effective rate})$
- FCFF - Free Cash Flow to Firm
 $FCFF = \text{gross cash flow} - \text{gross investments}$
 $\text{Gross cash flow} = NOPAT + \text{amortization}$
- FCFE - Free Cash Flow to Equity
 $FCFE = \text{gross shareholders' cash flow} - \text{gross investments}$
 $\text{Gross shareholders' cash flow} = EAT \text{ of operational profit (including interest payoffs) - annual debt coverage} + \text{attracted borrowed assets} + \text{amortization}$
- EVA - Economic Value Added
 $EVA = \text{economic profit spread} * IC = (ROIC - WACC) * IC$
- SVA - Shareholders Value Added
 $SVA = \text{spread} * E = (ROE - k_s) * E$
- WACC - Weighted Average Cost of Capital
- k_s - required shareholders' yield
- D - fair (market) cost of net debt
- Cash - cash assets, along with market securities on the balance
- NA - non-operational assets
- IC - Invested Capital
- ROIC - Return on Invested Capital
 $ROIC = \frac{NOPAT}{IC}$
- ROE - Return on Equity
- ROA - Return on Assets

Information disclosure

The statement of an analyst and confirmation of the responsibility withdrawal

The given report is prepared by the analyst (-s) of the Investment Company Veles Capital. The given estimations in the present report reflect personal opinion of the analyst (-s). The award of the analysts does not depend, never depended and will not depend upon the specific recommendations or estimations, provided in the present report. The award of the analysts depends upon the general efficiency of the business of the Investment Company Veles Capital, determined by the investment benefit of the company's clients and also upon the incomes from other types of activity of the Investment Company Veles Capital.

The given report, prepared by the Research Department of the Investment Company Veles Capital, is basing on the public information. The present review was prepared independently from other Departments of the Investment Company Veles Capital, and any recommendations and judgments, presented in the given report reflect only the view point of the analyst (-s), participated in making of the present review. Due to that consideration, the Investment Company Veles Capital considers being necessary to state that the analysts and the Company are not responsible for the content of the given report. The analysts of the Investment Company Veles Capital do not take overall responsibility to regularly up-date the information, contained in the present report, and also to announce about all changes, introduced to the present review.

Provided analytical material of the Investment Company Veles Capital could be used only with information aims. The company does not guarantee the completeness and preciousness of provided information in the given report and its reliability, and also is not responsible for direct and indirect losses from using of the given materials. This document cannot serve as a basis for purchase and selling any securities, and cannot also be considered as an offer from the part of the Investment Company Veles Capital. The Investment Company Veles Capital and (or) its subsidiaries along with the staff, directors and analysts of the Investment Company Veles Capital have the right to purchase and sell any securities, mentioned in the given review.

The Investment Company Veles Capital and (or) its subsidiaries can serve as a market-maker or have the liabilities for underwriting of companies' securities, mentioned in the given review, can purchase or sell them for clients, and also make any actions, which do not contradict the Russian law. The Investment Company Veles Capital and (or) its subsidiaries can also be interested in the possibility of providing the companies, mentioned in the present review, with the investments and bank or any other services.

All rights for the given bulletin belong to the Investment Company Veles Capital. The reproduction and/or distribution of the analytical materials of the Investment Company Veles Capital are prohibited without the written permission of the Company. © Veles Capital 2006.

The principle of recommendation assignment

The investment recommendations are given based on the evaluation of the company's share yield. The basis for the calculation of the expected company's cost is the evaluation by the discounted cash flows method (DCF). In some estimations the method of comparable coefficients, and also the mixed estimation (by DCF method and by comparable coefficients method) are applied. All recommendations are assigned based on the determined by us the fair cost of the shares within the nearest 12 months.

At the present moment the investment scale of the Investment Company Veles Capital is the following:

BUY— corresponds to the growth potential of the shares within the nearest 12 months by 15% or more.

ACCUMULATE corresponds to the growth potential of the shares within the nearest 12 months for 5-15%.

HOLD corresponds to the growth (reduction) potential of the shares within the nearest 12 months from -5% to 5%.

REDUCE corresponds to the reduction potential of the shares within the nearest 12 months from 5% to 15%.

SELL corresponds to the reduction potential of the shares within the nearest 12 months by 15% or more.

In some cases the deviations from the evaluation scale given above, based on which the recommendations are assigned, are possible. That fact relates to the high volatility of some securities in particular, and market in the whole, and also to the individual characteristics of one or another issuer.

In order to get additional information and specifications please contact the Research Department of the Investment Company Veles Capital.

Research Department

research@veles-capital.ru

Mikhail Zak
Head of Department
Strategy
MZak@veles-capital.ru

Ivan Marenko
Fixed income market,
Macroeconomics
IMarenko@veles-capital.ru

Ilya Fedotov
Telecommunications
IFedotov@veles-capital.ru

Stanislav Fomenko
Metallurgy
SFomenko@veles-capital.ru

Marina Irkly
Transport, machinery
Mirkly@veles-capital.ru

Oleg Zotikov
Energy
OZotikov@veles-capital.ru

Dmitry Lyutyagin
Oil and Gas
DLyutyagin@veles-capital.ru

Oleg Salmanov
Fixed income
OSalmanov@veles-capital.ru

Shawn Gizatulin
Editor/Interpreter
SGizatulin@veles-capital.ru

Sales and Trading Department

sales@veles-capital.ru

Yury Pavlov
Director (VP clients)
YPavlov@veles-capital.ru

Sergey Vetoshkin
Corporate Clients
SVetoshkin@veles-capital.ru

Alexander Taran
Trading (Ukraine)
ATaran@veles-capital.com.ua

Ekaterina Tochilkina
Trading
ETochilkina@veles-capital.ru

Strategic Investments Department

Andrey Lee
Head of Department
ALee@veles-capital.ru

Assets Management

am@veles-capital.ru

Beyshen Isaev
Head of Department
BIsaev@veles-capital.ru

Vadim Labed
Investor relations
VLabed@veles-capital.ru

Stanislav Brodsky
Investment products
SBrodsky@veles-capital.ru

Russia, Moscow, 123610, Krasnopresnenskaya nab. 12,
Entr. 7, floor 18
Tel.: 7 (495) 258 1988, Fax: 7 (495) 258 1989
www.veles-capital.ru

Ukraine, Kiev, 04070, Naberezhno-Kreschatitskaya,
37/55
Tel.: 38 (044) 459 0250
Fax: 38 (044) 459 0251