CAESARSTONE | NASDAQ: CSTE

INVESTMENT RESEARCH REPORT

"A Counter to the Bullish Thesis"

RECOMMENDATION: *Strong Sell*

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Executive Summary

Spruce Point Is Short Caesarstone (CSTE) For the Following Reasons:

1. **SEC FOIA Request For CSTE's Quartz Contracts Show Substantial Cost Pressure**: CSTE's confidentiality period for its key quartz supply contracts lapsed on Dec 31, 2014. A FOIA was quickly filed and found that quartz, its key raw material cost for its quartz countertops, rose substantially by ~20% in 2014, yet they told investors in its SEC filings the impact was just 4%. Before acquiring these documents, CSTE used to request a 1yr confidential period, now they have requested 5yr confidential period coverage (what are they hiding?). CSTE just invested $115m to open its new U.S. production facility and has indicated it still does not have long-term quartz supply agreements, exposing them to increased margin pressure

2. **Our Independent Lab Tests Show CSTE's Samples May Contain Less Quartz Than Advertised**: We ordered product samples directly from CSTE (along with samples from 7 competitors) and sent them to a material testing lab. Our tests suggests that CSTE's quartz countertops contain approximately 88-89% quartz vs. the 93% advertised industry benchmark. CSTE's samples contained among the lowest % of quartz among all of the samples tested. In light of CSTE's rising quartz costs, it is possible that it is mitigating price increases by including less quartz. Numerous product quality complaints about chipping / staining may also support our conclusions

3. **Dependent on Positioning itself as "Premium," Competition Rising Fast**: CSTE prominently touts its quartz product as "premium" and lists it as the #1 key investment highlight in its investor presentation. In light of our lab testing results, and commoditized nature of its products, we believe this positioning may be misleading. With little more than style being the main product differentiator, we find it difficult to believe CSTE can maintain its prices while new competitors from China and Europe enter the U.S. market at lower price points up to 25% less. The recent Chinese Yuan devaluation will add further price pressure. We obtained dealer price quotes to support our claim of price pressures. Further, we note that CSTE's R&D headcount and margin have been shrinking every year and its largest competitor, Cosentino has launched a new super premium material called Dekton. Early indications show it is gaining rapid traction

4. **Questionable Market Share Gains**: CSTE's story to investors is that its North American market is growing, and it is gaining market share. It cites a custom, paid-for, research provider paid for by CSTE called Freedonia Market Research. Since 2010, the report indicates its market share in Australia has declined, Canadian market share has been flat (2012-2014), but that it is gaining significant market share in the U.S. - up from 14% in 2010, to 19% in 2014. Ascertaining true market shares are difficult given all are private companies (ex: CSTE), so we sourced proprietary U.S. import shipping data collected from port documents. Since CSTE is Israeli-based and dependent on importing to the U.S. market, we believe our data is highly reliable, and it indicates that its market share may not be growing

Spruce Point Sees 40% – 75% Downside In CSTE Shares

5 **Margins May Be Significantly Overstated**: CSTE's gross margins of 42% are substantially higher than its peers in the building products sector which average 22%. Because it is the only publicly traded quartz countertop company, it is difficult to disprove its margins. However, we've pulled private financials for Cosentino S.A. (largest Spanish competitor) along with other private financials for Italian stone and countertop makers and find that CSTE's margins appear vastly superior. We've also obtained CSTE's Australian and Singapore subsidiary filings which indicate gross margins of 24.7% and 31.6%, respectively. We believe currency effects are masking up to 7% gross margin erosion. We also find its raw material costs to revenues to be abnormally low. There are also many related party transactions with its largest shareholder that could enable operating margin overstatement. We also question CSTE's distribution deal through IKEA, which is inconsistent with its premium brand image and carries lower margins

6 **Unquantifiable Product Liability for Silicosis-Related Deaths**: CSTE is a party to a growing number of lawsuits related to death and injury as it relates to injuries suffered by workers and fabricators of its products in Israel (from 14 in 2012, to 60 today). A single plaintiff and motion for class action certification alleges a $56m damage. CSTE's insurer said it would only be partially covered, thus exposing CSTE to a material risk. CSTE is also in the process of opening its new facility in the U.S. and OSHA has recently warned about the dangers of silicosis, specifically highlighting issues in Israel. Increasing regulatory scrutiny could drive up its cost of doing business

7 **Auditor Concerns, Signs of Financial Strain**: CSTE is audited in Israel by Kost Forer Gabbay & Kasierer. Two recent inspection reports revealed audit deficiencies including failure to perform sufficient procedures to test revenue and test the existence of inventory. Upon closer inspection, we find CSTE has abnormal days sales outstanding, payables, and inventory turnover ratios relative to peers

8 **Cracks in the Story, Massive Overvaluation, Majority Owner Liquidating**: CSTE's price recently corrected after Q2'15 earnings beat Wall St. estimates, but it cut its sales range from $515-$525m to $495-$505m, while maintaining its EBITDA guidance. We believe this is the canary in the coal mine, and CSTE's EBITDA margins appear overstated. CSTE is at risk of missing its goals in light of flat import tonnage growth and rising competition. CSTE trades at 3.4x and 13.5x 2015 Sales and EBITDA, respectively, a huge premium to building products peers at 1.3x and 12.0x on the premise it can maintain share and grow sales 15% p.a. We believe CSTE should trade at a discount to peers of 8x - 10x EBITDA given our concerns about product + earnings quality (sales growth slowing + margin pressures), its shares would be worth $11 - $29 (40% – 75% downside) on a normalized EBITDA margin range. Since its 2012 IPO, its shareholder has reduced ownership from 79.0% to 32.6%; we expect continued sales

Quartz Supply Contracts, Lab Tests Suggest Product and Financial Misrepresentations

Spruce Point
Capital Management

Caesarstone Advertises 93% Quartz Content, The Industry Standard

Caesarstone Technical Manual

Environment First.™

ISO 14001:2004

Sustainable Standards and Certifications

ISO 14001 and 9001 Certification: Caesarstone is the first quartz surfacing company to receive ISO 14001 and 9001 Environmental Management Systems certification. This international standard provides a procedural framework to create policies and solutions that will assist Caesarstone reach environmental targets.

OHSAS 18001 Certification: Certifies Caesarstone as compliant with Occupational Health and Safety Management System specifications – taking a proactive approach to its occupational health and safety risks.

ANSI/NSF Standard 51 – Food Equipment Materials: Caesarstone is safe for use in food preparation areas and is easy to clean and sanitize.

GREENGUARD Indoor Air Quality and GREENGUARD Children and Schools: Certifies Caesarstone as a low-VOC (volatile organic compound) product complying with California's Department of Health Services Standard Practice (CA Section 01350) for chemical emissions from building products used in schools, offices and other sensitive environments.

USGBC: Caesarstone ranks high with the United States Green Building Council, crediting entrepreneurs and contractors using our materials with LEED points – making Caesarstone the natural partner in advanced projects, built according to green construction practices.

Sustainable Composition of Product

- 93% quartz, an abundant natural resource and by-product from mining other minerals.
- Low volatile organic compound (VOC) emissions, contributing to indoor-air quality.
- Less toxic than wood according to the UPITT standard in New York City building code.
- Continually developing recycled colors to add to our product line.

* Environmental Data is organized in accordance with GreenFormat, a format being developed by the Construction Specifications Institute for information about building product sustainability.

Source: Caesarstone Technical Data Manual (here)

Caesarstone Website

Caesarstone – the original quartz surface
Caesarstone quartz surfaces are the ultimate combination of nature and technology. **Caesarstone surfaces consist of 93% crushed** quartz and retain the cool tactile touch of natural stone. As a non-porous material, Caesarstone avoids mold and mildew.

Source: Caesarstone website

Caesarstone Dealers/Distributors

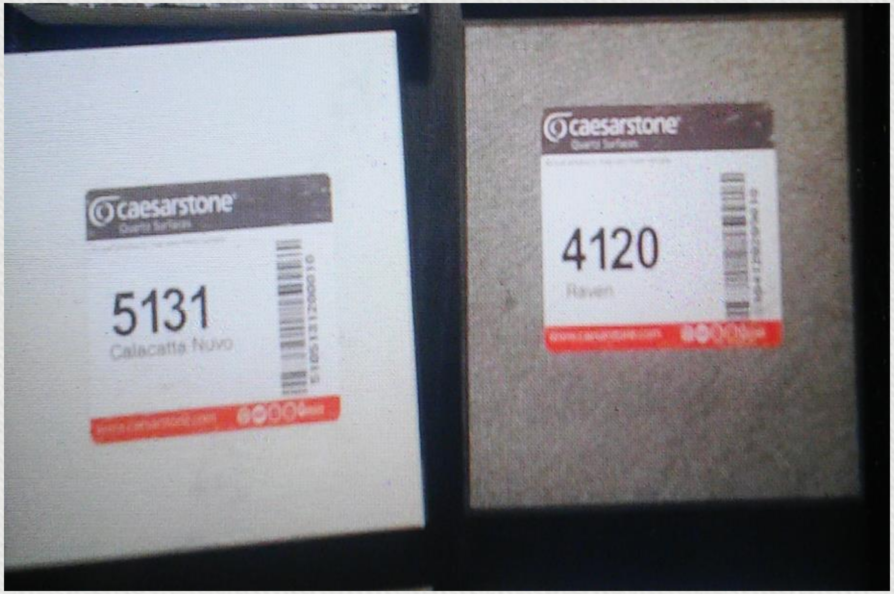
CSTE is highly dependent on portraying itself as "premium" to consumers and its investors. It advertises itself as "93% quartz" to the public, and also allows its distributors to make the same claim!

Creative Countertops (here)
American Granit (here)
S&W Kitchens (here)
Stone LA (here)
Sunset Granite (here)
Madeira Stone (here)

We will show you how their advertising appears to be flawed

Samples Obtained Directly From CSTE

We obtained samples directly from Caesarstone to test the 93% quartz content claims

Samples Obtained <u>Directly</u> From Caesarstone	Samples We Tested
	

Lab Testing Results Suggest CSTE's Countertops May Not Contain The Advertised Quartz Content

- A majority of quartz countertops in the marketplace, including Caesarstone, advertise their products as 93% quartz
- We collected quartz countertop samples from a 8 different manufacturers and engaged the Rutgers University Department of Materials Science & Engineering to conduct a Thermogravimatric Analysis (TGA). Two runs were conducted on each sample
- In order not to bias the researcher, we did not inform the lab which brand we were investigating
- Simply stated, a TGA analysis involves putting the samples in a furnace and raising the temperature to 600 ^{o}C where the inorganic materials such as resins would burn off at high temperatures, and reveal the indicative quartz content
- A countertop with 93% quartz would experience a weight loss of approximately 7% (**greater weight loss = less quartz content**). **As can be seen from the table, two Caesarstone samples ranked among the highest average weight loss at 10.5% and 11.3%, indicating that its quartz content was 3.5 – 4.5% less than advertised. The only sample that performed worse was one of the Chinese import samples from Element Quartz!**

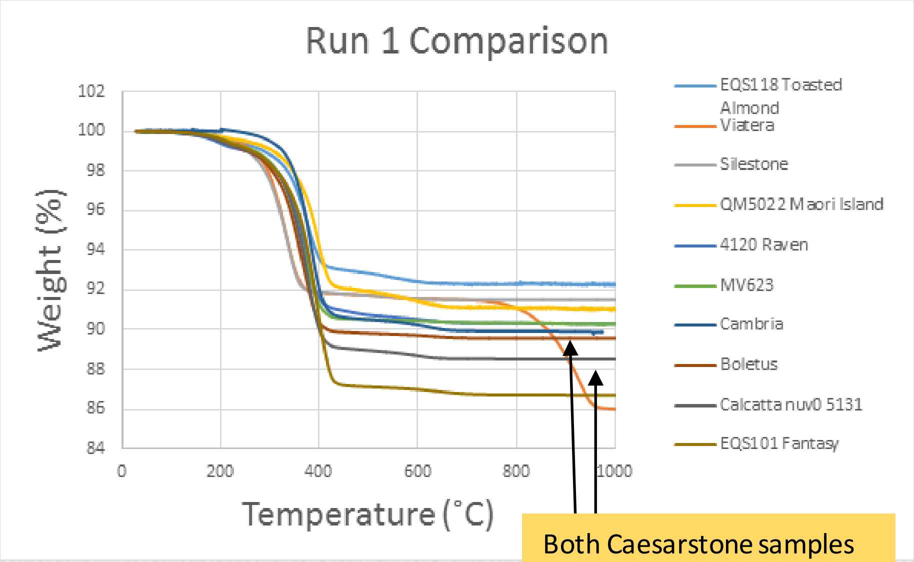
Sample / Style / Origin	Weight Loss % @ 600°C			
	Run 1	Run 2	Average	Standard Deviation
Hanstone / Quartz Fusion / Canada	9.56	9.91	9.74	0.25
Quartz Master / Maori Island / Asia	8.56	9.26	8.91	0.49
Natural Quartz from MSI / Boletus / Asia	10.28	10.39	10.34	0.07
Silestone (Cosentino) / Cream Urban / Spain	8.44	6.79	7.62	1.17
LG Viatera / Silver lake / U.S.	8.44	6.80	7.62	1.16
Element Quartz / Fantasy EQS101 / China	13.01	13.15	13.08	0.10
Element Quartz / Toasted Almond EQS118 / China	7.57	6.55	7.06	0.72
Cambria Summerhill Coastal Collection / U.S.	9.76	9.11	9.43	0.45
Caesarstone / Raven 4120 / Israel	9.48	11.54	10.51	1.45
Caesarstone / Calcutta Nuvo 5131 / Israel	11.31	11.30	11.31	0.004

Note: Our analysis is inherently based on a limited sample size. Product samples in some cases are marked with warnings that the actual product may vary from the sample

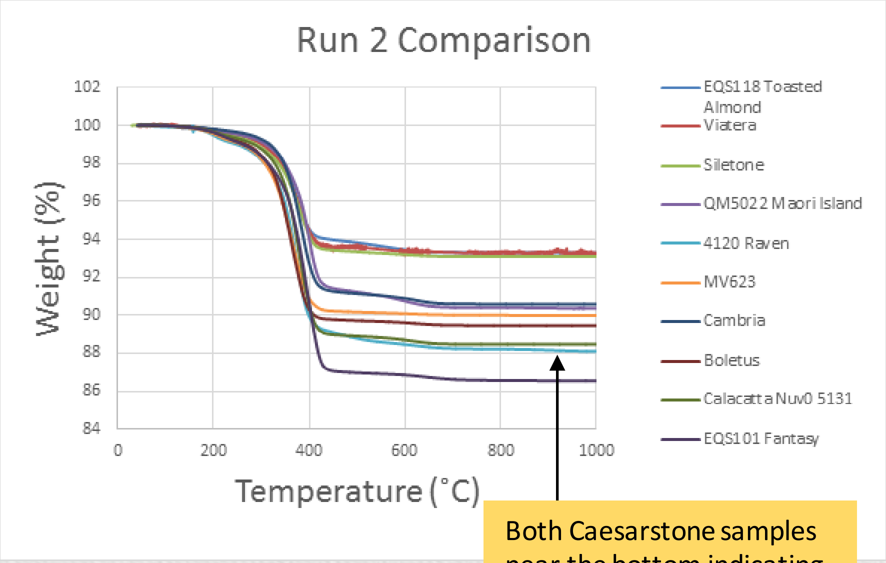
Lab Testing Results From Thermogravimatric Analysis (TGA)

Caesarstone samples test poorly against competitor samples:

- The graphs below presents the graphical results of the TGA Analysis for Run 1 and Run 2, respectively. As can be seen the samples all achieve a baseline Wt. % Loss at about 500ºC meaning the majority of all the organic content has been completely evolved, hence comparison of the values at 600ºC to add an additional level of confidence
- One notable event occurs for the Cambria sample in Run 1 at about 750ºC, this is likely some form of phase transformation present in one of the inorganic Quartz materials, sometimes known as calcination when a carbonate group is evolved from an inorganic mineral. It is not present in Run 2 and irrelevant for this analysis
- Ultimately, it is the expert opinion of the Testing Lab that there are statistically different values between the average binder content in these samples. It is outside the realm of their expertise to understand how the amount of resin binder improves the overall quality of a Quartz synthetic countertop. However, one can speculate that the true engineered quality component of the countertop structure is likely the resin material and the more that is used the more the overall properties can be tailored to achieve a final result beyond aesthetic qualities



Both Caesarstone samples fall well below the 93% threshold level



Both Caesarstone samples near the bottom indicating approx. 88% quartz content (second lowest only to a China import)

Quartz Supply Agreements Obtained By FOIA Request Show Substantial Price Increase

Substantial Quartz Cost Increase Could Motivate CSTE To Use Less Quartz In its Products To Save Costs

10.5

caesarstone

February 6, 2012

To
Mikroman Madencilik Mining
Hisarardi Koyo
Yatagan Mugla
Turkey

Dear Murat, Serhat, Karabay

Following our discussions, here is a summary of our agreement re supply during 2012.

1. Quantities
Caesarstone's working plan for year 2012 is as follows:

	Product	Quantity 2012 (tons)
1	2.5-4.0	1700
2	1.2-2.5	2300
3	0.7-1.2	6500
4	0.5-0.8	7800
5	0.2-0.5	15000
6	0.1-0.3	7000
7	G	7500
8	400#	20000

The above is Caesarstone's working plan with a purchases non-binding projection for year 2012 (t "Estimated Quantities"). As always, CaesarStone will deliver to Mikroman a binding Purchase Orde monthly basis, and Mikroman shall supply to CaesarStone all such Purchase Orders up to the Estim Quantities.

2. Prices – during 2012 the Mikroman will charge from Caesarstone the following prices:

fraction 0.1-4.0 – 143 US$ per ton FOB Izmir
0.062-0.2 (G) -125 US$ per ton FOB Izmir
400# (powder) – 140 US$ per ton FOB Izmir

Payment terms shall be as applied during 2011.

This summary serves as an addendum to the agreement entered between Caesarstone and Mikroman on September 27, 2010 and constitutes an integral part thereof.

If the foregoing meets with your approval and acceptance, please so indicate by signing both counterparts of this Letter Agreement as provided below and return one fully executed copy to us.

CAESARSTONE SDOT-YAM LTD.
CaesarStone Sdot-Yam Ltd.
By: Yosef Shiran
Chief Executive Officer

We hereby approve our consent to all of the above.

Mikroman Madencilik Mining   08.02.2012
Date

By: Murat Necmi Saran

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Casesarstone Supply Contracts with Mikroman Contradict its Explanation, Show ~20% Increase in Quartz Costs

Confidential Treatment
Requested

4.5

caesarstone

December 19, 2013

To
Mikroman Madencilik Mining
Hisarardi Koyo
Yatagan Mugla
Turkey

Dear Murat, Serhat, Karabay,

Following our discussions, and in continuation with the Agreement entered between us on 2012 here is a summary of our agreement re supply during 2014.

1. Estimated Quantities and binding orders and supply
Caesarstone's working plan for year 2014 is as follows:

	Product	Quantity 2014
1	2.5-4.0	1440
2	1.2-2.5	2000
3	0.7-1.2	10000
4	0.5-0.8	8000
5	0.2-0.5	23000
6	0.1-0.3	10000
7	0.063-0.2 (G)	10000
8	400#	21000

Note the discussion that these are for 2014 prices

The above is Caesarstone's working plan with a non-binding purchases projection from Mikroman for year 2014 (the "Estimated Quantities") for the abovementioned products (the "Products"). Caesarstone's actual orders may significantly differ from the Estimated Quantities. As always, Caesarstone will deliver to Mikroman a binding Purchase Order on a monthly basis, and Mikroman shall supply to Caesarstone all such Purchase Orders (in accordance with the specifications set in writing by Caesarstone) up to the Estimated Quantities.

2. Prices – For quantities of the Products that shall be ordered by Caesarstone during year 2014, Mikroman will charge from Caesarstone the following prices per ton, US$170 (one hundred and seventy US Dollar), FOB Izmir.

3. Payment terms – for Products that shall be ordered by Caesarstone during year 2014 payment terms shall be the same as applied between the parties hereto during year 2013.

4. The products will be supplied by Mikroman in a timely manner and in accordance with Caesarstone's quality standards and specifications as will be updated by Caesarstone in writing from time to time, in accordance with each Caesarstone's purchase order.

5. Mikroman will maintain in confidence the terms of this agreement as well as any other confidential information of Caesarstone without time limitation.

6. This agreement and its performance will be governed by the English law and subject to the jurisdiction of the competent courts in England. Without derogating from the generality and validity of the foregoing, Caesarstone shall be entitled, at its sole discretion, to initiate legal proceedings related to this Agreement in Turkey, and in such case only same proceeding will be subject to the jurisdiction of the competent courts in Turkey.

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Source: SEC exhibit filings, received under Freedom of Information Request

CSTE's Explanation of 4% Quartz Price Increase May Not Be Accurate

Caesarstone Tells Investors About Rising Quartzite Prices for 2014

*"In 2013, one supplier in Turkey, Mikroman Madencilik San ve TIC.LTD.STI ("Mikroman"), supplied approximately 48% of the Company's quartzite on a purchase order basis. The price of quartz was relatively stable during the last few years, **but recently we have experienced an increase when renewing our annual supply contracts for 2014 with the Turkish quartzite suppliers given the increasing global demand for quartz**. Any future increases in quartz prices may adversely impact our margins and net income."*

Source: 2013 20-F Annual Report, Filed May 5, 2014 (here)

Caesarstone Explains 2014 Results Affected by Just ~4% Price Increase

*"The price of quartz was relatively stable until 2013. **However, given increasing global demand for quartz, quartzite prices increased by approximately 4% in 2014 and have increased at approximately the same rate in 2015**. Any future increases in quartz prices may adversely impact our margins and net income.*

Source: 2014 20-F Annual Report, Filed March 12, 2015 (here)

Spruce Point Capital Management

After Our FOIA Request, CSTE Now Wants 5 Year Confidentiality to Quartz Contracts

Is the significant increase in the confidentiality period a red flag for additional margin erosion?

CSTE Used To Request Short-Term Confidential Treatment For Quartz Supply Agreements – Filed June 2, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
May 29, 2014

ORDER GRANTING CONFIDENTIAL TREATMENT
UNDER THE SECURITIES EXCHANGE ACT OF 1934

Caesarstone Sdot-Yam Ltd.

File No. 1-35464 - CF#31161

Caesarstone Sdot-Yam Ltd. submitted an application under Rule 24 confidential treatment for information it excluded from the Exhibits to a F on May 13, 2014.

Based on representations by Caesarstone Sdot-Yam Ltd. that this information qualifies as confidential commercial or financial information under the Freedom of Information Act, 5 U.S.C. 552(b)(4), the Division of Corporation Finance has determined not to publicly disclose it. Accordingly, excluded information from the following exhibit(s) will not be released to the public for the time period(s) specified:

Exhibit 4.5 through December 31, 2014

For the Commission, by the Division of Corporation Finance, pursuant to delegated authority:

Kevin M. O'Neill
Deputy Secretary

CSTE Used To Just Ask For Confidentiality For Under 1 year

CSTE's Latest Request for Confidential Treatment of Quartz Supply Agreement – Filed April 3, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
April 3, 2015

ORDER GRANTING CONFIDENTIAL TREATM
UNDER THE SECURITIES EXCHANGE ACT O

Caesarstone Sdot-Yam Ltd.

File No. 1-35464 - CF#32333

Caesarstone Sdot-Yam Ltd. submitted an application under R confidential treatment for information it excluded from the Exhibits on March 12, 2015.

Based on representations by Caesarstone Sdot-Yam Ltd. that this information qualifies as confidential commercial or financial information under the Freedom of Information Act, 5 U.S.C. 552(b)(4), the Division of Corporation Finance has determined not to publicly disclose it. Accordingly, excluded information from the following exhibit(s) will not be released to the public for the time period(s) specified:

Exhibit 4.5	through	December 31, 2019
Exhibit 4.19	through	December 31, 2024
Exhibit 4.20	through	December 31, 2024
Exhibit 4.21	through	December 31, 2024
Exhibit 4.22	through	December 31, 2024
Exhibit 4.23	through	December 31, 2024
Exhibit 4.24	through	December 31, 2024
Exhibit 4.25	through	December 31, 2024
Exhibit 4.26	through	December 31, 2019

For the Commission, by the Division of Corporation Finance, pursuant to delegated authority:

Brent J. Fields
Secretary

CSTE Wants its Quartz Supply Agreement Now Sealed For Almost 5 years!

Source: Confidential Request at SEC (here) and (here)

Spruce Point Capital Management

Warning: CSTE Offers Conflicting Explanations For Margin Contraction

What is really driving margins; FX, dilutive IKEA deals, Quartz; can CSTE precisely explain? Or is this another potential red flag of further margin contraction?

Quartzite Supply Agreement And Clues in its Filings Contradict its Claim That Quartz Prices Rose ~4%

$ in millions

	2011	2012	2013	2014
Total Sales	$259.7	$296.6	$356.6	$447.4
% growth	31%	14%	20%	25%
Raw Materials Costs	$77.7	$84.6	$97.2	$123.7
Raw Materials (% of COGS) (1)	50%	50%	50%	48%
Raw Materials Cost Growth		***8.9%***	***14.9%***	***27.3%***
Polyester and Polymer Costs	$32.6	$34.7	$41.8	$53.2
Raw Materials (% of Raw Materials) (1)	42%	41%	43%	43%
Sensitivity to 10% polyester price inc	1.3%	1.2%	2.0%	1.2%
Polyester and Polymer Cost Growth		***6.3%***	***20.5%***	***27.3%***
Cost of Quartz	$25.6	$28.8	$29.2	$38.4
Quartz Cost (% of Raw Materials) (1)	33%	34%	30%	31%
Sensitivity to 10% quartz price inc	N/A	N/A	0.9%	0.9%
Quartz Cost Growth		***12.2%***	***1.4%***	***31.5%***
Cost of Goods Sold (COGS)	$155.4	$169.2	$194.4	$257.8
growth	*28.9%*	*8.9%*	*14.9%*	*32.6%*
Gross Profit	$104.3	$127.4	$162.1	$189.7
margin	40.2%	43.0%	45.5%	42.4%

(1) Disclosed or implied from SEC 20-F Filings

<u>2014 Annual Report (page 43)</u>: "*In 2014, gross profit margins decreased **<u>mainly</u>** due to unfavorable exchange rates, increased IKEA business related to fabrication and installation activities, which comes with lower gross margin and a non-recurring $3.5 million credit to cost of revenues from 2013.*"

<u>And later a slightly different story (page 49):</u> "*..cost of revenues increased **<u>primarily</u>** due to volume increases and, to a lesser extent, due to the IKEA installation and fabrication component. **<u>Also contributing to the increased cost of revenues were the elevated production levels of our differentiated super natural collection</u>**, which, despite incurring a premium in price from consumers, carries higher manufacturing costs, **<u>and an increase in quartz raw material prices"</u>** (1)*

<u>Annual Report (page 35)</u>: "*The price of quartz was relatively stable until 2013. However, given increasing global demand for quartz, **<u>quartzite prices increased by approximately 4% in 2014 and have increased at approximately the same rate in 2015</u>**. Any future increases in quartz prices may adversely impact our margins and net income.*"

<u>CFO on the Q4 Conf Call</u>: "*Quartz prices went up and that caused around less than 60 basis points impact on gross margin for Q4. In 2015, we expect some additional pressure from quartz pricing, again, not much less than 60 basis points.*"

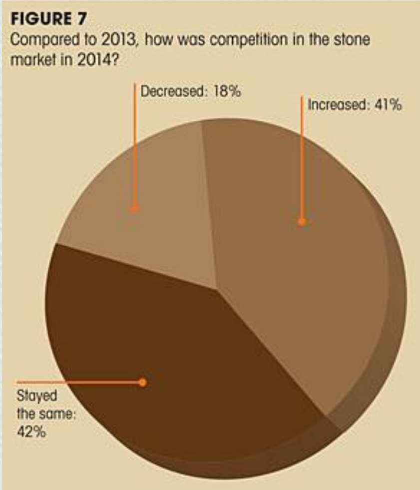
(1) Oddly, in its 2013 Annual Report (page 39), CSTE attributed its gross margin expansion to its Super Natural introduction!

Spruce Point Capital Management

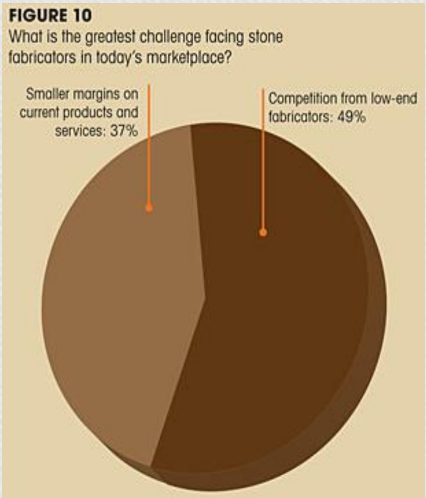
Stone Fabricators (CSTE's Main Customers) Are Worried About Margin Contraction

- CSTE supplies its products primarily to fabricators, who in turn resell them to contractors, developers, builders and consumers. CSTE says in its 20-F, *"Direct sales accounted for 86.6% of revenues and are mostly to fabricators."*
- ***It is critically important to understand what fabricators are saying about the state of the market, and not just take what the company says at face value***
- *According to Stone World's 2015 Fabricator Survey:*
  - The percentage of fabrication shops processing both natural stone and quartz surfacing has remained consistent for the last three years at 78% in 2014, 79% in 2013 and 76% in 2012
  - The percentage of fabricators indicating that small margins are their greatest challenge increased from 26% to 37% (2014 – 2015)
  - When asked about the level of competition in the stone market, 41% said it increased vs. 2013 while 42% say it stayed the same
- **If CSTE's largest customer base is worried about smaller margins, what do you think CSTE is also worried about?**

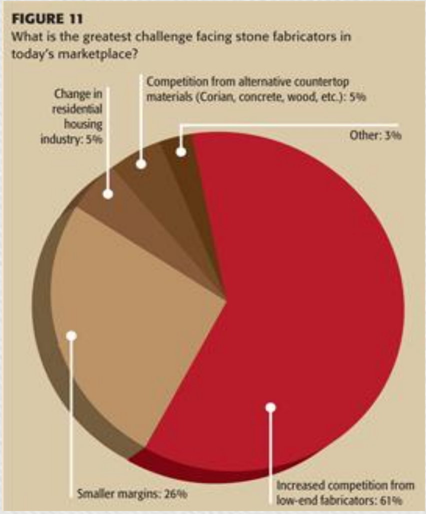
2015 Survey



2015 Survey



2014 Survey



Source: Stone World 2015 Fabricator Survey (here) and 2014 Survey (here)

Cautionary Reviews Amplify Our Concerns About Product Quality

Spruce Point Capital Management

Better Business Bureau

THIS BUSINESS IS NOT BBB ACCREDITED

Caesarstone, Inc.

(818) 779-0999

6840 Hayvenhurst Ave, Van Nuys, CA 91406-4717
http://caesarstoneus.com

F

On a scale of A+ to F

Reason for Rating

BBB Ratings System Overview

"BBB did not receive a response from Caesarstone related to warranty complaints"

Source Better Business Bureau (here)

yelp

Caesarstone

7 reviews

"I think Caestarstone is a beautiful product. It looks great and the warranty sounds great. But I would NOT recommend this product at all. I truly regret my decision to install this product in my kitchen"

"The countertop looks fabulous WHEN it is clean. However, cleaning it is quite a process. The countertop shows watermarks, streaks from the "method" cleaner they recommend and scratches are very visible. The countertops also chip VERY easily"

"Be wary of using this product for two reasons. It stains and scratches easily and they will not sell to licensed contractors, only certified fabricators"

"I had the Caesarstone rep come to our home twice. Both times he worked on several spots with his bag of tricks. So I learned how to eliminate spots, but they just keep coming day after day. AND THESE ARE WATER SPOTS!!!"

Bottom line, don't believe the CS hype - if a cellphone leaves an imprint, that tell's it all! I would never purchase this product again. If anyone thinks that the CS warranty covers everything - guess again.

Source Yelp (here)

Countertop Investigator

Helping You Sleuth The Best Kitchen Surfaces

"I have had the black Caesarstone installed 6 years ago. It has chipped in 3 places no impact either. It has one scratch in it. It has dulled out. I would never buy this product again"

"I work at a marble shop. Caesar stone have problems on slabs from time to time. I say 10-20% of the time. Their customer service is non-exist"

"Can't say anything good about my brown Caeserstone countertops. I have white pitting marks that range from a pin head size to a pea size all over two of my counters"

"My whole experience with the installers and the Caeserstone reps has been a joke but I am not laughing.

"In my previous apartment, where I lived for 6 years, I had granite countertops, and I didn't have any problems. I so much regret that I choose this Caesar stone. I am trying to get it replaced, but I am not sure I will be successful. I am telling all my friends and people I know never to choose Caesar stone and I want to warn anybody who comes across this post to be aware of sub par quality of Caesar stone"

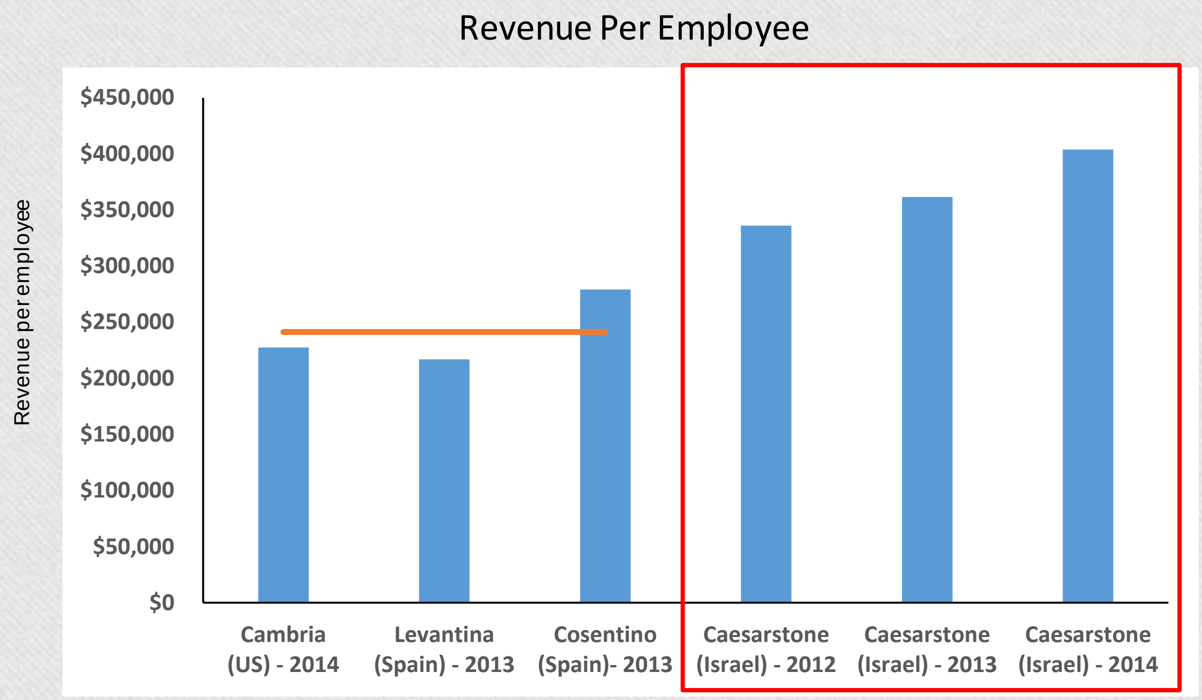
Source Countertop Investigator (here)

Signs of Financial Model Too Good To Be True?

SPRUCE POINT CAPITAL MANAGEMENT

Warning: Extreme Revenue Per Employee Relative to Closest Peers

- We often find revenue per employee to be a reliable indicator of problems when examining company financials. In this case, we have compared CSTE's results vs. three of its direct private competitors in stone and countertop surface manufacturing
- We fail to understand how CSTE has significantly higher revenue per employee and continued to grow its sales efficiency every year in light of the fact that: 1) The company explicitly stated that it has limited ability to outsource any part of its manufacturing to third parties (which could understate its employee count) and, 2) That is has experienced temporary inefficiencies in expanding new production lines and products and 3) Claiming to reduce 3rd party distributor sales in favor of higher direct sales



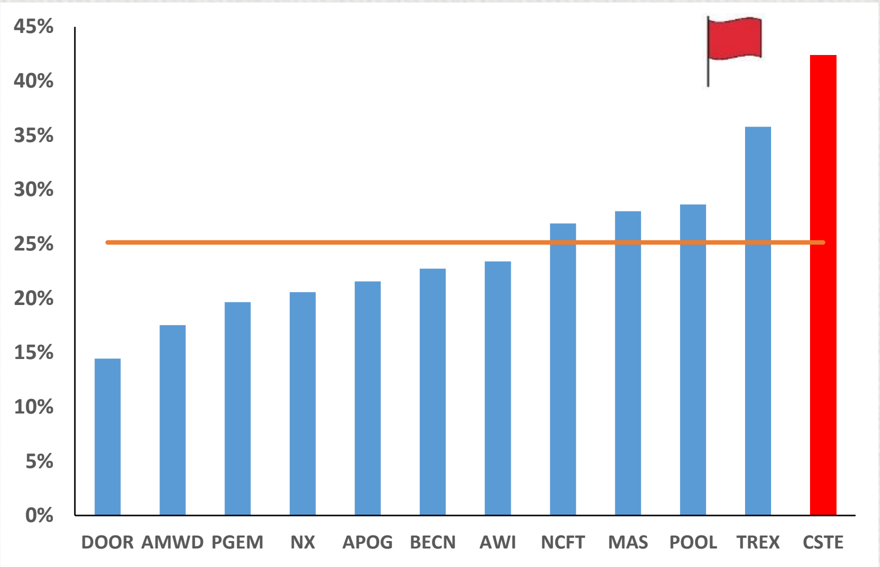
	Cambria (US) - 2014	Levantina (Spain) - 2013	Cosentino (Spain)- 2013	Caesarstone (Israel) - 2012	Caesarstone (Israel) - 2013	Caesarstone (Israel) - 2014
Sales:	$250m	$210m	$337m	$335m	$361m	$447m
Avg. Total Employees:	1,100	985	1,121	861	935	1,047
Avg. Sales, Mktg, Support Employees:	N/A	N/A	N/A	239	266	295
Third-party distributor sales:	N/A	N/A	N/A	13.4%	13.0%	11.8%

Source: SEC and Spanish Filings. Average employees calculated from year beginning and ending employees. Cambria figures estimated from public article

Warning: Extreme Outlier on Gross Margins Relative to Global Peers

- As a producer of a commoditized building products, CSTE's gross margins are outrageously higher, with no clearly identifiable reason, than any publicly traded U.S. company tied to housing products including doors, pools, windows, decking, flooring and ceilings, and cabinets
- CSTE competes directly with foreign private companies, so we pulled financials for leading stone manufacturing and countertop makers in both Spain and Italy. Due to differences in financial reporting standards, we compared CSTE's disclosures of raw materials usage to total revenues, and found they reported a materially lower margin

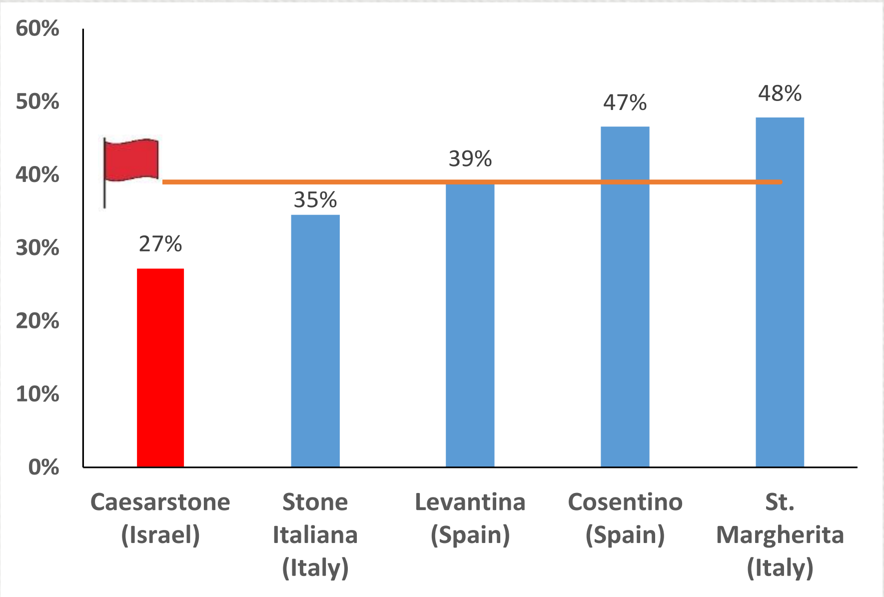
Outrageously High Gross Margin Relative to Leading U.S. Building Products Peers



Peers based on 2014 results: Masonite (DOOR), American Woodmark (AMWD), Ply Gem (PGEM), Quanex Building Products (NX), Apogee (APOG), Beacon Roofing (BECN), Armstrong Worldwide (AWI), Norcraft (NCFT), Masco (MAS), Pool Corp, Trex (TREX)

Source: SEC Filings

Suspiciously Low Raw Materials / Revenues vs. Foreign Stone and Countertop Makers



Source: Foreign Filings, Italy and Spain

Warning: Financials Not Adding Up to Closest Spanish Peer Cosentino

About Cosentino

Cosentino is a global, Spanish, family-owned company that produces and distributes high value innovative surfaces for the world of design and architecture. For the year ended 2013, Cosentino reported revenue of €264m ($337m)

Cosentino’s brands include Silestone®, Dekton® and Sensa by Cosentino® – all technologically advanced surfaces for creating spaces and unique designs for the home and public areas. Silestone’s quartz countertop products are distributed in the U.S. through Home Depot (here)

Throughout its 25 years experience within the ornamental rock sector, Cosentino has spread worldwide through its distribution network, and currently operates in the USA, Latin America, Europe, Australia and Asia. Nationwide, it has regional offices in Madrid, Barcelona, Bilbao, Tarragona, Levante, Seville, Guipuzcoa, Vizcaya, Zaragoza, Almería, La Coruña, Castellón, Badajoz, Gerona, Murcia, Valencia, Valladolid, Pontevedra, Toledo… and distributors in all provinces.

Cosentino’s Financials

COSENTINO S.A.
(Sociedad Unipersonal)

Cuentas de Pérdidas y Ganancias
para los ejercicios anuales terminados en
31 de diciembre de 2013 y 2012

(Expresadas en euros)

	Nota	2013	2012
Importe neto de la cifra de negocios	**Nota 26**	**264.131.104**	**241.265.724**
Ventas		260.710.674	239.869.132
Prestaciones de servicios		3.420.430	1.396.592
Variación de existencias de productos terminados y en curso de fabricación	**Nota 15**	**7.136.254**	**3.385.227**
Trabajos realizados por la empresa para su activo		**6.288.959**	**2.385.333**
Aprovisionamientos	**Nota 26**	**(126.368.818)**	**(104.408.629)**
Consumo de materias primas y otras materias consumibles		(123.057.012)	(102.678.129)
Trabajos realizados por otras empresas		[illegible]	[illegible]
Otros ingresos de explotación		**3.686.231**	**3.732.344**
Ingresos accesorios y otros de gestión corriente		3.570.359	3.656.824
Subvenciones de explotación incorporadas al resultado del ejercicio	**Nota 18**	115.872	75.520
Gastos de personal	**Nota 26**	**(49.414.707)**	**(46.166.698)**
Sueldos, salarios y asimilados		(37.496.500)	(35.604.685)
Cargas sociales		(11.918.207)	(10.562.013)
Otros gastos de explotación		**(54.469.858)**	**(51.180.561)**
Servicios exteriores		(51.851.137)	(48.575.482)
Tributos		(733.653)	(601.464)
Pérdidas, deterioro y variación de provisiones por operaciones comerciales	**Nota 13**	(1.455.455)	(1.203.485)
Otros gastos de gestion corriente		(237.045)	(653.020)
Gastos medioambientales	**Nota 24**	(192.568)	(147.110)
Amortización del inmovilizado	**Notas 5 y 6**	**(13.364.085)**	**(13.104.393)**
Imputación de subvenciones de inmovilizado no financiero y otras	**Nota 18**	**1.901.526**	**2.202.174**
Deterioro y resultado por enajenaciones del inmovilizado	**Nota 26**	**275.364**	**(246.323)**
Resultados por enajenaciones y otras		275.364	(246.323)
Otros resultados		**(12.666)**	**(13.444)**

2013 Raw Material Cost to Revenues = 47% vs. CSTE’s 27%;
Both CSTE and Cosentino are of comparable size

Source: Cosentino (here)

Source: Registradores de Espana (here)

Australian and Singapore Subsidiary Gross Margins Significantly Lower

Spruce Point Capital Management

- We sourced foreign subsidiary financial statements and cannot understand why gross margins are significantly lower. Note that Australia is approximately 21% of total company sales

Australia – 2014 Gross Margin 24.7%

6

Caesarstone Australia Pty Limited
ACN 121 819 976

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2014

	Notes	2014 $	2013 $
Revenue	2	118,819,201	93,286,315
Other income	2	186,980	1,035,455
Changes in inventories of finished goods		(4,950,609)	(6,393,755)
Finished goods purchased		(84,573,874)	(58,082,770)
Employee benefits expense		(9,542,851)	(9,886,999)
Depreciation and amortisation expenses		(406,802)	(399,282)
Finance costs		(132,217)	(68,508)
Minimum lease payments expense	3	(1,950,110)	(2,077,978)
Showroom and sample expenses		(2,916,586)	(2,724,332)
Other expenses		(10,968,513)	(11,910,579)
Profit before income tax		3,564,619	2,777,567
Income tax expense	4	(876,436)	(973,396)
Profit for the year		2,688,183	1,804,171
Other comprehensive income:		-	-
Total comprehensive income for the year		2,688,183	1,804,171

Source: Available at ASIC Connect (here)
Note: Gross Profit = Revenue – Changes in inventories and finished purchased goods

Singapore – 2013 Gross Margin 31.6%

Statement of Comprehensive Income
For the financial year ended 31 December 2013

	Note	2013 €	2012 €
Revenue	10	4,306,608	3,588,208
Costs of sales		(2,946,876)	(2,375,166)
Gross profit		1,359,732	1,213,042
Other operating income	11	59,470	26,062
Selling and marketing expenses		(872,200)	(844,500)
General and administrative expense		(562,805)	(516,426)
Other operating expenses		(372,424)	(377,743)
		(1,747,959)	(1,712,607)
Loss before tax	12	(388,227)	(499,565)
Income tax expense	13	–	–
Loss for the financial year, representing total comprehensive income for the financial year		(388,227)	(499,565)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CAESARSTONE SOUTH EAST ASIA PTE. LTD. 10

Source: Singapore registry (here)

Significant Margin Erosion Appears To Be Masked by FX Benefit

- In the recent quarter, CSTE provided commentary about revenues on a constant currency basis. For example. Its headline boasted, "*Revenue Up 9.9% to a Record $127.5 million, up 20.2% on a Constant Currency Basis*"
- However the Company does not indicate the precise effect foreign currencies had on gross margins or EBITDA
- Our pro forma analysis attempts to adjust CSTE's gross margins to illustrate what they would look like if there were no change in currency year-over-year. We make some assumptions about the percentage of Cost of Goods Sold incurred in the Israeli Shekel, where a majority of its manufacturing took place
- **By removing the FX effects, we estimate that CSTE is facing significant margin erosion in its core business**. We will detail why we believe this is the case in the coming slides
- It is worth noting that CSTE recently cut its sales guidance range to $495m to $505m (from $515m to $525m) while holding its 2015 EBITDA forecast unchanged and cited "*slightly lower-than-expected U.S. growth and the further negative impact of foreign exchange rates*" as the reason for the guidance reduction. However, a closer look suggests that the FX effect masked underlying margin erosion in its business

	Actual		Q2'15 Adjusted for FX		
			% of COGS Assumed in Shekel		
Sales by Region	**Q2'14**	**Q2'15**	**50%**	**75%**	**100%**
Australia	$27.4	$27.0	$27.0	$27.0	$27.0
USA	$47.9	$57.1	$57.1	$57.1	$57.1
Israel	$9.9	$9.6	$10.7	$10.7	$10.7
Canada	$15.4	$19.1	$21.6	$21.6	$21.6
Europe	$7.3	$6.8	$6.9	$6.9	$6.9
Other	$8.1	$8.0	$8.0	$8.0	$8.0
Total Sales	**$116.0**	**$127.5**	**$131.3**	**$131.3**	**$131.3**
Less: Cost of Goods Sold	($67.5)	($74.9)	($81.9)	($81.5)	($83.7)
Gross Profits	**$48.5**	**$52.6**	**$49.4**	**$49.8**	**$47.6**
Pro Forma Gross Margin	**41.8%**	**41.3%**	**37.6%**	**37.9%**	**36.2%**

Real margins would be Approximately 3.7% – 5.0% lower than reported and although Caesarstone will continue to realize a currency benefit over 2015, we believe that margins will continue to face headwinds going forward

Note: As provided by company SEC correspondence, Australian sales take place in US$ and as such there is no impact of currency exposure to Australian and USA sales. Currency depreciation assumptions from Q2-14 to Q2-15: Shekel 0.2886 to 0.2583, C$ 0.9170 to 0.8132, EUR 1.1372 to 1.1063. This analysis is for illustrative purposes.

Spruce Point Capital Management

Warning: Signs of Significant Pricing Competition From Dealer Quotes

We sourced quotes from dealers for some basic Caesarstone Classico designs (originally introduced in 1987). Since then, the company has introduced three additional product collections, Concetto, Motivo and Supremo, which are marketed as specialty high-end product collections. Our basic price quotes came in around $1,600 - $1,700 (pre-tax) for a basic countertop with sink cut out.

[redacted] MARBLE, GRANITE & TILE [redacted]

Quote:	Salesperson:	Account:	Date:
Axler, Ben	[redacted]	[redacted]	1/30/2015

Quote Address:

INCLUDES:
Std edge profile
undermount sink cut out
SS 18G sink
No backsplash
template fab and install.

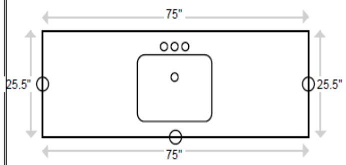
Removal svcs available for additional $150.00

Color Options:

Color	Edge	Total
Granite Caesarstone 9601 Oyster	3/8 eased	$1,686

[redacted]

Drawing:



Note:
Caesarstone 1/2 slab - 28x120
[redacted]

Unfinished
3/8 eased

Quote is based on measurements provided in submission and subject to change after field measurements are conducted. Removal of existing countertops or repair of existing cabinets not included.

Note: Tax not included

Date: March 26, 2015
To: Ben Axler
Re: Kitchen Counterop

Material: Caesarstone – Oyster #9601 OR Mocha #2370 1-1/4"

Piece:
75" x 25" = 13.02 s/f

Total Square Footage: 13 @ $107.00/sq.ft. (price includes template, fabrication, delivery & installation)	$1,391.00
Sink Cutout:	$150.00
Edge Detail: Eased & Polished 6.25 linear ft. @ $12.00/linear ft.	$75.00

Subtotal: $1,616.00
Tax: $143.42
Total: $1,759.42

Note: Assuming 14 sqft to make comparable, pre-tax total rises to $1,723

Competitive Quotes Up to 25% Less Than Caesarstone's….

We sourced quotes from dealers of three competing brands and found substantially lower price estimates, upwards of 25% less than Caesarstone's prices. Prices ranged from $1,287 to $1,427 for the exact same project and dimensions. What was more perplexing, some dealers indicated to us that Caesarstone had recently raised prices by a couple percent even in the face of lower priced entrants.

Pental Quartz

Date: March 26, 2015
To: Ben Axler
Re: Kitchen Counterop

Material: Pental Quartz - Santa Fe Tan #BS300 1-1/4"

Piece:
75" x 25" = 13.02 s/f

Total Square Footage: 13 @ $80.00/sq.ft. (price includes template, fabrication, delivery & installation)	$1,040.00
Sink Cutout:	$150.00
Edge Detail: Eased & Polished 6.25 linear ft. @ $12.00/linear ft.	$75.00

Subtotal: $1,265.00
Tax: $112.27
Total: $1,377.27

Note: Assuming 14 sqft to make comparable, pre-tax total rises to $1,345

Q From MSI

[redacted]
Sent: Fri 1/23/15 5:42 PM
To: Ben Axler ([redacted])

Ok, got it. So we are looking at a total of 14 square feet, below you will find your quoted prices:

Toasted Almond- $1,427.00
-$70.00 per square feet
-$18.00 per square feet for Install and Template
-$195.00 Under mount sink cut-out

Ice White- $1,287.00
-$60.00 per square feet
-$18.00 per square feet
-$195.00 Under mount sink cut-out

Will you need to purchase a sink and faucet package from us?

[redacted]

Note: Tax not included

Spruce Point Capital Management

Warning: Multiple Related Party Agreements Worth Considering

CSTE warns as a Risk Factor: *"Regulators and other third parties may question whether our agreements with Kibbutz Sdot-Yam are no less favorable to us than if they had been negotiated with unaffiliated third parties"*

Our 3rd Party Observation: CSTE would have substantial motivation for striking lower, off-market agreements with the Kibbutz, in order to inflate its margins and ultimately its stock price. We observe that the Kibbutz has sold its stock through secondary issuances since coming public twice already, netting it approximately $260m

Agreement	Purpose	Signed / Amended	Term	Payments to Kibbutz 2012 - 2014
Land Use Agreement	CSTE's headquarters, R&D facilities, as well manufacturing facilities, are located on the grounds at Kibbutz Sdot-Yam	2/13/12	20yrs	$3.5, $3.7, $3.9m
Land purchase and Leaseback	During Sept 2012, CSTE sold rights in the lands and facilities Bar-Lev to the Kibbutz for NIS 43.7 million (~$10.9m); $1m over its carrying value.	Sept 2012	10yrs	$1.1m / yr
Manpower Agreement	Kibbutz agreed to provide CSTE with labor services staffed by Kibbutz members, candidates for Kibbutz membership and Kibbutz residents	7/20/11	10yrs subject to re-approval by audit committee, board of directors and general meeting every three years	$3.8, $3.9, $3.9m
Services Agreement	Kibbutz provides CSTE with sewage infrastructure services, water supply, meals, laundry, post-delivery and other services	2/13/12	8yrs	$2.1m / yr
Payments to Kibbutz (ex VAT) % of revenue	--	--	--	**$10.3, $10.8, $12.2m** **3.5%, 3.0%, 2.7%**

Source: 2014 20-F Filing

Profits Before Safety? CSTE Has Unquantifiable Liability To Silicosis Claims

- Silicosis is an occupational lung disease that is progressive and sometimes fatal, and is characterized by scarring of the lungs and damage to the breathing function
- **CSTE is party to 60 pending (up from 41 a year ago and 14 in 2012) bodily injury lawsuits** that have been filed against it directly since 2008 in Israel or that have named it as third-party defendants by fabricators or their employees in Israel, by the injured successors, by the State of Israel or by others. It has also received ten letters (up from 9 a year ago) threatening to file claims against it on behalf of certain fabricators and their employees in Israel.
- Most of the claims do not specify a total amount of damages sought, as the plaintiff's future damages will be determined at trial; however, damages totaling approximately $22.3m are specified in 55 of the claims currently pending against us in Israel (excluding the claim that is seeking class action recognition)
- A lawsuit by a single plaintiff and a motion for its class certification were filed against CSTE in April 2014 in the Central District Court in Israel. Its insurer has notified it that its product liability insurance covers such claim only partially. The amount claimed in the currently pending class action exceeds its insurance coverage by a material amount

Israel Society of Pulmonology

Source Israel Society of Pulmonology (here)

Israel Ministry of Health

Source Israel Ministry of Health (here)

Spruce Point Capital Management

OSHA Recently Warns About Silicosis

OSHA is currently considering lowering the permissible exposure limit to silica dust. Greater regulatory scrutiny of silicosis comes at a time when CSTE is expanding production to the United States. CSTE could see its cost of regulatory compliance increase as the regulatory backdrop evolves.

UNITED STATES DEPARTMENT OF LABOR

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OSHA Trade News Release

U.S. Department of Labor
OSHA, Office of Communications

Feb. 18, 2015
Contact: Office of Communications
Phone: 202-693-1999

OSHA and NIOSH issue hazard alert on protecting workers from silica exposure during countertop manufacture and installation

WASHINGTON – The U.S. Department of Labor's Occupational Safety and Health Administration and the National Institute for Occupational Safety and Health today jointly issued a hazard alert about protecting workers from significant crystalline silica exposure during manufacturing, finishing, and installing natural and manufactured stone countertops.

The hazard alert follows reports of 46 workers in Spain and 25 workers in Israel who developed silicosis - an incurable, progressively disabling and sometimes fatal lung disease - as a result of exposure to crystalline silica in their work manufacturing stone countertops. Ten of the workers in Israel required lung transplants as a result of their condition. OSHA and NIOSH have identified exposure to silica as a health hazard to workers involved in stone countertop operations in the United States, both in fabrication shops and during in-home finishing/installation. The alert jointly issued by OSHA and NIOSH explains how this hazard can be mitigated with simple and effective dust controls.

Crystalline silica is found in granite, sandstone, quartzite, various other rocks and sand. Workers who inhale very small crystalline silica particles are at risk for silicosis. Symptoms of silicosis can include shortness of breath, cough and fatigue, and may or may not be obviously attributable to silica. Workers exposed to airborne crystalline silica also are at increased risk for lung cancer, chronic obstructive pulmonary disease and kidney disease.

The hazard alert* details what can be done at stone countertop fabrication and installation worksites to protect workers from exposure to silica. This includes monitoring the air to determine silica exposure levels; using engineering controls and safe work practices to control dust exposure; and providing workers with respiratory protection when needed, training, and information about the hazards of silica.

For more information on silica hazards and how to prevent them, visit OSHA's Web page on crystalline silica.

Under the Occupational Safety and Health Act of 1970, employers are responsible for providing safe and healthful workplaces for their employees. OSHA's role is to ensure these conditions for America's working men and women by setting and enforcing standards, and providing training, education and assistance. For more information, visit www.osha.gov.

Source OSHA (here)

Warning: CSTE's Cash Flows Not Reconciling With Balance Sheet Changes

- Given our concerns about the integrity of CSTE's financials, we have also checked to see if changes in its balance sheet accounts accurately reflect the company's presentation of its operating cash flow
- Unfortunately, we have found an alarming variance in accounts that grew significantly in 2014

$ in thousands

	2011	2012	2013	2014
Reported to Cash Flow Statement				
Change in Trade Payables	($0.94)	$5,201	$9,351	$1,811
Change in Trade Receivables	($10,460)	($8,561)	($8,238)	($3,913)
Change in Inventories	$4,090	($3,816)	($7,317)	($22,345)
Change in Accrued Exp and other	($4,533)	($9,922)	$5,756	$1,611
Change in Other Receivables and Prepaid Exp.	($2,376)	($3,291)	($7,419)	$1,393
Change in Balance Sheet Accounts				
Trade Payables	$1,945	$6,087	$13,699	$8,806
Trade Receivables	($4,718)	($7,271)	($8,238)	($12,151)
Inventories	($7,859)	($2,465)	($7,317)	($29,662)
Accrued Exp and other	$9,390	($13,719)	$5,576	$4,884
Other Receivables and Prepaid Exp.	($5,133)	($2,764)	($6,615)	($6,491)
Variance				
Trade Payables	$1,946	$886	$4,348	$6,995
Trade Receivables	$5,742	$1,290	$0	($8,238)
Inventories	($11,949)	$1,351	$0	($7,317)
Accured Expenses and Other Liabilities	$13,923	($3,797)	($180)	$3,273
Other Receivables and Prepaid Expenses	($2,757)	$527	$804	($7,884)

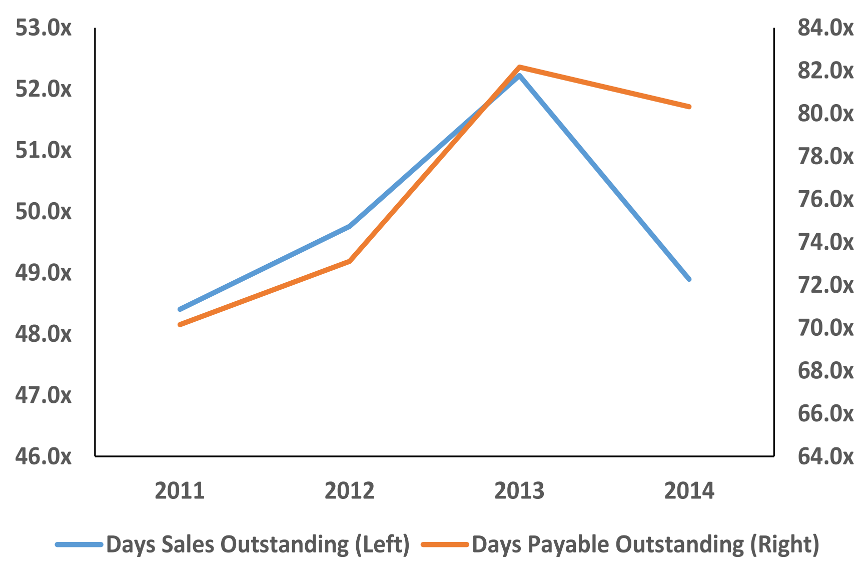
Since coming public in 2012, the accounts showed the highest variance in 2014

Source: SEC filings

Alarming Days Payables and Receivables

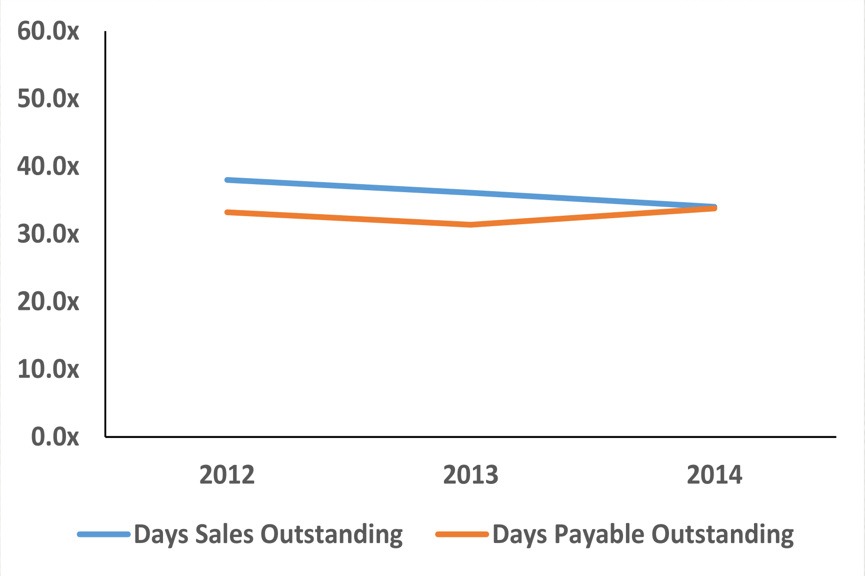
- **CSTE has an unusual and significant spread between its DSO and DPO**. The spread of 30 at year end 2014 was the widest in the past 4 years. This suggests that CSTE is trying to stretch out its payables as far as it can to generate temporary cash from operations and may be having trouble collecting from its customers
- **Analysis of U.S. Building Products Peers**: Suggest a normalized DSO and DPO is around 33 – 35 with minimal spread between days payables and receivables
- These earnings quality issues are usually an early warning sign of underlying business issues

CSTE's Alarming Spread Between DSO and DPO



Source SEC Filings

Summary of U.S. Peers[1]



1) Peers include: Masonite, American Woodmark, Ply Gem, Quanex Building Products (NX), Apogee, Beacon Roofing, Armstrong Worldwide, Norcraft, Masco (MAS), Pool Corp, and Trex. Foreign companies excluded due to difference in reporting standards of COGS

Unusual Inventory Turnover

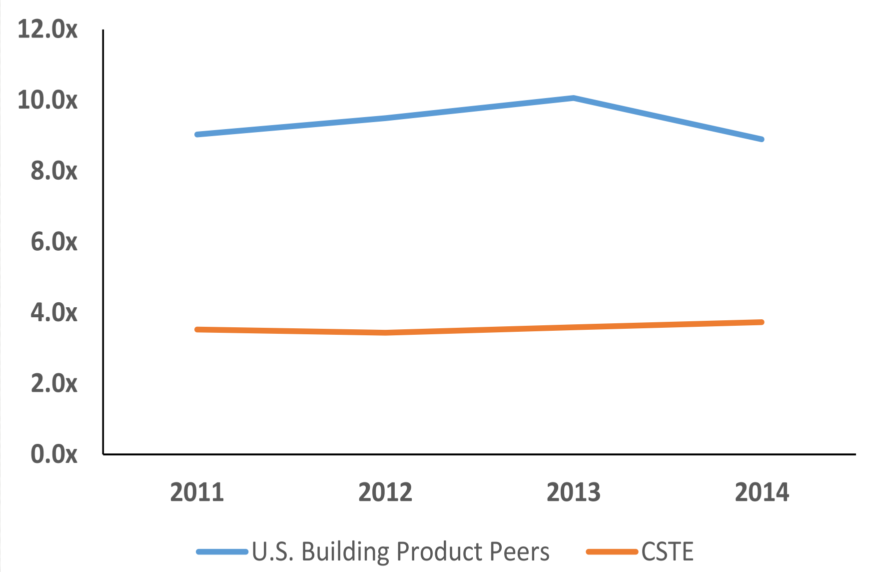
- CSTE has historically reported blistering 20%+ revenue growth for a building product company, yet has an abnormally low inventory turnover in the range of 3.5x compared with US peers in the 9 – 10x range and are growing at approximately 10%
- Unlike its US peers, CSTE gives enough disclosure to determine its raw material costs. Digging a litter deeper, we calculate CSTE's raw material turnover at 8.5x. Cosentino, its closest stone surface peer, reports its raw material turnover to be 5.7x and is growing revenues approximately 15%
- Just another red flag of potential underlying business issues

Unusually Inventory and Raw Material Turnover

$ in millions

	2011	2012	2013	2014
Raw Material Cost	$77.7	$84.6	$97.2	$123.7
Total Cost of Goods Sold	$155.4	$169.2	$194.4	$257.8
Raw Materials	$12.1	$11.6	$13.8	$15.4
Work-in-Progress	$0.5	$0.8	$1.0	$0.7
Finished Goods	$35.4	$38.1	$43.1	$64.0
Total Inventory	$48.1	$50.6	$57.9	$80.2
Raw Materials Turnover	7.2x	7.1x	7.7x	8.5x
Total Inventory Turnover	3.5x	3.4x	3.6x	3.7x

Inventory Turns Significantly Below Peers



Source: Public filings
1) Peers include: Masonite, American Woodmark, Ply Gem, Quanex Building Products, Apogee, Beacon Roofing, Armstrong Worldwide, Norcraft, Masco, Pool Corp, and Trex. Foreign companies excluded due to difference in reporting standards of COGS

Warning: CSTE Audited By a Member of Ernst & Young

EY
Building a better working world

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

CAESARSTONE SDOT-YAM LTD.

We have audited the accompanying consolidated balance sheets of Caesarstone Sdot-Yam Ltd. and subsidiaries (the "Company") as of December 31, 2013 and 2012 and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Caesarstone Australia Pty Limited, a wholly-owned subsidiary, which statements reflect total assets constituting 13% and 17% of the related consolidated totals as of December 31, 2013 and 2012, respectively, and total revenues constituting 25%, 30% and 34% in 2013, 2012, and 2011, respectively, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Caesarstone Australia Pty Limited, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditor provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2013 and 2012 and the consolidated results of its operations and cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Haifa, Israel
May 13, 2014

Source: CSTE 20-F

Warning: PCAOB 2013 Inspection Report Shows Significant Deficiencies

Spruce Point Capital Management

PCAOB Release No. 104-2013-134
Inspection of Kost Forer Gabbay & Kasierer
May 23, 2013
Page 4

attention. Under PCAOB standards, when audit deficiencies are discovered after the date of the audit report, a firm must take appropriate action to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions.[8] Depending upon the circumstances, compliance with these standards may require the firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on previously expressed audit opinions. A firm also should consider whether there are actions the firm should take to alert another auditor that has expressed an opinion on financial statements that the firm played a role in auditing. A Board inspection does not typically include review of a firm's actions to address deficiencies identified in that inspection, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take, action. If, through subsequent inspections or other processes, the Board determines that the firm failed to take appropriate action, that failure may be grounds for a Board disciplinary sanction.

A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of five issuer audit clients and the Firm's audit work on one other issuer audit engagement in which it played a role but was not the principal auditor. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

The inspection team identified what it considered to be audit deficiencies. The deficiencies included failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures.

In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of

[8] See AU 390, *Consideration of Omitted Procedures After the Report Date,* and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T), and PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* ("AS No. 5"), ¶ 98.

PCAOB Release No. 104-2013-134
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May 23, 2013
Page 5

persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. See AS No. 3, paragraph 9 and Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

The deficiencies identified included a deficiency of such significance that it appeared to the inspection team that, in one audit performed by the Firm, the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements. That deficiency was –

the failure to perform sufficient procedures to test a cash flow hedge.

The deficiencies identified also included deficiencies of such significance that it appeared to the inspection team that, in the audit in which the Firm played a role but was not the principal auditor, the Firm had not obtained sufficient appropriate audit evidence to fulfill the objectives of its role in the audit. Those deficiencies were –

(1) the failure to perform sufficient procedures to test revenue; and

(2) the failure to perform sufficient procedures to test the existence of inventory.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance and the following eight functional areas (1) tone at the top; (2) practices for partner evaluation, compensation, admission, assignment of responsibilities, and disciplinary actions; (3) independence implications of non-audit services; business ventures, alliances, and arrangements; personal financial interests; and commissions and contingent fees; (4) practices for client acceptance and retention;

Source: Public Company Accounting Oversight Board (here)

Recurring Audit Deficiencies Noted From 2010 PCAOB Inspection Report

PCAOB Release No. 104-2010-008
Inspection of Kost Forer
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Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.[6] To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.[7] It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements, are free of any deficiencies not specifically described in an inspection report.

A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of eight issuers. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

The inspection team identified what it considered to be audit deficiencies.[8] The deficiencies identified in two of the audits reviewed included deficiencies of such

[6] This focus necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools.

[7] When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations or cash flows of the issuer in conformity with GAAP, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

[8] PCAOB standards require a firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions. See AU 390, *Consideration of Omitted Procedures after the Report Date,* and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's

PCAOB Release No. 104-2010-008
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significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements.[9] Those deficiencies were –

(1) the failure to perform sufficient audit procedures to test the existence of accounts receivable;

(2) the failure, in two audits, to perform sufficient audit procedures with respect to revenue from arrangements with multiple deliverables; and

(3) the failure to perform sufficient audit procedures to assess the allowance for doubtful accounts.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies and procedures related to audit quality. This review addressed practices, policies and procedures concerning audit performance and the following eight functional areas (1) tone at the top; (2) practices for partner evaluation, compensation, admission, assignment of responsibilities, and disciplinary actions; (3) independence implications of non-audit services; business ventures, alliances, and arrangements; personal financial interests; and commissions and contingent fees; (4) practices for client acceptance and retention; (5) practices for consultations on accounting, auditing, and SEC matters; (6)

interim auditing standards, pursuant to PCAOB Rule 3200T). Failure to comply with these PCAOB standards could be a basis for Board disciplinary sanctions.

[9] In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. See AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

Source: Public Company Accounting Oversight Board (here)

Follow the Money: Insiders Have Been Selling and Extracting Cash Out

- CSTE's sole pre-IPO investor, Tene Investment Funds, quickly exited at the first secondary offering in 2013
- Recently in May 2014, CSTE's major shareholder, Kibbutz Sdot Yam, started to liquidate its holdings and offered 6.4m shares. The Kibbutz has also extracted money through year-end special dividends. In total, the Kibbutz has extracted approximately $300 million from Caesarstone
- Secondary share offerings at $11, $23, and $45.50 significantly below current levels

shares and dollars in millions

	Pre IPO	% Owned	Post IPO	% Owned	2013 Offering	% Owned	2014 Offering	% Owned
Public Shareholders	0.0	0.0%	7.7	22.3%	16.6	48.3%	23.7	67.4%
Kibbutz Sdot Yam	18.7	70.1%	18.7	54.5%	17.8	51.7%	11.4	32.6%
Tene Inv Funds	8.0	29.9%	8.0	23.3%	0.0	0.0%	0.0	0.0%
Shares Outstanding	**26.7**	**100.0%**	**34.4**	**100.0%**	**34.4**	**100.0%**	**35.1**	**100.0%**
Public Offer Price			$11.00		$23.25		$45.50	
Net Proceeds to Caesarstone			$76.8		--		--	
Net Proceeds to Kibutz Sdot Yam			--		$21.0		$240.2	
Total Stock Sales	$261.2							
Total Dividends (1)	$34.8							
Total Cash Out	**$296.0**							

(1) A $17.9m special dividend was paid from IPO proceeds along with a $0.58/sh and $0.57/sh in 2013 and 2014

Source: SEC filings and public announcements

Quartz Countertops Rapid Commoditization

CSTE Highly Dependent on Portraying Itself as a "Premium" Product

Spruce Point Capital Management

- CSTE's May 2015 Investor Presentation uses the word "Premium" a total of seven times. The importance is highlighted by the fact that it is prominently used on the first two key slides in the presentation

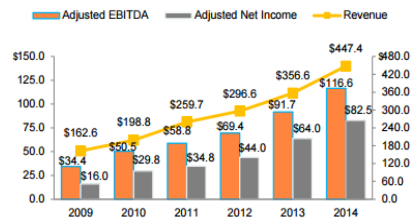
First Few Slides From May 2015 Investor Presentation

Global Leader in the Attractive Quartz Surface Market

Company Overview

- 27 years of leadership
- Strong premium brand
- 12% global market share (by volume)
- Distribution network across over 50 countries
- Diversified revenue with approximately 55% of revenue from North America

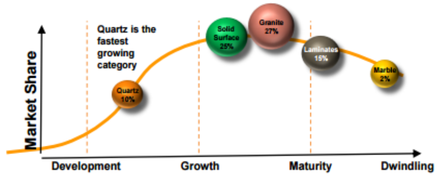
Strong Performance Through the Cycle ($mm)



Quartz Market Opportunity[1]

- 2014 market penetration: 10% by sales
- Fastest growing surfaces category ('99 - '14)
  - Grew at 15.7% CAGR
  - From 2% penetration in 1999
- Capturing high % market share in key markets

Quartz Is the Fastest Growing Category in a $81bn Market



Source: Freedonia February 2015

caesarstone 4

Key Investment Highlights

#1 Reason to Invest!

- Premium **brand** with superior customer value proposition
- Global **market leader** in high growth quartz surfaces market
- Strong, diversified global **distribution** platform
- World-class **marketing, R&D and manufacturing** capabilities
- Proven track record of **growth and product innovation**
- Experienced **management** team
- Attractive **financial** profile

5 caesarstone

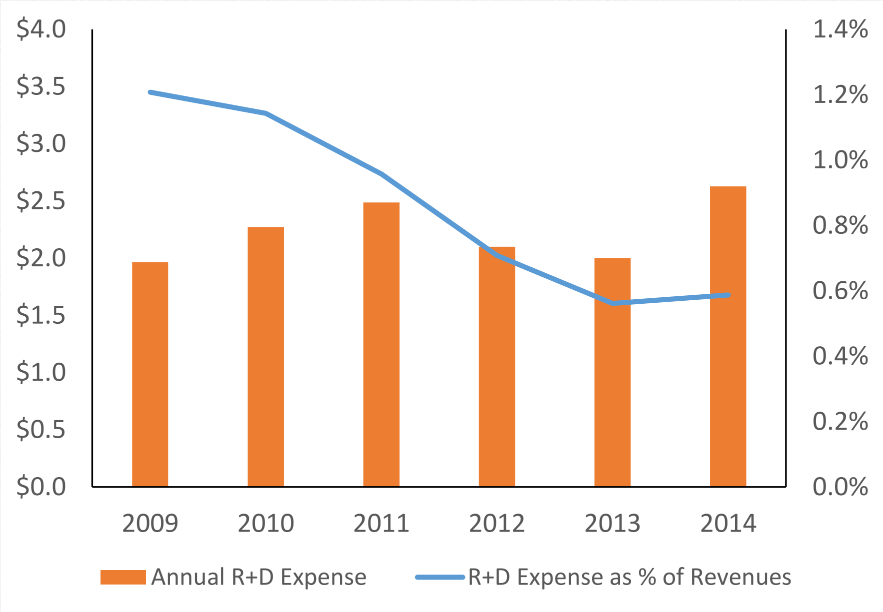
Source: Caesarstone Investor Presentation (here)

Yet its R&D Expense Margin is Shrinking

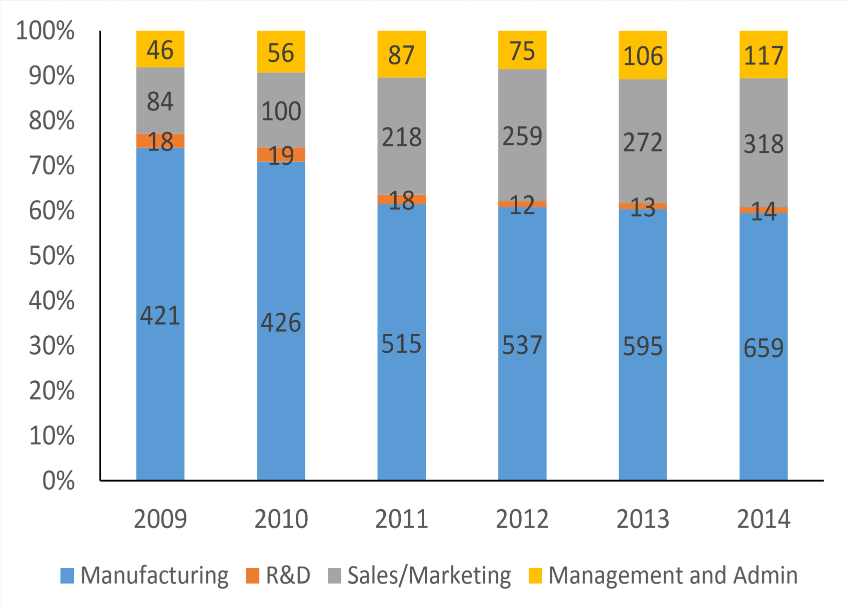
- Caesarstone often touts its "*World Class Manufacturing and R&D Capabilities*" to "*maintain innovative and leading technologies and top quality designs, develop new and innovative products according to its marketing department's roadmap*"
- In our opinion, quartz countertops have become largely commoditized and consumers are increasingly relying on style preference and price vs. brand name
- We observe that the company has been spending a lower percentage of revenues on R&D <u>and</u> shrinking its R&D headcount
- Could a shrinking R&D budget jeopardize CSTE's ability to maintain a premium positioning in the market

Declining R&D Margin

$ in millions



R&D Department's Shrinking Headcount



Source CSTE's 20-F SEC filings

Quartz Countertops Commoditized, What is a Considered "Premium"

Cambria

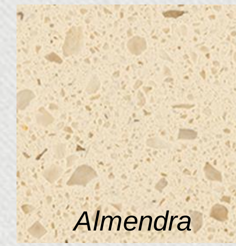
Q from MSI

HanStone

Silestone by Cosentino

Pental Quartz

Smart Stone



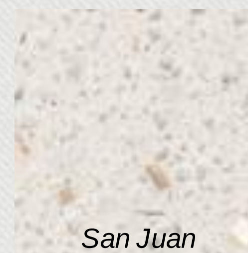
LG Viatera

Dupont Zodiaq

Element Quartz

Samsung Radianz

Qunitessenza



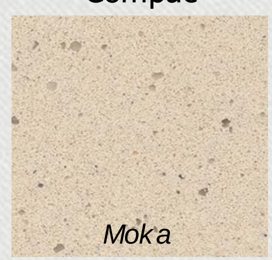
Stone Italiana

Belenco

Uniquartz

Santa Margherita

Compac



Levantina

Technistone

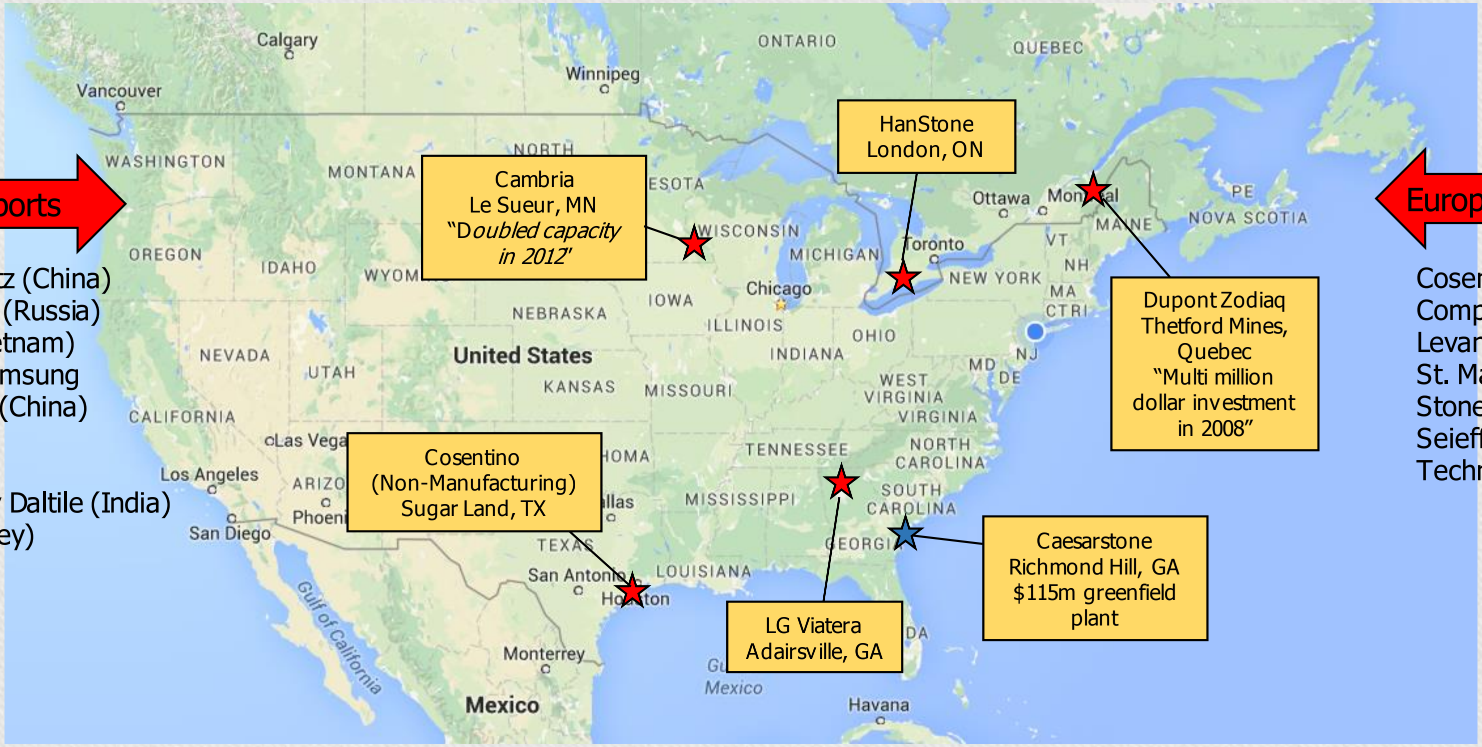
Note: All brands are registered trademarks of their respective makers

CSTE's U.S. Plant Expansion, Over Budget and Too Late To the Party?

In November 2013, CSTE announced it would accelerate its initial investment of its US manufacturing facility, which was originally planned to cost $100m. As of its latest 20-F filing, the expected costs have risen to $115m. However, our greater concern is that CSTE is expanding its manufacturing into a rapidly saturated market where there are already 4 major producers in North America, and more than a dozen imports.

Asian Imports

- Element Quartz (China)
- Quartzmaster (Russia)
- Vicostone (Vietnam)
- Radianz by Samsung
- Quintessenza (China)
- Pental Quartz
- Q from MSI
- One Quartz by Daltile (India)
- Belenco (Turkey)



European Imports

- Cosentino (Spain)
- Compac (Spain)
- Levantina (Spain)
- St. Margherita (Italy)
- Stone Italiana (Italy)
- Seieffe OKITE (Italy)
- Technistone (Czech)

Source: Dupont Announces Growth Investment for Zodiaq (here)
Cambria Doubles Production Capacity at Le Sueur (here)
Caesarstone selects Richmond Hill, GA and expects costs of $100m (here)

SPRUCE POINT
CAPITAL MANAGEMENT

CSTE Deal With IKEA® Sends Inconsistent Premium Brand Message

Quartz Countertops at IKEA®

Caesarstone Name Not Highlighted in a Recent Catalogue

Caesarstone Name Not Highlighted in an IKEA Store

Source: IKEA product catalogue

CSTE Announces IKEA Partnership

In May 2013, CSTE announced its intention to serve as IKEA US's exclusive non-laminate countertop vendor. In October 2014, Caesarstone Canada entered into a similar agreement with IKEA Canada

Caesarstone USA, sources, fabricate and install the countertop products, primarily from its quartz surfaces, all of which are not marketed under its brand. Furthermore, it is responsible thereunder for fabricating and installing countertops for end customers.

The agreements with IKEA and IKEA Canada will terminate at the end of 2015 and the beginning of 2017, respectively, unless terminated earlier in accordance with their terms. There is no assurance that these agreements will be renewed.

Our Take On This Deal

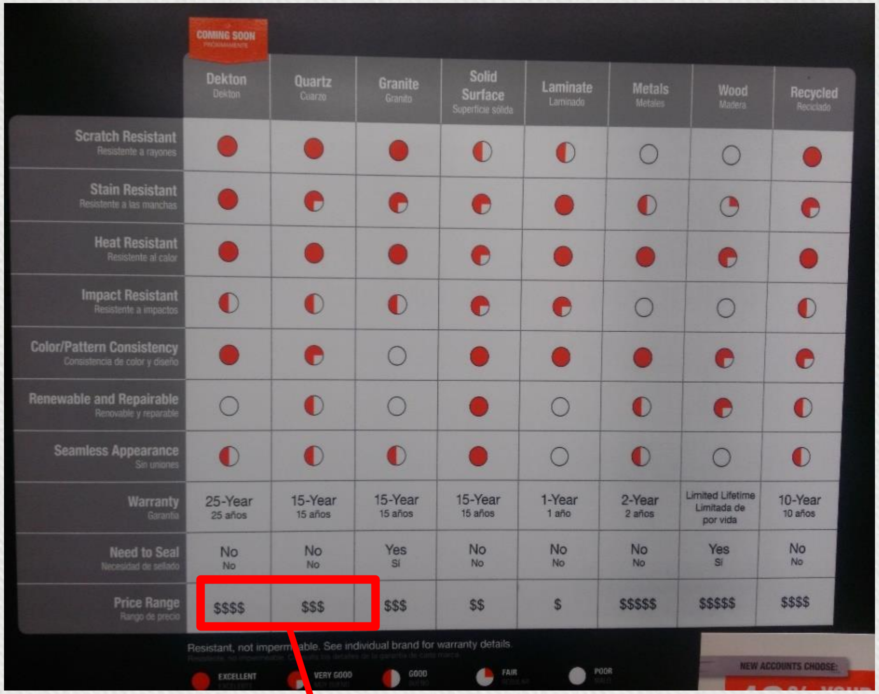
- Highly inconsistent with CSTE's "premium" branding strategy to sell through a low cost retailer such as IKEA
- CSTE gets limited/no brand exposure with this deal. Our visits to IKEA revealed no in-store exposure that CSTE's brands were being sold; similar to catalogue exposure (left)
- **Sales through IKEA lower CSTE's gross margins** because CSTE has to bear the cost of fabrication and installation
- We believe the IKEA deal may support our case that CSTE's gross margins are too high, and the deal could be used to explain away CSTE's margin deterioration

Source: IKEA Announcement (here); CSTE 2014 20-F filing

Dekton® Could Display Quartz as the New Premium Countertop Surface

Cosentino's New Super Premium Countertop Has Recently Just Hit The Market and Risks Marginalizing Other Brands Such As Caesarstone

Home Depot Shopper Comparison Now Lists Dekton



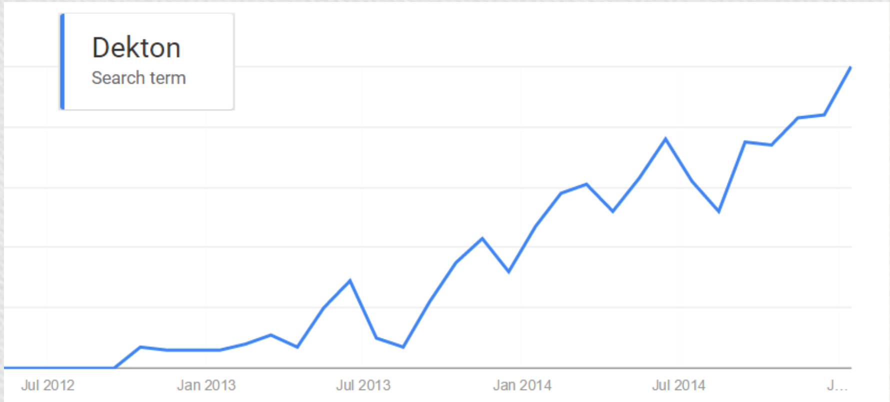
Quartz soon to no longer be premium?

Cosentino Investing Heavily in Super Premium Product

October 4, 2013: Cosentino, the world leader in quartz, natural stone, and recycled surfaces announced the launch of Dekton by Cosentino, a new ultra-compact surface with advanced technical properties for both interior and exterior design. Dekton is the most significant new product launch for Cosentino in over a decade, totaling more than 22,000 hours of research and development. Cosentino has invested $172 million into the new product, including the construction of a new state-of-the-art factory at the company's manufacturing headquarters in Spain.

Source: Cosentino Announcement (here)

Google Trends - Dekton



Google Trends Dekton (here)

Questionable Market Share Claims

Spruce Point Capital Management

Rise In Competition Appearing To Make Caesarstone Less Relevant

Caesarstone's growth story is highly dependent on selling investors on its U.S. growth opportunity. Since coming public in 2012, Caesarstone has regularly presented market share data complied by Freedonia Research to investors. In the table below, we've listed its market share estimates for key markets. Accordingly, the U.S. is the only market it has reported consistent market share gains, while gains in other countries are flat or declining.

Country	2010	2012	2014	Comments
Australia	59%	57%	55%	Consistent Market Share Declines
United States	14%	16%	19%	Consistent Market Share Gains
Canada	29%	36%	36%	Market Share Stagnation 2012 -2014

Market Share Sources from Freedonia:
2010: Prospectus, p. 5
2012: Prospectus, p. S-4
2014: 20-F p. 30

Warning: Caesarstone Cites Custom, Paid-For Research in its Filings

Investors should be cautioned that Caesarstone's research citations on market share and growth were in fact developed on its behalf by Freedonia. In other words, the company paid for the research and, therefore, it should not be considered as truly independent and unbiased.

EX-15.3 17 exhibit_15-3.htm EXHIBIT 15.3

Exhibit 15.3

CONSENT OF FREEDONIA CUSTOM RESEARCH, INC.

We hereby consent to the references to Freedonia Custom Research, Inc. and to our global residential and commercial countertops report, dated February 19, 2015 (the "Report") prepared on behalf of Caesarstone Sdot-Yam Ltd. (the "Company"), including the use of information contained within our Report in the Company's Annual Report on Form 20-F (as may be amended) to be filed with the U.S. Securities and Exchange Commission for the year ended December 31, 2014 (the "Annual Report") and to the incorporation by reference of such information from the Company's Annual Report in the registration statement on Form S-8 No. 333-180313, and the registration statement on Form F-3ASR (File No. 333-196335). We also hereby consent to the filing of this letter as an exhibit to the Annual Report.

FREEDONIA CUSTOM RESEARCH, INC.

By: /s/ Freedonia Custom Research, Inc.

Andrew Fauver
President

March 9, 2015

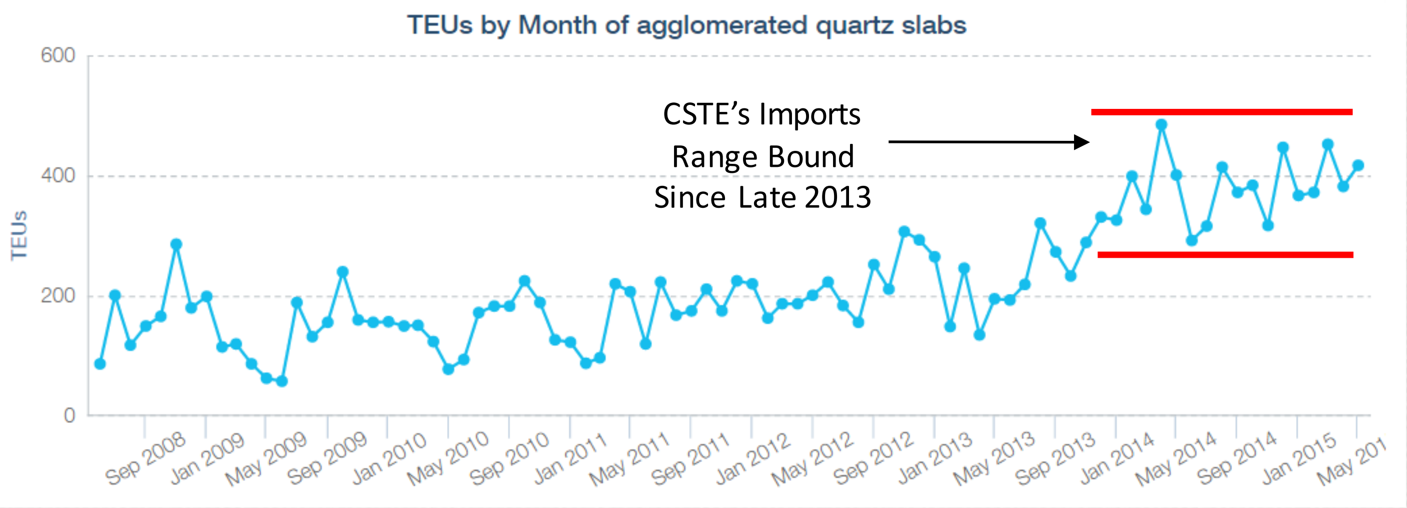
Disclaimer

"Unless otherwise noted in this annual report, Freedonia Custom Research, Inc. ("Freedonia") is the source for third-party industry data and forecasts. The Freedonia Report, dated February 19, 2015, represents data, research opinion or viewpoints **developed independently on our behalf** and does not constitute a specific guide to action. In preparing the report, Freedonia used various sources, including publically available third party financial statements; government statistical reports; press releases; industry magazines; and **interviews with manufacturers of related products (including us)**, manufacturers of competitive products, distributors of related products, and government and trade associations. Growth rates in the Freedonia Report are based on many variables, such as currency exchange rates, raw material costs and pricing of competitive products, and such variables are subject to wide fluctuations over time."

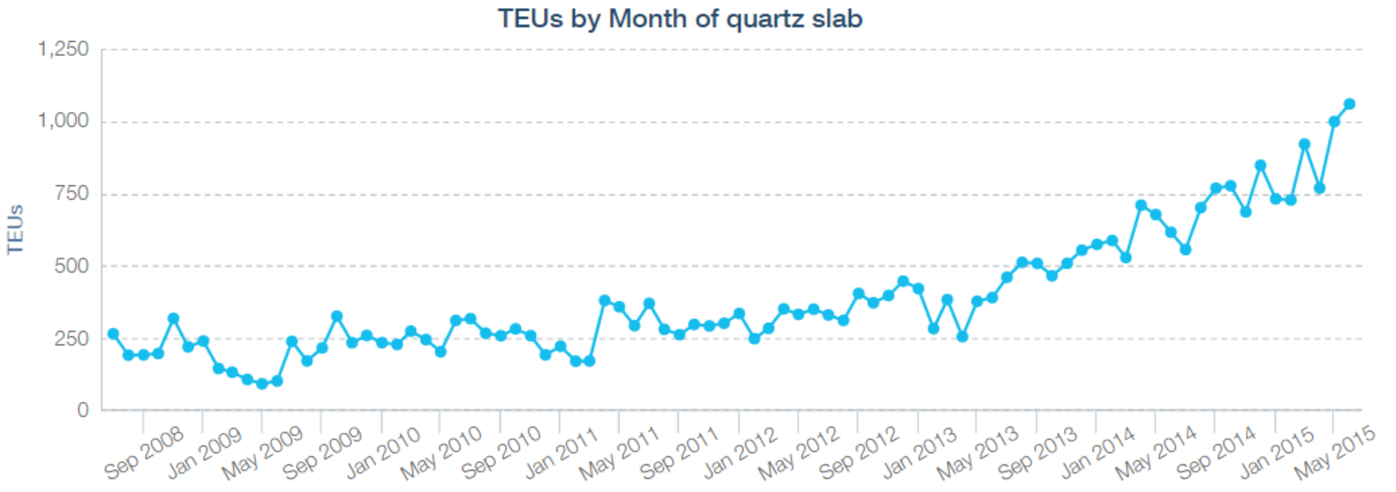
Source: SEC filings and Exhibit 15.3 (here)

U.S. Import Data of Quartz Slabs Call In To Question CSTE Market Share Gains

CSTE Has Historically Been Entirely Dependent on Shipments From Israel Into the U.S. Proprietary Shipping Data Shows its U.S. Imports Have Been Range Bound Since Late 2013



Total U.S. Imports of Quartz Slabs (All Countries) Have Been Steadily Rising. Furthermore, U.S. Based Quartz Countertop Manufacturers Have Also Been Expanding Production

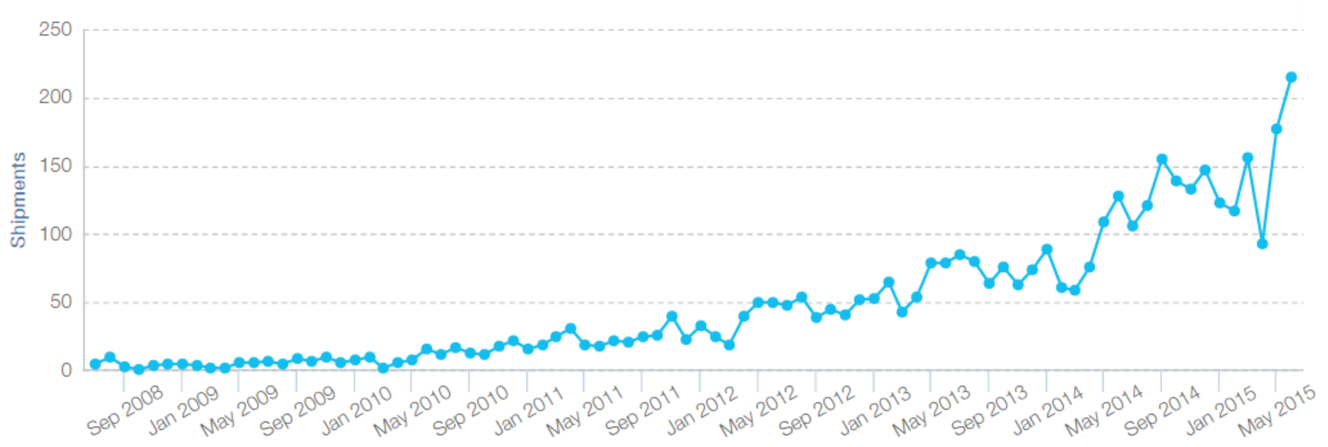


Source: Panjiva.com

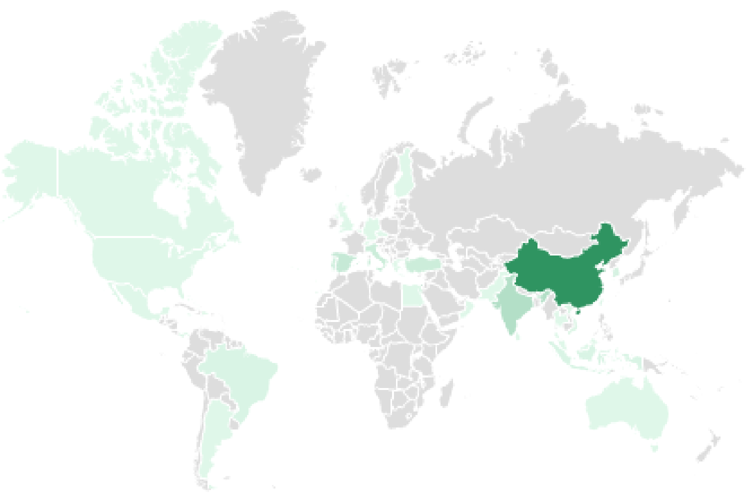
Note: TEU = Twenty Foot Equivalent, a measure of cargo capacity

Hard To Compete With China….

Monthly U.S. Imports of Quartz Slabs from China



Top Exporters to the US of Quartz Slabs

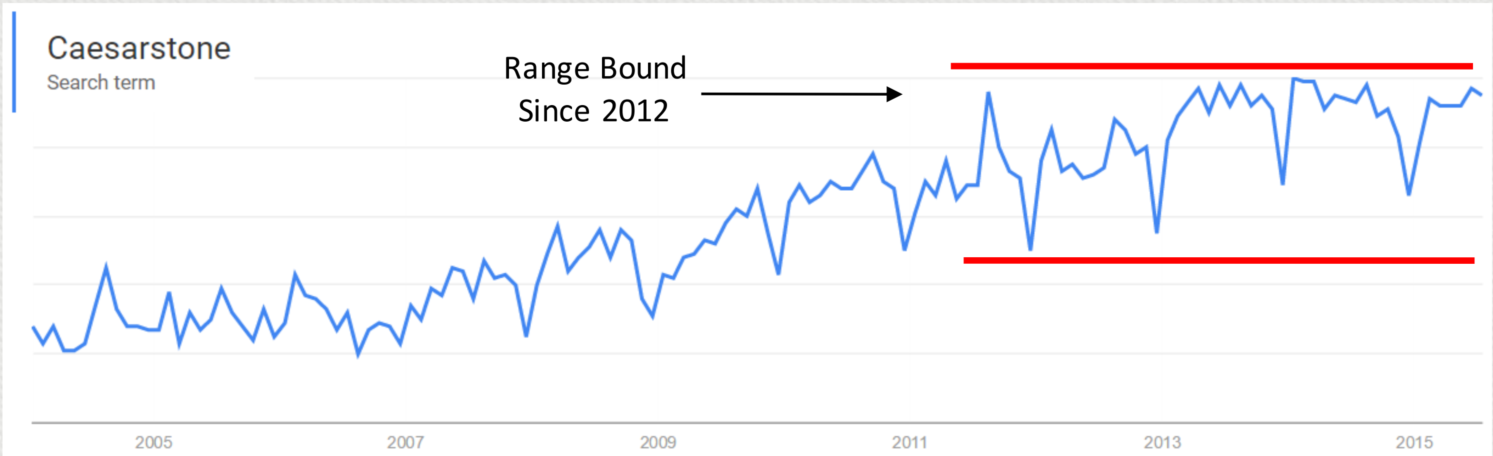


Country	Shipments
Israel	5,114
China	4,057
India	1,012
Spain	595
Turkey	450
Italy	449
Portugal	316
Hong Kong	294
Singapore	263
South Korea	224

Source: Panjiva.com

Google Trends Data Questions Consumer Interest Level

Google Trends Data Suggests Early Interest Diminished, Static Search Results For Caesarstone Since 2012



Source: [Google Trends]

Google Trends Data Shows Among the Lowest Search Interest From the U.S. Despite it Being CSTE's Largest Sales Market

Sell-Side Analyst Misperceptions and Variant Valuation View

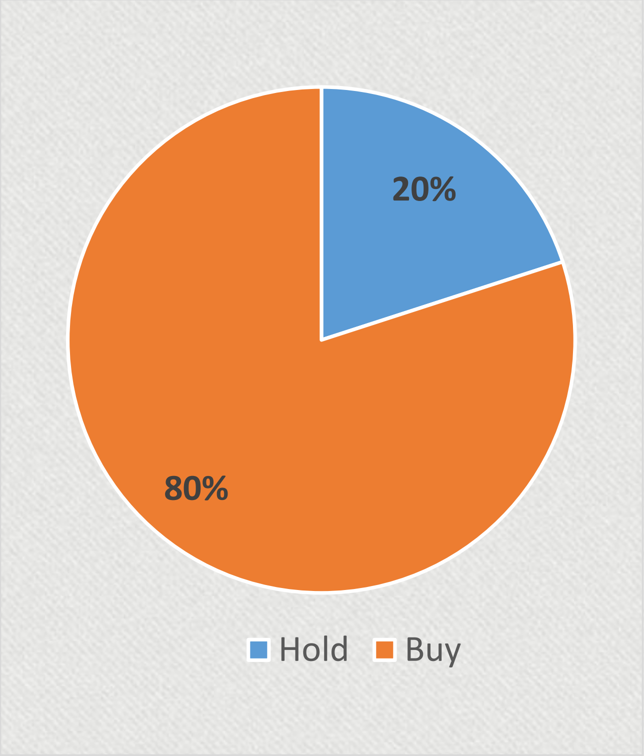
Spruce Point Capital Management

CSTE Still Has Substantial Analyst Endorsement

Wall Street is bought into the Caesarstone story with nearly every analyst having a Buy or Outperform rating. Analysts are still projecting ~38% upside from the current share price.

Broker	Rating	Price Target
Barclays	Equal weight	$63
Credit Suisse	Outperform	$62
J.P. Morgan	Buy	$68
Stifel Nicolaus	Buy	$65
UBS	Buy	$78
	Average Price **% Implied Upside**	**$67** **38%**

Majority Say Buy



Source: Bloomberg

Analyst Views Are Too Rosy And Omit Key Issues We Uncovered

Analysts' and CSTE's Investment Highlights	Spruce Point's Rebuttal
"Premium brand with superior customer value proposition"	Difficult to define what is a "premium" quartz countertop, customer decisions come down mostly to style preference. Cosentino has introduced a Dekton, a super premium offering
"Well positioned to benefit from housing recovery as repair and remodeling spending continues"	No exposure to multi family housing. DIY remodeling retailers Lowes and Home Depot sell Silestone, LG Viatera and other brands, not CSTE's products
"World class R&D and manufacturing capabilities, capable of product innovations"	R&D margin has been declining. Majority of quartz countertop manufacturers all use the same Breton equipment. CSTE has introduced only a few new collections in the past few yrs
"Ability to raise prices to offset FX pressures and other short-term margin issues"	Competitors already up to 25% lower in price. Our checks indicate CSTE has raised prices by low single digits, with some dealers telling us "*they don't understand why*"
"Quartz countertops currently have just 8% of the global countertop market, but we expect significant market share gains as the surface becomes better known among consumers."	CSTE cites a paid-for research firm to source its market research figures. Import shipping data suggests US market share gains may not be growing
"Margins have been and will continue to be buffeted by currency headwinds and the U.S. Plant expansion scheduled for 2015, but excluding these factors, margins are growing"	CSTE's quartz supply contract from our SEC FOIA request indicates that a sharp rise in quartz is a significant headwind. The plant expansion is over-budget and comes at a time when the market is getting more competitive. CSTE's Ikea deal appears brand and margin dilutive and provides a nice cover for bigger margin issues
"CSTE remains the same story today as it was when the company IPO'ed in March 2012."	Simply not true. The quartz countertop market has become more competitive and consumer have more lower priced options and greater style varieties to choose from

Sales and Margins To Remain Challenged, First Signs of a Cracked Growth Story

Sales Growth Unlikely to Accelerate

- CSTE's sales growth rate has declined markedly and we believe it will continue to decline:
  - 2012-2013: sales growth: 20%
  - 2013-2014: sales growth: 25%
  - 2015E: sales growth (per guidance): 12%
- CSTE's Q2'15 sales guidance reduction from $515-$525m to $495-$505m is the canary in the coal mine signaling further disappointments
- Disappointment comes despite the added Ikea distribution deals from 2013 and access to the DIY market
- 2016E (consensus estimate) of 18% sales growth is wildly optimistic considering that:
  - The Chinese Yuan devaluation just made Chinese imports even cheaper
  - CSTE is not levered to the multifamily housing which is a big driver of the U.S. housing cycle
  - Import data of CSTE's slabs has been stagnant
  - New "super premium" category led by Dekton is being created and being marketed through the DIY channels like Home Depot
  - Questions about product quality and customer complaints remain

Margins Remain Questionable

- Despite cutting its sales guidance, CSTE maintained its EBITDA range of $123 – 129m (25.2% margin at the midpoint)
- Maintaining its EBITDA margin seems remarkable in light of the following:
  - In its SEC filing, CSTE indicated it expected quartz prices to go up in 2015 by a similar amount from 2014. Based on our public access of its key quartz supply agreement, this would imply another 20% increase in 2015. (CSTE has not indicated it has long-term supply agreements for its new U.S. facility)
  - There is rampant evidence of increased price competition in the quartz countertop market from new entrants at price points of 25% less. Dealer quotes support our claim of pricing pressures
  - R&D expense and margins are already razor thin. Any further cuts to R&D could sacrifice further product innovation and future competitiveness
- On the Q2'15 call CSTE explains it will get an EBITDA benefit by lowering U.S. plant start up expense from $11m to just $1.5m as a result of "less pressure to ramp up." We interpret this to mean they see weak customer demand
- As illustrated, if margins are evaluated on a constant currency basis, CSTE margins could be up to 7% less
- CSTE's Sales and Marketing margins have fallen sharply. If they don't spend more on marketing, sales growth will decline, and if they do market more, EBITDA margins will be impacted lower
- Open question remains about the degree of benefit from the related-party deals with the Kibbutz

Premium Valuation Not Justified For A Commodity Product

Spruce Point Capital Management

Caesarstone trades at a substantial premium to the U.S. building products peers such as Masco (various products), Armstrong (floors/ceilings), Pool Corp (pools), Masonite (doors), Plygem (windows), Apogee (architectural glass), Quanex Building Products (engineered materials) and American Woodmark (cabinets)

($ in millions, except per share figures)

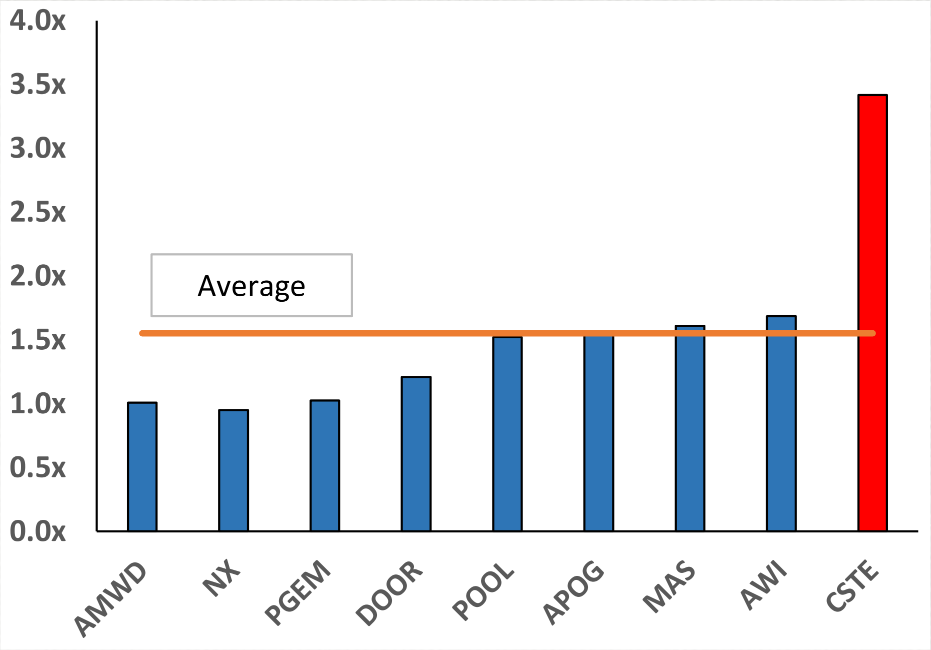
		Stock	% of		LTM			P/E		Enterprise Value			
		Price	52-wk	Ent.	Gross	EBITDA	FCF			EBITDA		Sales	
Name	**Ticker**	**8/17/2015**	**High**	**Value**	**Margin**	**Margin**	**Margin**	**2015E**	**2016E**	**2015E**	**2016E**	**2015E**	**2016E**
Masco	MAS	$27.62	97%	$11,653	27.9%	11.8%	5.5%	24.0x	19.2x	11.4x	10.2x	1.6x	1.5x
Armstrong Worldwide	AWI	$59.57	99%	$4,147	23.7%	16.1%	6.2%	26.1x	21.7x	11.2x	9.8x	1.7x	1.6x
Pool Corp	POOL	$72.01	99%	$3,575	28.1%	9.5%	4.1%	25.9x	22.4x	15.8x	14.0x	1.5x	1.4x
Masonite	DOOR	$66.29	92%	$2,327	16.4%	9.3%	2.4%	53.5x	25.4x	12.6x	9.5x	1.2x	1.1x
Plygem	PGEM	$14.62	99%	$2,009	20.7%	8.3%	-0.5%	37.5x	12.6x	11.7x	8.7x	1.0x	0.9x
Apogee Enterprises	APOG	$54.57	89%	$1,598	23.1%	11.3%	6.3%	25.8x	19.6x	13.0x	10.0x	1.5x	1.4x
Quanex Building Products	NX	$19.69	90%	$601	22.0%	8.1%	-2.2%	67.5x	35.5x	9.6x	8.1x	1.0x	0.9x
American Woodmark	AMWD	$66.01	97%	$896	18.5%	8.4%	5.2%	27.1x	NA	11.7x	NA	1.0x	NA
				Max	28.1%	16.1%	6.3%	67.5x	35.5x	15.8x	14.0x	1.7x	1.6x
				Average	22.5%	10.3%	3.4%	35.9x	22.3x	12.1x	10.1x	1.3x	1.3x
				Min	16.4%	8.1%	-2.2%	24.0x	12.6x	9.6x	8.1x	1.0x	0.9x
Caeserstone	**CSTE**	**$48.53**	**67%**	**$1,711**	**42.5%**	**26.1%**	**-4.6%**	**20.2x**	**15.8x**	**13.4x**	**10.6x**	**3.4x**	**2.9x**

Source: Company financials, Wall St. estimates.

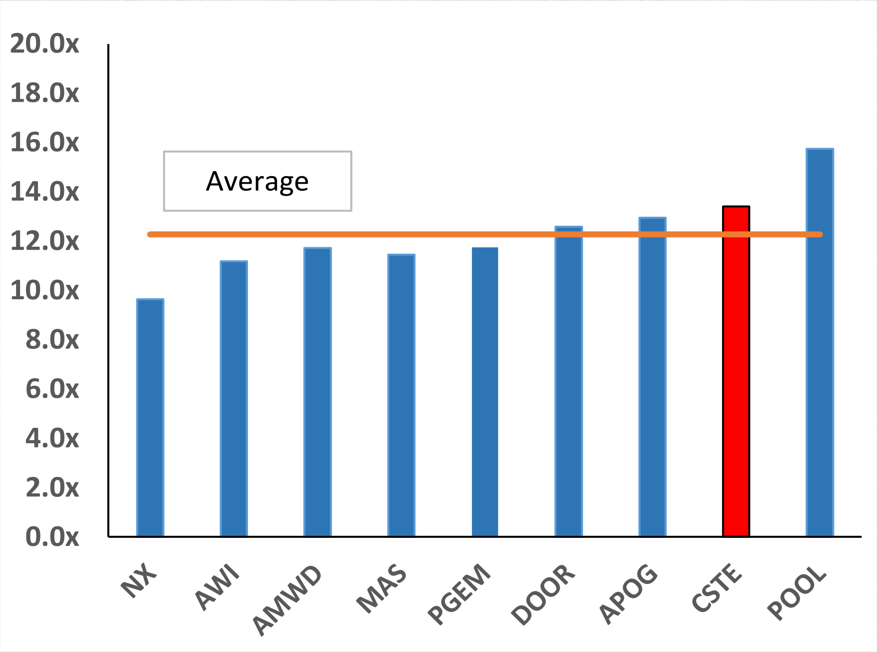
Vastly Superior Margins Too Good To Be True?

Extreme Valuation Disconnect

Enterprise Value / 2015E Revenues



Enterprise Value / 2015E EBITDA

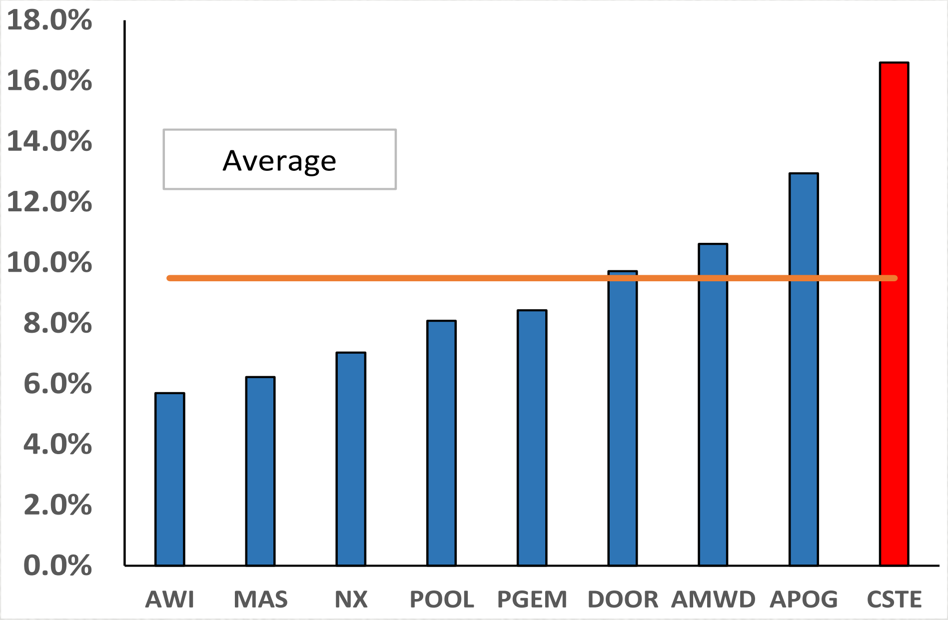


Source: Wall St. Research

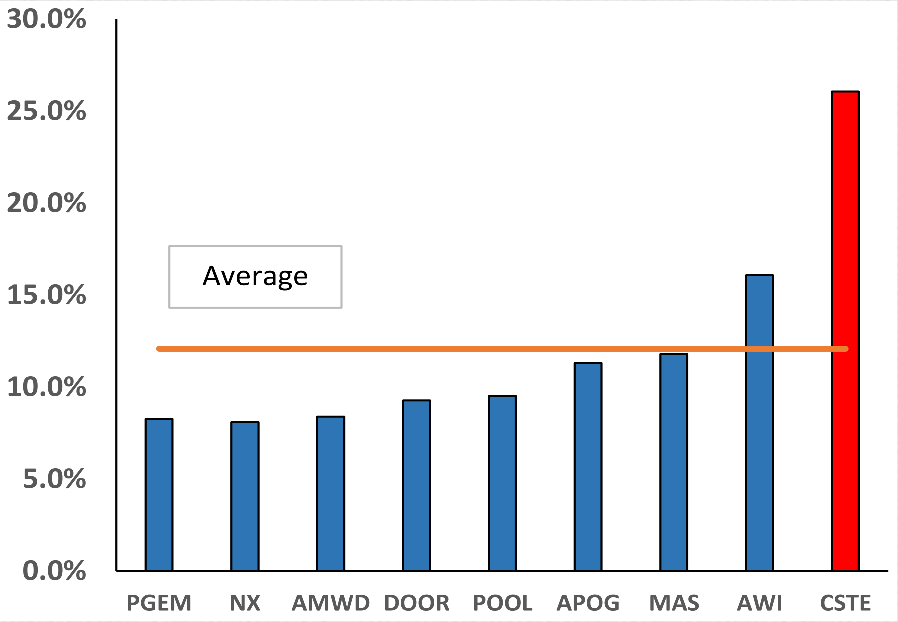
Growth Expectations Still Too High and Margins Are Unsustainable

Analysts have pinned Caesarstone's entire earnings growth story on 2016 in the hopes that its U.S. Facility expansion will enable massive earnings growth. However, we believe the expansion is too little too late as many new cheaper imports have come to the North American market. Furthermore, the Company has yet to address its quartz supply issues and as of its May 6th conference call, stated that it is still looking for quartz sources in the United States. In the mean time, we believe CSTE will have to continue sourcing quartz from Turkey. Its EBITDA margins dwarf any public company in the building product sector.

2016E Sales Growth



LTM EBITDA Margins



Source: Wall St. Research
Q1 2015 Earnings Transcript (here)

We See Approximately 40 – 75% Downside in the Share Price

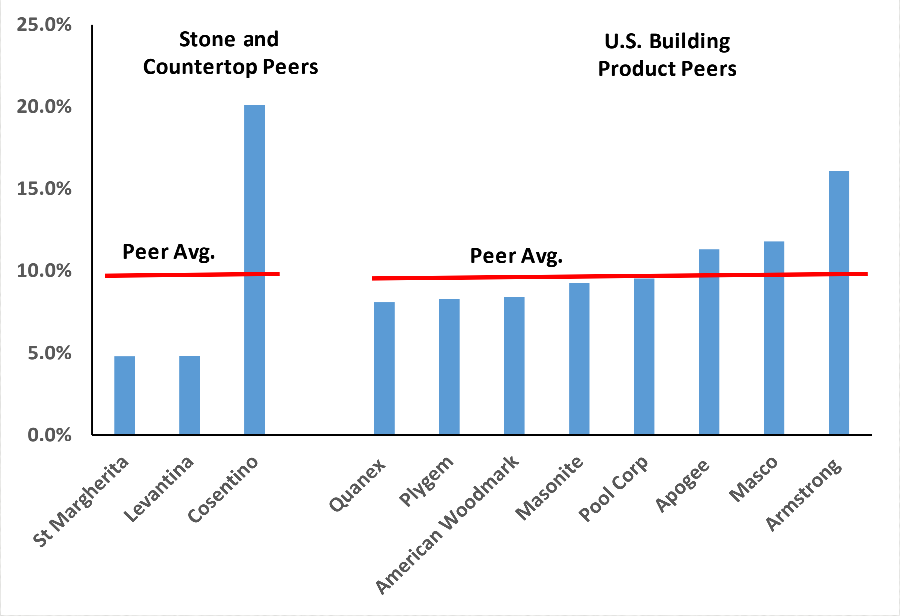
We believe CSTE's 26% EBITDA margins appear to be overstated due to: 1) Underutilization of quartz in its product as suggeste d by our independent lab test and 2) Related party transactions that could enable below market operating expenses 3) FX issues masking core margin weakness. A peer analysis of foreign stone and countertop producers along with a broad set of U.S. building product peers suggest a normalized 10 – 20% EBITDA margin range. If we applied this range to CSTE's 2015E Sales of $500m, normalized EBITDA would be $50m - $100m. Applying a below market multiple of 8 – 10x EBITDA implies a share price between $11 and $29.

CSTE Should Trade At A Discount

($ in millions, except per share figures)

	2015E EV/EBITDA Multiple Range		
	8.0x	--	10.0x
EBITDA Margin Range	10%	--	20%
2015E Sales	$500.0	--	$500.0
Estimated EBITDA	$50.0	--	$100.0
Implied Enterprise Value	$400.0	--	$1,000.0
Less: Debt	($20.0)	--	($20.0)
Plus: Cash	$37.6	--	$37.6
Equity Vaue	**$417.6**	**--**	**$1,017.6**
Shares o/s	35.4	--	35.4
Price Target	$11.79	--	$28.72
% Downside	-76%	--	-43%

Peers Suggest 10 – 20% EBITDA Margin Range



Source: Wall St. Research, Company filings, Spruce Point Estimates.

Consulting Report Prepared by B. Horvath, LLC

Analysis of Countertop Materials

MSE

Materials
Science
& Engineering

Prepared for:

Mr. Ben Axler

Managing Partner
Spruce Point Capital Management

2015

TGA Results

Thermogravimatric analysis was selected as an appropriate means to determine the mass percentage of organic binder matrix used in cementing aggregate Quartz particles together to form the supplied countertop material samples. This was based upon the commonly accepted fact that the majority of organic materials burn and decompose when heated in air at atmospheric pressure to temperatures of 600°C, and completely evolved by 1000°C. For comparative purposes it is typical to compare values at 600°C. There are no known organic materials that will not burn in air at these temperatures. Where as the inorganic natural quartz material is primarily inert in air at these temperatures. This makes for very effective analysis. Table1 summarizes the results of the TGA analysis. TGA analysis is accomplished through the utilization of an extremely accurate apparatus that consists of a specially designed analytical balance suspended within a ceramic heating element furnace, along with computer controlled software that allows data collection and analysis of results.

Sample Description	Wt. % Loss @ 600°C			
	Run 1	Run2	Average	STDEV
Hanstone Quartz Fusion-MV623	9.56	9.91	9.74	0.25
Quartz Master QM5022 Maori Island	8.56	9.26	8.91	0.49
Premium Natural Quartz M51Boletus	10.28	10.39	10.34	0.07
Silestone	8.44	6.79	7.62	1.17
Viatera	8.44	6.80	7.62	1.16
Caesarstone Calcutta Nuvo 5131	11.31	11.30	11.31	0.004
Element Quartz EQS118 Toasted Almond	7.57	6.55	7.06	0.72
Caesarstone 4120 Raven	9.48	11.54	10.51	1.45
Element Quartz EQS101 Fantasy	13.01	13.15	13.08	0.10
Cambria Summerhill Coastal Collection	9.76	9.11	9.43	0.45

Table 1 TGA Analysis of Countertop Materials

From the analysis of the data presented in Table 1 two conclusions can be drawn. Firstly, there is a statistically significant difference in the Wt. % loss during heating between the various subjects due to the thermal evolution of the binder materials. With the maximum loss being reported for Element Quartz EQS101 of 13.08 Wt. % loss and a minimum Wt. % loss of 7.06 for the Element Quartz EQS118 Toasted Almond sample. Secondly, there is a statistically significant difference in the standard deviation of the test samples with a range of values from 0.07 to 1.45. This makes the data only slightly more difficult to interpret. It is thought that this range of STDEV is a result of the relatively small size of the TGA sample with respect to the countertop block and more importantly the particle size distribution within the individual samples. It is as well understood principle that the amount of polymeric resin bonding material used to cement aggregate particles together is related on an exponential function to the particle size and particle size distribution of a composite matrix. More simply stated, very small particles have a very high surface area and naturally will require more polymer resin to completely cover the surface. Concurrently a large range of particle size, i.e. small and large will effect the grinding and sampling for TGA analysis. That being said one must take the large variability on some samples into consideration when drawing conclusions. This could be rectified with additional samples, and more extensive evaluation.

Ultimately, it is our expert opinion that there is statistically different values between the average binder content in these samples. It is outside the realm of our expertise to understand how the amount of resin binder improves the overall quality of a Quartz synthetic countertop. However, one can speculate that the true engineered quality component of the countertop structure is likely the resin material and the more that is used the more the overall properties can be tailored to achieve a final result beyond aesthetic qualities.

Figure 1a and b presents the graphical results of the TGA Analysis for Run1 and Run2, respectively. As can be seen the samples all achieve a baseline Wt. % Loss at about 500^{o}C meaning the majority of all the organic content has been completely evolved, hence comparison of the values at 600^{o}C to add an additional level of confidence. One notable event occurs for the Cambria sample in Run 1 at about 750^{o}C, this is likely some form of phase transformation present in one of the inorganic Quartz materials, sometimes known as calcination when a carbonate group is evolved from an inorganic mineral. It is not present in Run 2 and irrelevant for this analysis.

Figure 1a TGA Run 1

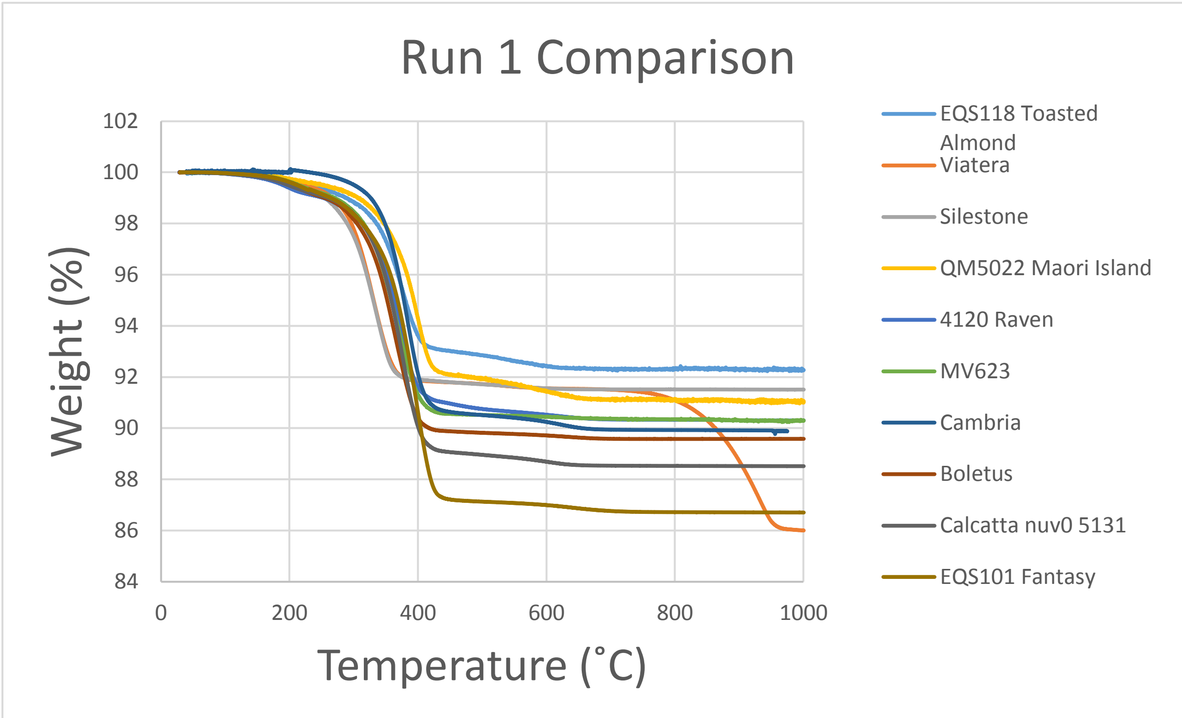
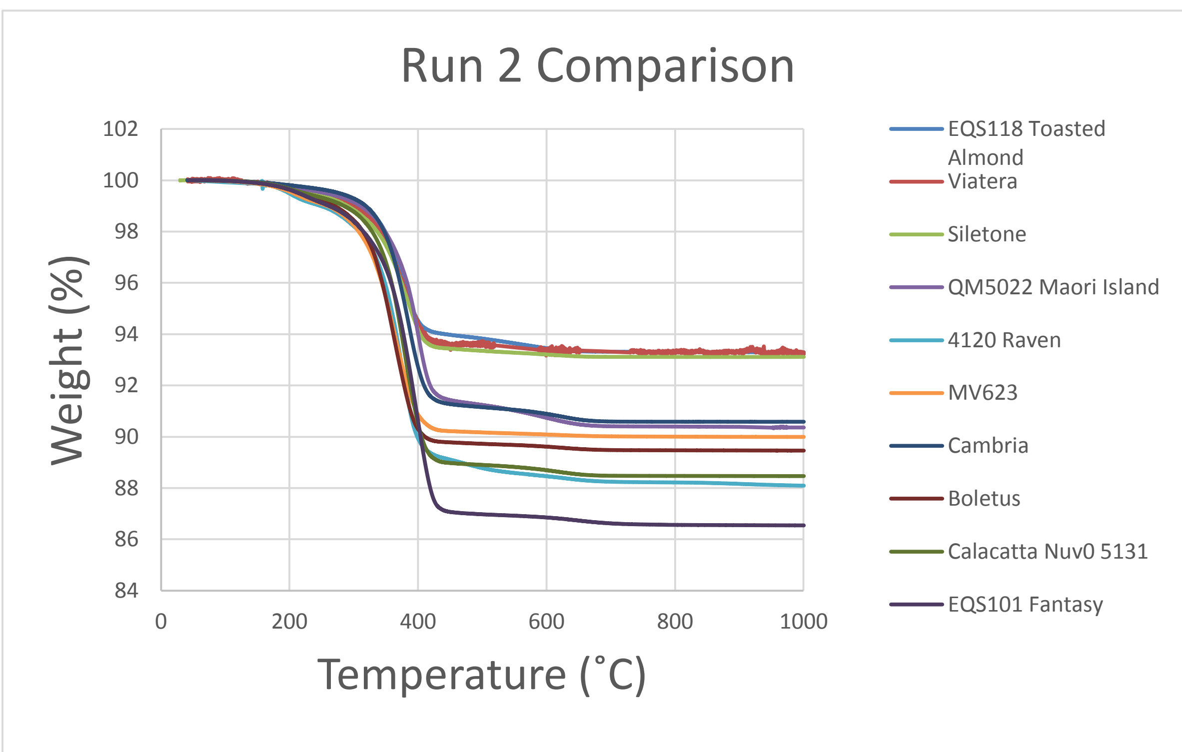


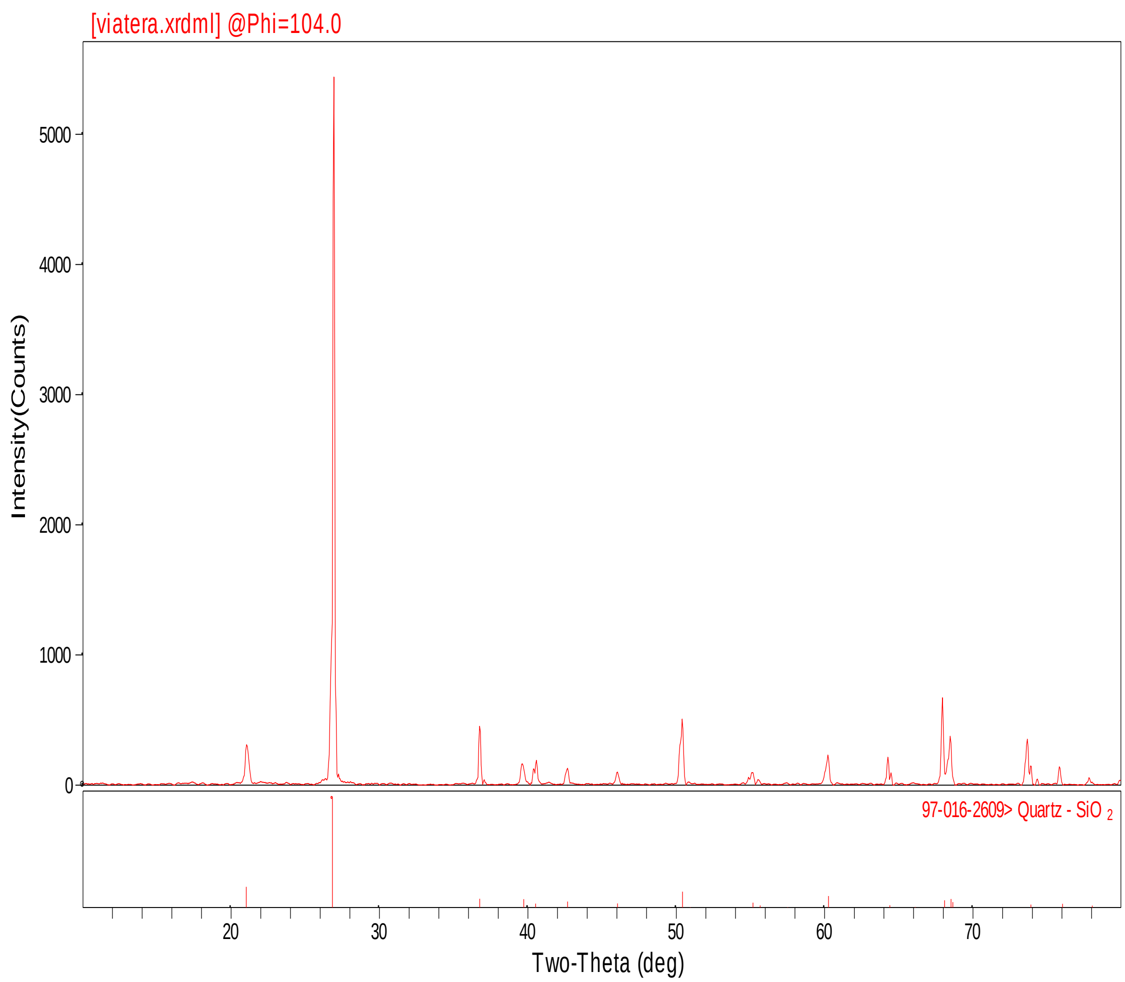
Figure 1b TGA Run 2



X-Ray Diffraction analysis

Figure 2 below presents the XRD spectra for Viatera. The spectra aligns well with the ICSD International Crystalline Solids Database for Silica, SiO_2. More commonly known as quartz, when obtained from naturally occurring sources. In Figure 2, the large window represents the 2theta vs. intensity spectra for the Viatera sample with a smaller window representing the peak positions below for the Quartz standard. The precise alignment of the peak positions in both windows indicate a compositional match.

Figure 2 XRD of Viatera vs. Quartz- SiO2 standard, from ICSD



In Figure 3 the remaining samples are overlaid upon each other for comparison to determine similarity in chemical composition. It can be seen there is little difference between the samples. This is evidenced by the similarity between the position and intensity ratio of the overlays. Compositional differences are apparent but are minor and a result of what is typically realized from various mining locations and raw material sources. It is unlikely that the minor compositional differences have a significant impact on the physical or chemical properties of the finished countertop. However the inclusion and distribution of various quantities of fine grains and aggregates are used to produce aesthetic effects like color and appearance. It is valuable to note that the primary peak for Quartz at 2theta = 27° is present in all samples giving the definitive compositional identification.

Figure 4 a through I are the remaining counter top samples compared against the Quartz ICSD standard. Obvious differences in the relative intensity (left axis) are due to x-ray beam samples interactions and are not indicative of compositional differences. As can be seen for each spectra the position of the peaks are consistent with the Quartz ICSD standard.

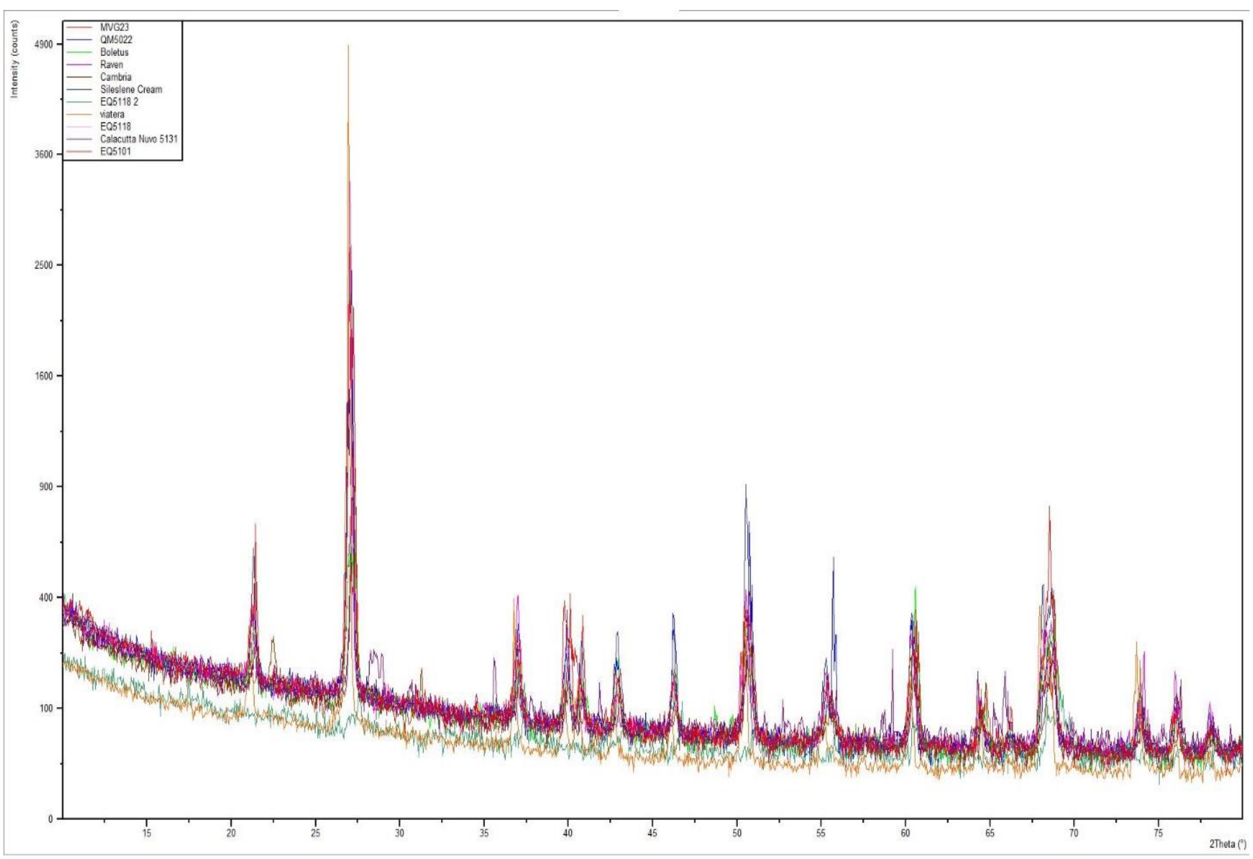


Figure 3 XRD Spectra Overlay of all 11 Countertop Materials

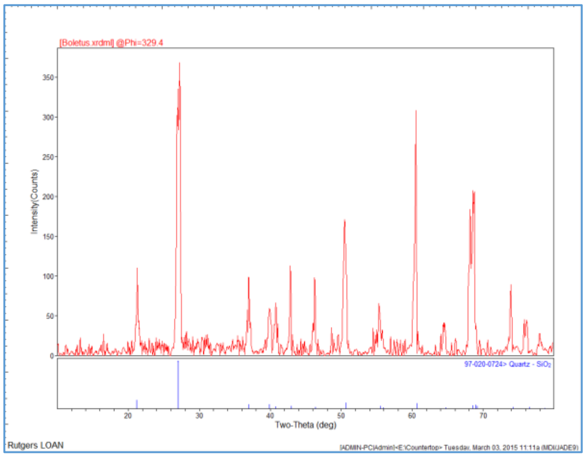


Figure 4a Premium Quartz M51 Boletus

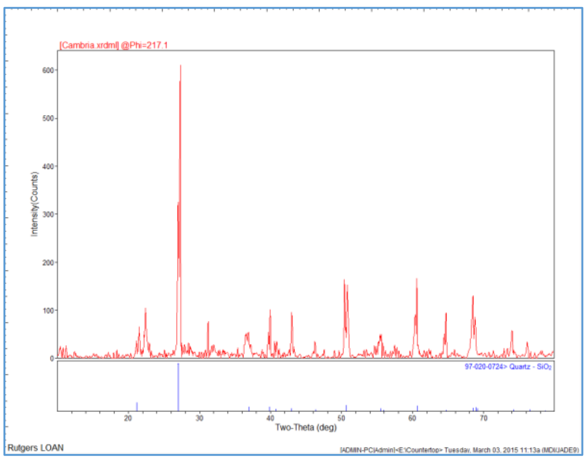


Figure 4b Cambria Summerhill Coastal Collection

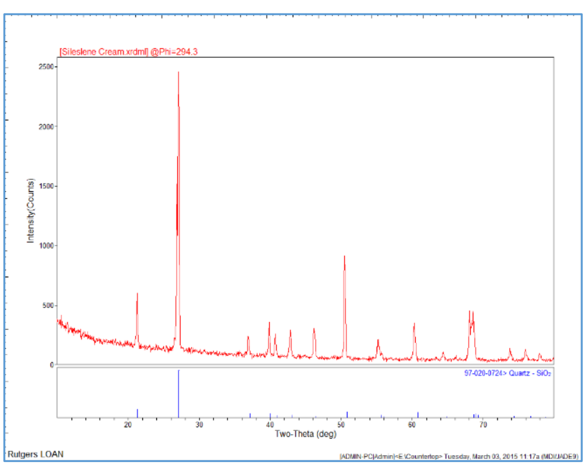


Figure 4c Silestone

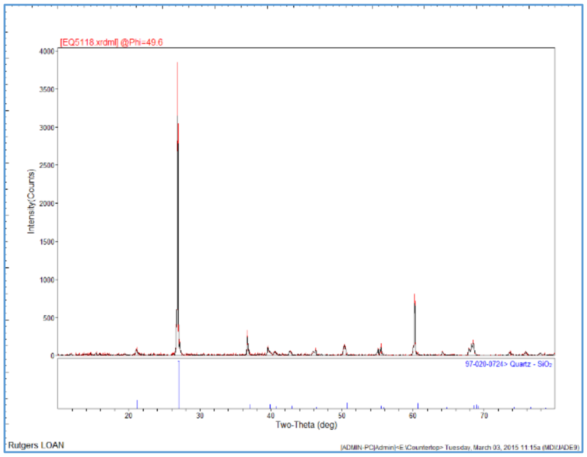


Figure 4d Element Quartz EQS101 Fantasy

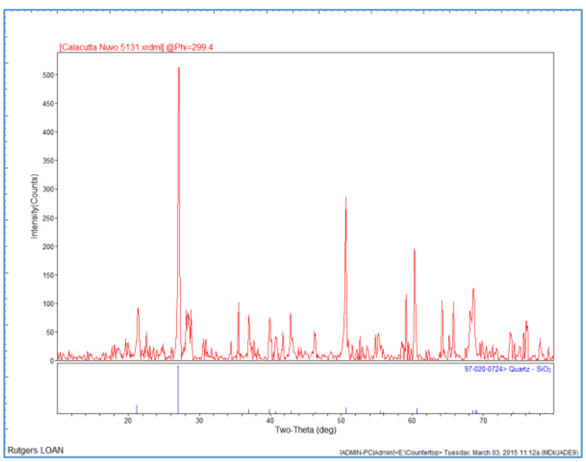


Figure 4e Calcutta Nuvo 5131

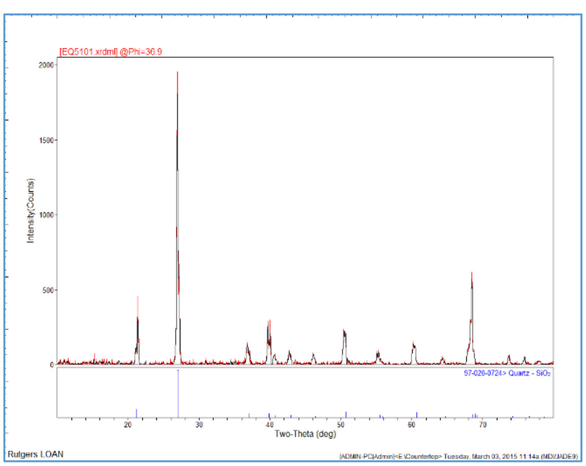


Figure 4f Element Quartz EQS101 Fantasy

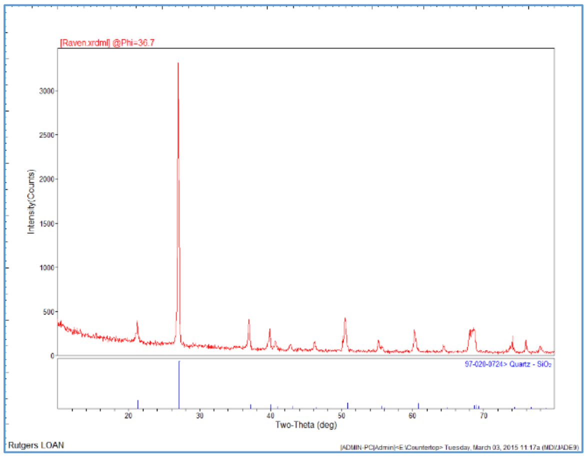


Figure 4g Caesarstone

4120 Raven

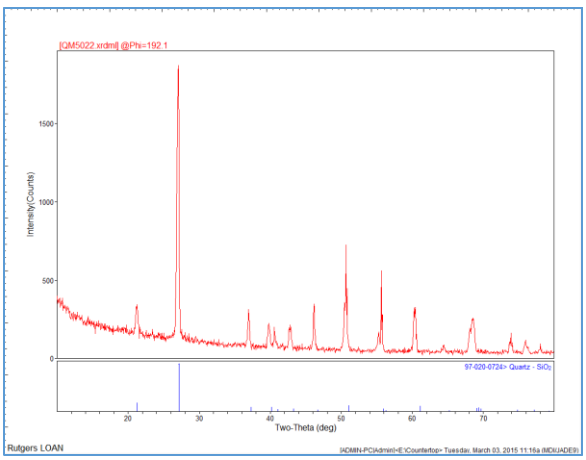


Figure 4h Quartz Master

QM5022 Maori Island

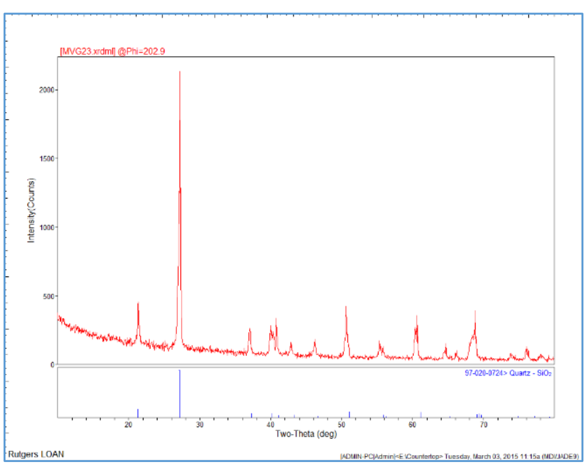


Figure 4i Hanstone Quartz

Fusion MV623

Density Analysis

The 10 countertop materials were evaluated for their density using the Archimedes principle of water displacement. The values were measured to 3 significant digits and found to be highly repeatable. Table 2 below summarizes the findings of this evaluation.

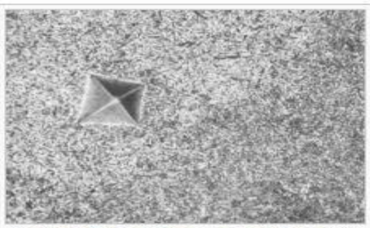
Sample Description	Density (gm/cc)
Hanstone Quartz Fusion-MV623	2.387
Quartz Master QM5022 Maori Island	2.404
Premium Natural Quartz M51Boletus	2.367
Silestone	2.437
Viatera	2.441
Calcutta Nuvo 5131	2.321
Element Quartz EQS118 Toasted Almond	2.451
Caesarstone 4120 Raven	2.335
Element Quartz EQS101 Fantasy	2.140
Cambria Summerhill Coastal Collection	2.141

Table 2 Density (gm/cc) of Countertop Materials

Vickers Hardness Measurements

Vickers hardness is well suited for the evaluation of brittle ceramic (Quartz) materials due to the nature of the diamond indenter tip. This diamond tip shown at the left is precisely loaded with a known force and driven into the sample surface causing permanent deformation, also shown. This permanent deformation is then measured precisely at the micrometer level using a high power microscope and commercially available software. From the size of the indent and the force applied it is a simple calculation to derive the Vickers Indentation hardness (Hv). Prior to testing the system is calibrated using a hardness standard.

The pyramidal diamond indenter of a Vickers hardness tester.



An indentation left in case-hardened steel after a Vickers hardness test. The difference in length of both diagonals and the illumination gradient, are both classic indications of an out-of-level sample. This is not a good indentation.

The measured values of Vickers Hardness (HV) are given in Table 3 for each of the countertop material samples. As a point of comparison pure fused SiO_2, silca, commercial quartz have Hv values of about 1000 and pure diamond the hardest substance known is about 10000. It is not surprising and as expected that the hardness of these resin bonded quartz composites reflect the weaker of the matrix, namely the resin. During the application of the force to the countertop composite it was decided that an area representative of the overall composite structure would be sampled. More specifically the hardness was not measured directly upon a large aggregate of quartz for the comparison of these materials. The diamond indenter was applied to an area with approximate equal fractions of both materials. As far as materials in general are concerned, the countertop materials are very rigid and stiff but not extremely hard which is likely beneficial to the home owner, exhibiting forgiveness when handling glass and other impact sensitive housewares.

Sample Description	**Vickers Hardness (Hv)**
Hanstone Quartz Fusion-MV623	142
Quartz Master QM5022 Maori Island	80
Premium Natural Quartz M51Boletus	100-200
Silestone	124
Viatera	87
Calcutta Nuvo 5131	82
Element Quartz EQS118 Toasted Almond	127
Caesarstone 4120 Raven	96
Element Quartz EQS101 Fantasy	61.5
Cambria Summerhill Coastal Collection	86

Table 3 Vickers Hardness (Hv) of Countertop Materials

Conclusions

From the comparison of the analytical data one can draw some general conclusions that are supported by well established Material Science and Engineering Principles. When a soft (resin) and hard (Quartz) material are combined in a composite structure the engineered structure has properties that result from the combination of the material properties.

It is apparent from the data, although not completely linear that as the binder content increases the density is reduced, due to an increase in the mass of the lower density phase, namely the resin. This also results in a reduction in the overall Vickers hardness.

For example the Element Quartz EQS101 Fantasy has the highest resin content, (13.08%) and the lowest density (2.140 gm/cc), and lowest measured hardness (Hv 61.5).

Additionally, the Element Quartz EQS118 Toasted Almond has the lowest resin content (7.06%), the highest density (2.451 gm/cc), and near highest hardness (Hv 127).

As stated early this is a general trend but well supported by engineering principles and not completely consistent throughout the sample data.

It is beyond the scope of this analysis at this stage to consider how these measured parameters effect other countertop material properties like water absorption, and stain resistance to name a few, But well within the capabilities of additional analysis.

Evaluation, analysis, and conclusions prepared by:

Bob Horvath, PhD, MBA

B.Horvath, LLC

Department of Material Science and Engineering

Rutgers, The State University of New Jersey

Australian Securities &
Investments Commission

Australian Securities & Investments Commission
029272981

Form 388
Corporations Act 2001
294, 294B, 295, 298-301, 307, 308, 319, 321, 322
Corporations Regulations
1.0.08, 2M.3.01, 2M.3.03

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121 819 976

Lodgement details

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Michael Cunningham

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- [ ] A registered scheme (B)
- [ ] Amendment of financial statements or directors' report (company) (C)
- [ ] Amendment of financial statements or directors' report (registered scheme) (D)
- [x] A large proprietary company that is not a disclosing entity (H)
- [ ] A small proprietary company that is controlled by a foreign company for all or part of the period and where the company's profit or loss for the period is not covered by the statements lodged with ASIC by a registered foreign company, company, registered scheme, or disclosing entity (I)
- [ ] A small proprietary company, or a small company limited by guarantee that is requested by ASIC to prepare and lodge statements and reports (J)
- [ ] A prescribed interest undertaking that is a disclosing entity (K)

Dates on which financial year begins and ends

Financial year begins
01/01/14
[D D] [M M] [Y Y]

to

Financial year ends
31/12/14
[D D] [M M] [Y Y]

2 Details of large proprietary company

See Guide for definition of large and small proprietary companies.

If the company is a large proprietary company that is not a disclosing entity, please complete the following information as at the end of the financial year for which the financial statements relate:

A What is the consolidated revenue of the large proprietary company and the entities that it controls?

118,819,201

B What is the value of the consolidated gross assets of the large proprietary company and the entities that it controls?

40,561,362

C How many employees are employed by the large proprietary company and the entities that it controls?

98

D How many members does the large proprietary company have?

1

3 Auditor's or reviewer's report

Tick one box and complete relevant section(s)

Were the financial statements audited or reviewed?

- [x] Audited - complete B only
- [ ] Reviewed - complete A and B
- [ ] No

If no, is there a class or other order exemption current for audit/review relief?

- [ ] Yes
- [ ] No

A. Reviewed

Is the reviewer a registered company auditor, or member of The Institute of Chartered Accountants in Australia, CPA Australia Limited, or Institute of Public Accountants and holds a practising certificate issued by one of those bodies?

- [ ] Yes
- [ ] No

B. Audited or Reviewed

Is the opinion/conclusion in the report:

Modified? (The opinion/conclusion in the report is qualified, adverse or disclaimed)

- [ ] Yes
- [x] No

Does the report contain an Emphasis of Matter and/or Other Matter paragraph?

- [ ] Yes
- [x] No

4 Details of current auditor or auditors

Notes:

- Registered schemes must advise ASIC of the appointment of an auditor on a Form 5137 *Appointment of scheme auditor* within 14 days of the appointment of the auditor.
- A public company limited by guarantee may, in some circumstances, have their accounts reviewed. These companies are still required to have an auditor and these details must be provided.

Auditor registration number *(for individual auditor or authorised audit company)*
327 221

Family name

Given name

or

Company name
Grant Thornton Audit Pty Ltd

ACN/ABN
130 913 594

or

Firm name (if applicable)

Office, unit, level
Level 30

Street number and Street name
525 Collins Street

Suburb/City
Melbourne

State/Territory
VIC

Postcode
3000

Country (if not Australia)

Date of appointment
21/12/10
[D D] [M M] [Y Y]

A company may have two appointed auditors, provided that both auditors were appointed on the same date. Otherwise, an appointed auditor must resign, be removed or otherwise ceased before a subsequent appointment may be made.

Auditor registration number *(for individual auditor or authorised audit company)*

Family name

Given name

or

Company name

ACN/ABN

or

Firm name (if applicable)

Office, unit, level

Street number and Street name

Suburb/City

State/Territory

Postcode

Country (if not Australia

5 Statements and reports to be attached to this form

Financial statements for the year (as required by s295(2) and accounting standards)
- Statement of comprehensive income, may also include a separate income statement for the year
- Statement of financial position as at the end of the year
- Statement of cash flows for the year
- Statement of changes in equity.

OR

If required by accounting standards — the consolidated statements of comprehensive income/income statement, financial position, cash flows and changes in equity.

Notes to financial statements (see s295(3))
- Disclosures required by the regulations
- Notes required by the accounting standards
- Any other information necessary to give a true and fair view (see s297).

The signed directors' declaration about the statements and notes (see s295(4)).

The signed directors' report for the year, including the copy of the auditor's or reviewer's independence declaration (see s298 to s300A).

Signed auditor's report or, where applicable, reviewer's report (see s301, s307 to s308).

Concise report (if any) (see s319).

Signature

See Guide for details of signatory.

I certify that the attached documents marked ( ) are a true copy of the original reports required to be lodged under s319 of the *Corporations Act 2001*.

Name

Moshe Wolfson

Signature

Capacity

☐ Director

☒ Company secretary

Date signed

27/05/15
[D D] [M M] [Y Y]

Lodgement

Send completed and signed forms to:
Australian Securities and Investments Commission,
PO Box 4000, Gippsland Mail Centre VIC 3841.

Or lodge the form electronically by:
- visiting the ASIC website www.asic.gov.au
- using Standard Business Reporting enabled software. See www.sbr.gov.au for more details.

For more information

Web www.asic.gov.au
Need help? www.asic.gov.au/question
Telephone 1300 300 630

Special Purpose Financial Report

Caesarstone Australia Pty Limited

ACN 121 819 976

31 December 2014

caesarstone

Caesarstone Australia Pty Limited
ACN 121 819 976

Contents

Directors' Report

Your Directors present their report on Caesarstone Australia Pty Ltd (the 'Company') for the financial year ended 31 December 2014.

Directors

The names of the Directors in office at any time during or since the end of the year are:

- Yair Averbuch
- Yos Shiran
- Josef Rein (resigned 30/1/2014)
- David Cullen (appointed 30/1/2014)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Operating results

The results of the company for the financial year after providing for income tax amounted to a profit of $2,688,183 (2013: $1,804,171) attributable to members of the company.

Review of operations

A review of the operations of the Company during the financial year and the results of those operations found that the changes in market demand and competition have seen an increase in sales of 27.4% to $118,819,201.

Principal activities

The principal activity of the company during the financial year was the importing and local distribution of quartz stone slabs. No significant change in the nature of these activities occurred during the year.

Events arising since the end of the reporting period

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Future development, prospects and business strategies

Likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Company.

Environmental issues

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory in Australia.

Caesarstone Australia Pty Limited

ACN 121 819 976

Dividends paid or recommended

No dividends were paid or provided for during the year.

Indemnifying officers or auditor

During the financial year the Company paid an insurance premium of $18,056 (including GST) to insure the Directors against maximum liabilities of $10,000,000 for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of Directors of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The insurance premium paid was in respect of the period 1 April 2014 to 1 April 2015.

No other indemnities have been given during or since the end of the financial year, for any person who is or has been an officer or auditor of the Company.

Proceedings on behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under Section 307C of the Corporations Act 2001 is set out on page 5 and forms part of this report.

Signed in accordance with a resolution of the Board of Directors:

Director

Dated this 6 day of May 2015

Grant Thornton

The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000

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GPO Box 4736
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

Auditor's Independence Declaration
To the Directors of Caesarstone Australia Pty Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Caesarstone Australia Pty Limited for the year ended 31 December 2014, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M.A. Cunningham
Partner - Audit & Assurance

Melbourne, 6 May 2015

Caesarstone Australia Pty Limited
ACN 121 819 976

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2014

	Notes	2014 $	2013 $
Revenue	2	**118,819,201**	93,286,315
Other income	2	**186,980**	1,035,455
Changes in inventories of finished goods		**(4,950,609)**	(6,393,755)
Finished goods purchased		**(84,573,874)**	(58,082,770)
Employee benefits expense		**(9,542,851)**	(9,886,999)
Depreciation and amortisation expenses		**(406,802)**	(399,282)
Finance costs		**(132,217)**	(68,508)
Minimum lease payments expense	3	**(1,950,110)**	(2,077,978)
Showroom and sample expenses		**(2,916,586)**	(2,724,332)
Other expenses		**(10,968,513)**	(11,910,579)
Profit before income tax		**3,564,619**	2,777,567
Income tax expense	4	**(876,436)**	(973,396)
Profit for the year		**2,688,183**	1,804,171
Other comprehensive income:		**-**	-
Total comprehensive income for the year		**2,688,183**	1,804,171

Statement of Financial Position

as at 31 December 2014

	Notes	2014 $	2013 $
Assets			
Current			
Cash and cash equivalents	5	**1,714,163**	1,273,103
Trade and other receivables	6	**15,674,711**	14,556,438
Inventories	7	**25,510,362**	20,559,753
Other current assets	8	**1,688,312**	1,715,635
Total Current Assets		**44,587,548**	38,104,929
Non-Current			
Plant and equipment	9	**2,265,466**	2,258,728
Deferred tax assets	12	**1,095,489**	902,214
Intangible assets	10	**17,992,628**	17,992,628
Total Non-Current Assets		**21,353,583**	21,153,570
Total Assets		**65,941,131**	59,258,499
Liabilities			
Current			
Trade and other payables	11	**23,596,909**	18,159,484
Current tax liabilities	12	**134,071**	993,291
Short term provisions	13	**1,513,988**	1,397,037
Total Current Liabilities		**25,244,968**	20,549,812
Non-Current			
Deferred tax liabilities	12	**23,094**	25,828
Long term provisions	13	**111,707**	111,647
Total Non-Current Liabilities		**134,801**	137,475
Total Liabilities		**25,379,769**	20,687,287
Net Assets		**40,561,362**	38,571,212
Equity			
Issued capital	14	**29,738,480**	29,738,480
Reserves	15	**-**	698,033
Retained earnings		**10,822,882**	8,134,699
Total Equity		**40,561,362**	38,571,212

Caesarstone Australia Pty Limited
ACN 121 819 976

Statement of Changes in Equity
as at 31 December 2014

	Notes	Share Capital $	Reserves $	Retained Earnings $	Total $
Balance at 1 January 2013		29,738,480	383,474	6,330,528	36,452,482
Profit for the year		-	-	1,804,171	1,804,171
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	1,804,171	1,804,171
Employee share options in Parent	15	-	314,559	-	314,559
Balance at 31 December 2013		29,738,480	698,033	8,134,699	38,571,212
Balance at 1 January 2014		**29,738,480**	**698,033**	**8,134,699**	**38,571,212**
Profit for the year		-	-	**2,688,183**	**2,688,183**
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	**2,688,183**	**2,688,183**
Employee share options in Parent	15	-	**(698,033)**	-	**(698,033)**
Balance at 31 December 2014		**29,738,480**	-	**10,822,882**	**40,561,362**

Statement of Cash Flows

for the year ended 31 December 2014

	Notes	2014 $	2013 $
Cash Flow from Operating Activities			
Profit/(loss) from ordinary activities before income tax		**3,564,619**	2,777,567
Adjustment for :			
- Depreciation & amortisation		**406,802**	399,282
- Interest income		**(33,592)**	(47,485)
- Interest expense		**132,217**	68,508
Changes in assets and liabilities			
- Receivables		**(1,118,273)**	1,047,217
- Inventories		**(4,950,609)**	(6,393,755)
- Other assets		**27,322**	(58,525)
- Provisions and employee benefits		**(581,022)**	534,069
- Trade and other payables		**5,437,424**	1,767,647
Cash generated from operations		**2,884,888**	94,525
Interest received		**33,592**	47,485
Finance costs		**(132,217)**	(68,508)
Income tax paid		**(1,931,665)**	(323,736)
Net cash provided by operating activities		**854,598**	(250,234)
Cash Flow from Investing Activities			
Payment for plant and equipment		**(413,539)**	(424,631)
Net cash used in investing activities		**(413,539)**	(424,631)
Cash Flow from Financing Activities			
Net cash provided by financing activities		**-**	-
Net increase/(decrease) in cash and cash equivalents held		**441,059**	(674,865)
Cash and cash equivalents at beginning of year		**1,273,103**	1,947,968
Cash and cash equivalents at end of year	18(a)	**1,714,163**	1,273,103

Notes to the Financial Statements

for the year ended 31 December 2014

1. Statement of significant accounting policies

The Director's have prepared the financial statements on the basis that the Company is a non-reporting entity because there are no users dependent on a general purpose financial report. The financial report is therefore a special purpose financial report that has been prepared in order to meet the requirements of the Corporations Act 2001.

These financial statements have been prepared in accordance with the recognition and measurement requirements specified by the Australian Accounting Standards and Interpretations and the disclosure requirements of:

AASB 101: Presentation of financial statements
AASB 107: Statement of cash flows
AASB 108: Accounting policies, changes in accounting estimates and errors
AASB 1031: Materiality
AASB 1048: Interpretation and application of standards, and
AASB 1054: Australian additional disclosures

Caesarstone Australia Pty Limited is a company limited by shares, incorporated and domiciled in Australia and is a for-profit entity for the purpose of preparing the financial statements.

Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied.

Adoption of new and revised accounting standards

The Company has adopted all the amendments to Australian Accounting Standards issued by the Australian Accounting Standards Board, which are relevant to and effective for the Company's financial statements for the annual period beginning 1 January 2014. None of the amendments have had a significant impact on the Company.

There are a number of standards and interpretations which have been issued but are not yet effective. The impact of these pronouncements on Caesarstone Australia Pty Limited's reported financial position and performance has not yet been determined.

Management anticipate that all these pronouncements will be adopted in Caesarstone Australia Pty Limited's financial statements for the first period beginning after the effective date of the pronouncement.

Notes to the Financial Statements
for the year ended 31 December 2014

1. Statement of significant accounting policies (continued)

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

Accounting policies

Income tax

The charge for current income tax expenses is based on the result for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the end of the reporting date.

Deferred tax is accounted for using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the profit or loss except where it relates to items that may be credited directly to other comprehensive income, in which case the deferred tax is adjusted directly against other comprehensive income.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised to comply with the conditions of deductibility imposed by the law.

Inventories

Inventories are measured at the lower of cost and net realisable value. Cost includes all directly attributable freight, duties and other landing charges and are measured at actual exchange rates, and as such results in a moving average.

Notes to the Financial Statements

for the year ended 31 December 2014

1. Statement of significant accounting policies (continued)

Plant and equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Depreciation

The depreciable amount of all fixed assets including capitalised leased assets, is depreciated on a straight line basis over their estimated useful life to the company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired term of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of assets are:

Class of Fixed Asset	Depreciation Rate
Office Equipment	20 - 33%
Fixtures & Fittings	10 - 20%
Plant and Equipment	10 - 33%
Motor Vehicles (owned)	20 - 30%
Motor Vehicles (leased)	Over the lease term
Leasehold Improvements	10 - 20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of the reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the profit or loss.

Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to the company, are classified as finance leases.

Notes to the Financial Statements
for the year ended 31 December 2014

1. Statement of significant accounting policies (continued)

Leases (continued)

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits incidental to the ownership of the asset remain with the lessor, are charged as expenses in the period in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

Impairment of assets

At each reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangibles

Goodwill

Goodwill on acquisition is initially recorded at the amount by which the purchase price for a business exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent assets at date of acquisition. Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses.

Notes to the Financial Statements
for the year ended 31 December 2014

1. Statement of significant accounting policies (continued)

Functional and presentation currency

The functional currency of the company is measured using the currency of the primary economic environment in which that entity operates. The financial statements are presented in Australian dollars which is the company's functional and presentation currency.

Employee benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash flows made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

Share-based employee remuneration

The company operates equity-settled share-based remuneration plans for its senior employees offering share options in the ultimate parent Caesarstone Sdot-Yam Ltd.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date..

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to share option reserve. Where there is an intercompany recharge to the value of the share-based expense then an intercompany liability is created with the debit reversing the original share option reserve.

Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period.

Provisions

Provisions are recognised when the company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Notes to the Financial Statements

for the year ended 31 December 2014

1. Statement of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers which is the date of transfer of significant risks and rewards. All revenue is stated net of the amount of goods and services tax (GST).

Borrowing costs

All other borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

Financial assets

Recognition and initial measurement

Financial assets are recognised when the company becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial assets are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial assets are classified and measured as set out below.

Classification and subsequent measurement

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair values are included in profit or loss in the period in which they arise.

Notes to the Financial Statements

for the year ended 31 December 2014

1. Statement of significant accounting policies (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the entity's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories due to their nature. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments. They are measured at fair value at each reporting date and any gains or losses are recognised in other comprehensive income until the asset is disposed, or it is determined to be impaired, at which time all cumulative gains and losses are transferred to the statement of comprehensive income.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm length transactions, reference to similar instruments and option pricing models.

Financial liabilities

Financial liabilities are recognised when the company becomes a party to the contractual agreements of the instrument. Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as 'at fair value through profit or loss' where the financial liability is either held for trading or it is designated as at fair value through profit or loss. Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the income statement. The net gain or loss recognised in the income statement incorporates any interest paid on the financial liability.

Notes to the Financial Statements
for the year ended 31 December 2014

1. Statement of significant accounting policies (continued)

Financial liabilities (continued)

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield method.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Critical accounting estimates and judgments

The Directors' evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company.

Key estimates - impairment

The company assesses impairment at each reporting date by evaluating conditions specific to the company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions. Refer to Note 10 for details relating to impairment of intangibles and Note 6 for details of provision for impairment of trade receivables.

Key judgments - warranties

A provision of $834,344 (2013: $807,157) has been recognised for estimated warranty claims in respect of products sold which are still under warranty at the end of the reporting date. The provision for warranties has been based upon a percentage of sales for the past years (including sales of the previous distributor) less the amounts of actual warranty claims' costs incurred.

Key judgements - provision for obsolescence

Included in inventories at 31 December 2014 is an amount which the Directors believe may not be recoverable. The amount totals $1,660,277 (2013: $1,791,783) and relates to Director's best assessment of the expected loss.

Notes to the Financial Statements
for the year ended 31 December 2014

1. Statement of significant accounting policies (continued)

Critical accounting estimates and judgments (continued)

Key judgements - share-based payment transactions

The Company measures the cost of equity settled transactions by reference to the fair value of the equity instruments at the date at which they were granted. The fair value is determined using a Black Scholes valuation model. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period.

Comparative balances

When required by accounting standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

Notes to the Financial Statements
for the year ended 31 December 2014

2. Revenue

	2014 $	2013 $
Sales revenue:		
- Sale of goods	**118,819,201**	93,286,315
Total Sales revenue	**118,819,201**	93,286,315
Other income:		
- Interest Received	**33,592**	47,485
- Other Income	**153,388**	987,970
Other Income	**186,980**	1,035,455

3. Profit before income tax

The result for the year has been arrived at after (crediting) / charging the following items:

The following total remuneration was received or is due and receivable, by the auditor of the Company in respect of:

	2014 $	2013 $
- Auditing and reviewing of the financial statements	**125,500**	98,500
- Other services	**8,500**	10,500
- Tax services provided by related practice of the auditor	**34,010**	57,010
Total remuneration of auditor	**168,010**	166,010
Rental expense on operating leases		
- Minimum lease payments	**1,950,110**	2,077,978

4. Income tax expense

The components of tax expense/(benefit) comprise:

	2014 $	2013 $
- Current tax	**1,072,444**	1,189,932
- Deferred tax	**(196,008)**	(216,536)
	876,436	973,396

Caesarstone Australia Pty Limited

ACN 121 819 976

Notes to the Financial Statements

for the year ended 31 December 2014

4. Income tax expense (continued)

The prima facie tax payable on profit/(loss) from ordinary activities before income tax is reconciled to the income tax expense is as follows:

	2014 $	2013 $
Prima facie tax payable on profit/(loss) from ordinary activities before income tax at 30% (2013: 30%)	1,069,386	833,270
Add tax effect of:		
Non-deductible entertainment	33,178	30,327
Non-deductible employee share options	-	94,368
Less tax effect of:		
Under/(Over) provision in prior year	(16,718)	15,431
Over provision of deferred taxes in prior year in relation to employee share options	(209,410)	-
Income tax expense/(benefit) attributable to profit from ordinary activities	876,436	973,396
The applicable weighted average effective tax rates are as follows:	25%	35%

5. Cash and cash equivalents

	2014	2013
Cash at bank and in hand	1,714,163	1,273,103

6. Trade and other receivables

	2014	2013
Current		
Trade receivables	15,763,016	14,589,265
Provision for impairment	(88,305)	(32,827)
	15,674,711	14,556,438

7. Inventories

	2014	2013
Current - at cost:		
Total inventories	25,510,362	20,559,753

Notes to the Financial Statements
for the year ended 31 December 2014

8. Other assets

	2014	2013
	$	$
Current		
Prepayments	**462,312**	489,635
Deposits (a)	**1,226,000**	1,226,000
Total other assets	**1,688,312**	1,715,635

(a) Deposits amounting to $1,226,000 at 31 December 2014 and $1,226,000 at 31 December 2013 are held by the bank as security against financial guarantee over various leased properties. These are interest bearing deposits.

9. Plant and equipment

Office Equipment - at cost	**401,289**	1,613,605
Less: Accumulated depreciation	**(262,587)**	(1,432,723)
	138,702	180,882
Fixtures & Fittings - at cost	**187,427**	194,054
Less: Accumulated depreciation	**(76,764)**	(175,934)
	110,663	18,120
Plant and equipment - at cost	**1,092,538**	1,397,911
Less: Accumulated depreciation	**(474,405)**	(756,513)
	618,133	641,398
Leasehold improvements - at cost	**1,819,048**	2,007,739
Less: Accumulated depreciation	**(421,080)**	(589,411)
	1,397,968	1,418,328
Total property, plant and equipment	**2,265,466**	2,258,728

Caesarstone Australia Pty Limited
ACN 121 819 976

Notes to the Financial Statements
for the year ended 31 December 2014

9. Plant and equipment (continued)

Movements in carrying amounts
Movements in the carrying amounts for each class of property, plant and equipment between the beginning and end of the current financial year:

31 December 2014	Office Equipment $	Fittings $	Equipment $
Balance at beginning of year	180,882	18,120	641,398
Additions	53,757	112,083	104,131
Disposals	-	-	-
Depreciation expense	(95,937)	(19,540)	(127,396)
Carrying amount at the end of the year	**138,702**	**110,663**	**618,133**

	Leasehold Improvements $	Total $
Balance at beginning of year	1,418,328	2,258,728
Additions	143,568	413,539
Disposals	-	-
Depreciation expense	(163,928)	(406,801)
Carrying amount at the end of the year	**1,397,968**	**2,265,466**

31 December 2013	Office Equipment $	Fittings $	Equipment $
Balance at beginning of year	128,178	39,124	713,403
Additions	141,331	-	63,294
Disposals	-	-	-
Depreciation expense	(88,627)	(21,004)	(135,299)
Carrying amount at the end of the year	180,882	18,120	641,398

	Improvements $	Total $
Balance at beginning of year	1,352,674	2,233,379
Additions	220,006	424,631
Disposals	-	-
Depreciation expense	(154,352)	(399,282)
Carrying amount at the end of the year	1,418,328	2,258,728

Notes to the Financial Statements
for the year ended 31 December 2014

10. Intangible assets

	2014 $	2013 $
Goodwill at cost	**17,992,628**	17,992,628
Net carrying value	**17,992,628**	17,992,628
Non-compete agreement - at cost	**1,000,000**	1,000,000
Less: Accumulated amortisation	**(1,000,000)**	(1,000,000)
Net carrying value	**-**	-
Net carrying value of intangibles	**17,992,628**	17,992,628

11. Trade and other payables

	2014 $	2013 $
Current		
Trade payables	**764,931**	634,813
Other payables and accruals	**2,474,450**	1,580,843
Amounts payable:		
- to ultimate parent entity	**20,357,528**	15,943,828
	23,596,909	18,159,484

All amounts are short term and the carrying values are considered to be a reasonable approximation of fair value.

12. Tax

ASSETS

	2014 $	2013 $
Current		
Income tax receivable	**-**	-
Non Current		
Deferred tax assets comprise:		
- Temporary differences relating to accruals	**215,642**	203,936
- Temporary differences relating to property plant and equipment	**-**	249
- Temporary differences relating to accounts payable	**221,815**	102,649
- Temporary differences relating to inventory	**143,832**	132,926
- Temporary differences relating to provisions	**514,200**	462,454
Total	**1,095,489**	902,214

Caesarstone Australia Pty Limited

ACN 121 819 976

Notes to the Financial Statements

for the year ended 31 December 2014

12. Tax (continued)

	2014 $	2013 $
LIABILITIES		
Current		
Income tax payable	**134,071**	993,291
Non Current		
Deferred tax liabilities comprise:		
- Tax allowances relating to prepayments	**23,094**	25,828
Total	**23,094**	25,828

13. Provisions

Analysis of total provisions		
Current	**1,513,988**	1,397,037
Non-current	**111,707**	111,647
	1,625,695	1,508,684

Provision for warranties

The Company provides warranty provision on all slabs for a period of ten years from the date of installation of the products. The full provision amount is deemed to be current as the warranty can be claimed at any time within ten years.

Provision for employee benefits

A provision has been recognised for employee benefits relating to annual and long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to the financial statements.

14. Movements in contributed equity

Ordinary shares issued and fully paid:		
- Beginning of the year	**29,738,480**	29,738,480
- Shares issued	**-**	-
Shares issued and fully paid	**29,738,480**	29,738,480

Fully paid ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held.

At shareholder meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Notes to the Financial Statements
for the year ended 31 December 2014

15. Reserves

	2014	2013
	$	$
Share options	-	698,033

During the year the ultimate parent entity, Caesarstone Sdot-Yam Ltd charged the subsdiary for the cost incurred from issuing the share options in Caesarstone Sdot-Yam Ltd to the management of Caesarstone Australia Pty Ltd. This resulted in a reversal of the share option reserve.

16. Capital management

When managing capital, management's objective is to ensure the Company continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity, whilst maintaining an adequate cash balance to meet operating cash flow requirements.

The Company is not subject to any externally imposed capital requirements.

The Company's capital resources consist of the following:

Total borrowings	-	-
Less cash and cash equivalents	(1,714,163)	(1,273,103)
Net debt	(1,714,163)	(1,273,103)
Total equity per statement of financial position	40,561,362	38,571,212
Total capital resources	38,847,199	37,298,109

17. Capital and leasing commitments

Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements:		
Payable - minimum lease payments:		
- Not later than twelve months	2,310,501	2,203,176
- Between twelve months and five years	5,222,483	5,149,849
- Greater than five years	542,595	853,181
	8,075,579	8,206,206

The property leases are payable monthly in advance.

Notes to the Financial Statements
for the year ended 31 December 2014

17. Capital and leasing commitments (continued)

Pledges and guarantees
Caesarstone Australia has four guarantees outstanding with the ANZ Bank in respect of a premises in Victoria New South Wales, Queensland and Western Australia in the amounts of $299k, $603k, $82k and $32k respectively. (2013: $299k, $603k, $82k and $176k). The bank guarantees are to secure performance by the Company of its obligations under the lease agreements.

18. Cash flow information

	2014 **$**	2013 $
a) Reconciliation of cash		
Cash at the end of the financial year as shown in the Statement of Cash		
Cash and cash equivalents	**1,714,163**	1,273,103

b) Non-cash financing activities

During the year, the Company acquired plant and equipment with an aggregate value of $Nil (2013: $Nil) by means of finance leases.

19. Events after the reporting date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

20. Contingent assets and liabilities

No contingent assets or liabilities exist as at 31 December 2014.

21. Company Details

The registered office and principal place of business of the Company is:

Caesarstone Australia Pty Ltd
Unit 3/1 Secombe Place
Moorebank NSW 2170

Directors' Declaration

The Directors of the company declare that:

1. The financial statements and notes, as set out pages 6 to 26 are in accordance with the Corporations Act 2001:

   (a) Comply with Accounting Standards as described in Note 1 to the financial statements and the Corporations Regulations 2001, and;

   (b) Give a true and fair view of the company's financial position and changes in equity as at 31 December 2014 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1 to the financial statements.

2. In the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Director

Dated this 6 day of May 2015

Grant Thornton

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W www.grantthornton.com.au

Independent Auditor's Report
To the Members of Caesarstone Australia Pty Limited

We have audited the accompanying financial report, being a special purpose financial report, of Caesarstone Australia Pty Limited (the "Company"), which comprises the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company .

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view and have determined that the accounting policies used and described in Note 1 to the financial report, which form part of the financial report, are appropriate to meet the requirements of the Corporations Act 2001 and the needs of the members. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion the financial report of Caesarstone Australia Pty Limited is in accordance with the Corporations Act 2001, including:

i giving a true and fair view of the Company's financial position as at 31 December 2014 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1; and

ii complying with Australian Accounting Standards to the extent described in Note 1 and complying with the Corporations Regulations 2001.

Basis of accounting

Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the Corporations Act 2001. As a result, the financial report may not be suitable for another purpose.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M.A. Cunningham
Partner - Audit & Assurance

Melbourne, 6 May 2015

CAESARSTONE SOUTH EAST ASIA PTE. LTD.

Registration Number: 200811371E

FINANCIAL STATEMENTS

Year ended 31 December 2013

Directors

Goh Peng Hock
Yosef Shiran
Erez Schweppe
Yair Averbuch

Secretary

Lee Siew Hua

Registered Office

10 Bukit Batok Crescent
#08-06 The Spire
Singapore 658079

Auditor

Ernst & Young LLP

Banker

DBS Bank Ltd

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The directors present their report to the member together with the audited financial statements of Caesarstone South East Asia Pte. Ltd. (the "Company") for the financial year ended 31 December 2013.

Directors

The directors of the Company in office at the date of this report are:

Goh Peng Hock
Yosef Shiran
Erez Schweppe
Yair Averbuch

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year, had, accordingly to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Chapter 50, an interest in share options of the holding company as stated below:

			Exercisable period	
Name of directors and corporation in which interests are held	**At beginning of the financial year**	**At end of the financial year**	**Vest date**	**Expiry date**
Caesarstone Sdot-Yam Ltd (holding company)				
Options to acquire ordinary shares				
Yosef Shiran	687,305	286,377	31/3/13	1/1/19
Yair Averbuch	137,461	103,096	21/3/13	21/3/19
Erez Schweppe	44,675	33,507	21/3/13	21/3/19

Except as disclosed above, no director who held office at the end of the financial year had interest in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year or end of the financial year.

Directors' contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or by a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Auditor

Ernst & Young LLP have expressed their willingness to accept re-appointment as auditor.

On behalf of the board of directors:

Goh Peng Hock
Director

Yair Averbuch
Director

31 March 2014

Statement by Directors

We, Goh Peng Hock and Yair Averbuch, being two of the directors of Caesarstone South East Asia Pte. Ltd. (the "Company"), do hereby state that, in the opinion of the directors,

(i) the accompanying balance sheet, statement of comprehensive income, statement of changes in equity and cash flow statement together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2013 and the results of the business, changes in equity and cash flows of the Company for the financial year ended on that date, and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due as the ultimate holding company has agreed to provide continuing financial support to enable the Company to meet its normal trade obligations incurred in the ordinary course of business as and when they fall due.

On behalf of the board of directors:

Goh Peng Hock
Director

Yair Averbuch
Director

31 March 2014

Independent Auditor's Report to the Member of Caesarstone South East Asia Pte. Ltd.

Report on the Financial Statements

We have audited the accompanying financial statements of Caesarstone South East Asia Pte. Ltd (the "Company"), which comprise the balance sheet as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report
For the financial year ended 31 December 2013

Independent Auditor's Report to the Member of Caesarstone South East Asia Pte. Ltd.

Opinion

In our opinion, the financial statements are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company as at 31 December 2013 and the results, changes in equity and cash flows of the Company for the financial year ended on that date.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP

Public Accountants and
Chartered Accountants

Singapore

Balance Sheet
As at 31 December 2013

	Note	2013 €	2012 €
Non-current assets			
Property, plant and equipment	4	129,587	111,527
Current assets			
Inventories	5	887,680	943,460
Trade and other receivables	6	840,968	933,972
Prepaid operating expenses		16,257	9,087
Cash and cash equivalents	7	369,779	249,813
		2,114,684	2,136,332
Current liabilities			
Trade and other payables	8	1,345,540	1,049,447
Accrued operating expenses	8	334,346	301,850
		1,679,886	1,351,297
Net current assets		434,798	785,035
Non-current liability			
Loan from holding company	8	2,248,642	2,192,592
Net liabilities		(1,684,257)	(1,296,030)
Equity attributable to the owner of the Company			
Share capital	9	49	49
Accumulated losses		(1,684,306)	(1,296,079)
Total deficit		(1,684,257)	(1,296,030)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statement of Comprehensive Income
For the financial year ended 31 December 2013

	Note	2013 €	2012 €
Revenue	10	4,306,608	3,588,208
Costs of sales		(2,946,876)	(2,375,166)
Gross profit		1,359,732	1,213,042
Other operating income	11	59,470	26,062
Selling and marketing expenses		(872,200)	(844,500)
General and administrative expense		(562,805)	(516,426)
Other operating expenses		(372,424)	(377,743)
		(1,747,959)	(1,712,607)
Loss before tax	12	(388,227)	(499,565)
Income tax expense	13	–	–
Loss for the financial year, representing total comprehensive income for the financial year		(388,227)	(499,565)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statement of Changes in Equity
For the financial year ended 31 December 2013

	Share capital €	Accumulated losses €	Total deficit €
2013			
Opening balance at 1 January 2013	49	(1,296,079)	(1,296,030)
Total comprehensive income for the financial year	–	(388,227)	(388,227)
Closing balance at 31 December 2013	49	(1,684,306)	(1,684,257)
2012			
Opening balance at 1 January 2012	49	(796,514)	(796,465)
Total comprehensive income for the financial year	–	(499,565)	(499,565)
Closing balance at 31 December 2012	49	(1,296,079)	(1,296,030)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Cash Flow Statement
For the financial year ended 31 December 2013

	Note	2013 €	2012 €
Operating activities			
Loss before tax		(388,227)	(499,565)
Adjustments for:			
Depreciation of property and equipment	12	40,157	44,460
Loss on disposal of office equipment		291	–
(Reversal)/provision on slow moving stocks	5	(8,064)	57,225
Operating loss before changes in working capital		(355,843)	(397,880)
Working capital changes:			
Decrease in inventories		63,844	56,590
Decrease/(increase) in trade and other receivables		93,004	(201,937)
Increase in prepaid operating expenses		(7,170)	(2,833)
Increase/(decrease) in trade and other payables		296,093	(94,538)
Increase in accrued operating expenses		32,496	222,141
Decrease in advance billing to customer		–	(36,332)
Net cash flows generated from/(used) in operating activities		122,424	(454,789)
Cash flows from investing activity			
Purchase of property, plant and equipment	4	(58,508)	(8,156)
Net cash flows used in investing activity		(58,508)	(8,156)
Cash flows from financing activity			
Loan from holding company		56,050	4,750
Net cash flows from financing activity		56,050	4,750
Net increase/(decrease) in cash and cash equivalents		119,966	(458,195)
Cash and cash equivalents at beginning of the financial year		249,813	708,008
Cash and cash equivalents at end of the financial year	7	369,779	249,813

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

1. Corporate information

Caesarstone South East Asia Pte. Ltd. (the "Company") is a limited liability company incorporated and domiciled in Singapore. The immediate and ultimate holding company is Caesarstone Sdot-Yam Ltd, a company incorporated in Israel.

The registered office and principal place of business of the Company is located at 10 Bukit Batok Crescent, #08-06 The Spire, Singapore 658079.

The principal activity of the Company is that of the distribution of building materials. There has been no significant change in the nature of this activity during the financial year.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards ("FRS").

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Euro ("€").

Going concern assumption

The Company incurred a net loss of €388,227 (2012: €499,565) during the financial year ended 31 December 2013 and as at that date the Company's total liabilities exceeded its total assets by €1,684,257 (2012: €1,296,030). These factors indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern depends the holding company undertaking to provide continuing financial support to enable the Company to continue as a going concern.

If the Company is unable to continue in operational existence for the foreseeable future, the Company may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. In addition, the Company may have to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Company has adopted all the new and revised standards and Interpretations of FRS ("INT FRS") that are effective for annual periods beginning on or after 1 January 2013. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Company.

2. Summary of significant accounting policies (continued)

2.3 Standards issued but not yet effective

The Company has not adopted the following standards and interpretation that have been issued but not yet effective:

Description	*Effective for annual periods beginning on or after*
Revised FRS 27 *Separate Financial Statements*	1 January 2014
Revised FRS 28 *Investments in Associates and Joint Ventures*	1 January 2014
FRS 110 *Consolidated Financial Statements*	1 January 2014
FRS 111 *Joint Arrangements*	1 January 2014
FRS 112 *Disclosure of Interests in Other Entities*	1 January 2014
Amendments to FRS 32 *Offsetting Financial Assets and Financial Liabilities*	1 January 2014
Amendments to the transition guidance of FRS 110 *Consolidated Financial Statements,* FRS 111 *Joint arrangements and* FRS 112 Disclosure of Interest in Other Entities	1 January 2014
Amendments to FRS 110, FRS 112 and FRS 27 *Investment Entities*	1 January 2014
Amendments to FRS 36 *Recoverable Amount Disclosures for Non-financial Assets*	1 January 2014
INT FRS 121 *Levies*	1 January 2014
Amendments to FRS 19 *Defined Benefit Plans: Employee Contributions*	1 July 2014
Improvements to FRSs 2014	1 July 2014
- Amendment to FRS 102 *Shared-based Payments*	1 July 2014
- Amendment to FRS 103 *Business Combinations*	1 July 2014
- Amendment to FRS 108 *Operating Segments*	1 July 2014
- Amendment to FRS 16 *Property, Plant and Equipment*	1 July 2014
- Amendment to FRS 24 *Related Party Disclosures*	1 July 2014
- Amendment to FRS 38 *Intangible Assets*	1 July 2014

The directors expect that the adoption of the standards and interpretations above will have no material impact on the financial statements in the period of initial application.

2.4 Foreign currency

The Company's financial statements are presented in Euro, which is also the Company's functional currency.

Transactions and balances

Transactions in foreign currencies are measured in the functional currency of the Company and are recorded on initial recognition in the functional currency at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

2. Summary of significant accounting policies (continued)

2.5 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment other than freehold land and buildings are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment is recognised as an asset, if, and only if, it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation is computed on a straight-line basis over the estimated useful life of the asset as follows:

Renovation	-	3 to 5 years
Furniture and fittings	-	3 to 5 years
Office equipment	-	3 to 5 years
Warehouse equipment	-	3 years
Computer equipment	-	3 years
Computer software	-	3 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual values, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An items of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

2.6 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in profit or loss, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

2. Summary of significant accounting policies (continued)

2.6 *Impairment of non-financial assets* (continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

2.7 Financial instruments

(a) Financial assets

Initial recognition and measurement

Financial assets are recognised when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The Company determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement - Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Derecognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit and loss.

Regular way purchase or sale of a financial asset

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

2. Summary of significant accounting policies (continued)

2.7 **Financial instruments (continued)**

(b) Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of other financial liabilities, plus directly attributable transaction costs.

Subsequent measurement - Financial liabilities at amortised cost

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the balance sheets, when and only when, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.8 ***Impairment of financial assets***

The Company assesses at each reporting period whether there is any objective evidence that a financial asset is impaired.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

2. Summary of significant accounting policies (continued)

2.8 Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and short-term deposits that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is determined on the weighted average basis and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2. Summary of significant accounting policies (continued)

2.11 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using the current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

Warranty provisions

Provisions for warranty-related costs are recognised when the product is sold or service provided. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

2.12 Employee benefits

(a) **Defined contribution plan**

The Company makes contributions to the Central Provident Fund ("CPF") scheme in Singapore, a defined contribution pension scheme. Contributions defined contribution to pension scheme are recognised as an expense in the period in which the related service is performed.

(b) **Employee leave entitlement**

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for leave is recognised for services rendered by employees up to the end of the reporting period.

2.13 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of INT FRS 104.

As lessee

Finance leases which transfer to the Company substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

2. Summary of significant accounting policies (continued)

2.13 Leases (continued)

As lessee (continued)

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2.14 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding sales taxes or duty. The Company assesses its revenue arrangements to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer usually on delivery of goods. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

2.15 Taxes

(a) **Current income tax**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2. Summary of significant accounting policies (continued)

2.15 Taxes (continued)

(b) **Deferred tax**

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except where the deferred tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it incurred during the measurement period or in profit or loss.

2. Summary of significant accounting policies (continued)

2.15 Taxes (continued)

(c) **Sales tax**

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

2.16 Contingencies

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or

(b) a present obligation that arises from past events but is not recognised because:

(i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

Contingent liabilities and assets are not recognised on the balance sheet of the Company, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

2. Summary of significant accounting policies (continued)

2.17 *Related parties*

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Company if that person:

  (i) Has control or joint control over the Company;

  (ii) Has significant influence over the Company; or

  (iii) Is a member of the key management personnel of the Company or of a parent of the Company.

(b) An entity is related to the Company if any of the following conditions applies:

  (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

  (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

  (iii) Both entities are joint ventures of the same third party.

  (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity

  (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;

  (vi) The entity is controlled or jointly controlled by a person identified in (a);

  (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. Significant accounting judgements and estimates

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets, and liabilities, and disclosures of contingent liabilities at the end of each reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amount of the asset or liability affected in the future periods.

3.1 Judgement made in applying accounting policies

There are no significant judgements made in the preparation of the financial statements.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period are discussed below. The Company based its assumptions and estimates on parameters available when the financial statement was prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the company. Such changes are reflected in the assumptions when they occur.

- **Useful lives of property, plant and equipment**

  The cost of property, plant and equipment are depreciated on a straight-line basis over property, plant and equipment estimated useful lives. Management estimates the useful lives of these property, plant and equipment to be within 3 to 5 years. These are common life expectancies applied to similar categories of property, plant and equipment. Changes in the expected level of usage and technological developments could impact the economic useful lives of these assets, therefore, future depreciation charges could be revised. The carrying amount of the Company’s property, plant and equipment at the end of each reporting period is disclosed in Note 4 to the financial statements.

- **Impairment of loans and receivables**

  The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

  Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Company’s loans and receivables at the end of each reporting period is disclosed in Note 6 to the financial statements.

	Renovation €	Furniture and fittings €	Office equipment €	Warehouse equipment €	Computer equipment €	Computer software €	Motor vehicle €	Total €
Cost								
At 1 January 2012	83,686	32,353	37,891	22,524	1,825	9,961	–	188,240
Additions	1,678	3,756	–	–	1,468	1,254	–	8,156
At 31 December 2012 and 1 January 2013	85,364	36,109	37,891	22,524	3,293	11,215	–	196,396
Additions	–	1,014	2,383	1,038	4,858	47,480	1,735	58,508
Disposal	–	–	(855)	–	–	–	–	(855)
At 31 December 2013	85,364	37,123	39,419	23,562	8,151	58,695	1,735	254,049
Accumulated depreciation								
At 1 January 2012	9,774	5,277	5,061	15,288	139	4,870	–	40,409
Depreciation charge for the financial year	19,411	8,158	8,824	4,589	924	2,554	–	44,460
At 31 December 2012 and 1 January 2013	29,185	13,435	13,885	19,877	1,063	7,424	–	84,869
Depreciation charge for the financial year	16,421	7,152	7,986	2,004	1,849	4,543	202	40,157
Disposal	–	–	(564)	–	–	–	–	(564)
At 31 December 2013	45,606	20,587	21,307	21,881	2,912	11,967	202	124,462
Net carrying amount								
At 31 December 2013	39,758	16,536	18,112	1,681	5,239	46,728	1,533	129,587

At 31 December 2012	56,179	22,674	24,006	2,647	2,230	3,791	–	111,527

4. Property, plant and equipment

5. Inventories

	2013 €	2012 €
Balance sheet:		
Finished goods	887,680	943,460
Income statement:		
Inventories recognised as an expense in cost of sales inclusive of the following charge:	2,716,799	2,316,358
- Inventories (written back)/written down	(8,064)	57,225

6. Trade and other receivables

	2013 €	2012 €
Trade receivables:		
Third parties	745,673	664,525
Related parties	–	190,294
Less: Provision for doubtful debts	(23,134)	–
	722,539	854,819
Other receivables:		
Deposits	118,429	79,153
Total trade and other receivables	840,968	933,972
Add: Cash and cash equivalents (Note 7)	369,779	249,813
Total loan and receivables	1,210,747	1,183,785

Trade receivables

Trade receivables are non-interest bearing and are generally on 60 days' term. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Trade receivables denominated in foreign currencies at 31 December are as follows:

	2013 €	2012 €
Singapore Dollar	569,443	460,395
United States Dollar	41,363	906

6. Trade and other receivables (continued)

Receivables that are past due but not impaired

The Company has trade receivables amounting to €150,488 (2011: €116,293) that are past due at the end of the reporting period but not impaired. These receivables are unsecured and the analysis of their aging at the reporting period date is as follows:

	2013 €	2012 €
Trade receivables past due but not impaired:		
Lesser than 30 days	86,628	79,112
More than 30 days	63,860	37,181
	150,488	116,293

Receivables that are impaired

The Company's trade receivables that are impaired at the end of the reporting period and the movement of the allowance accounts used to record the impairment are as follows:

	2013 €	2012 €
Trade receivables - nominal amounts	29,982	–
Less: Allowance for impairment	(23,134)	–
	6,848	–
Movement in allowance accounts:		
At 1 January	–	–
Charge for the financial year	23,134	–
Written off	–	–
At 31 December	23,134	–

Trade receivables that are individually determined to be impaired at the end of the reporting period relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

7. Cash and cash equivalents

	2013 €	2012 €
Cash at bank and on hand	369,779	228,127
Short-term deposits	–	21,686
Cash and cash equivalents	369,779	249,813

Short-term deposits are made for varying periods of one year depending on the immediate cash requirements of the Company, and earn interests at the respective short-term deposit rates. The weighted average effective interest rate as at 31 December 2013 for the Company was Nil% (2012: 0.21%) per annum.

Cash and cash equivalents denominated in foreign currencies at 31 December are as follows:

	2013 €	2012 €
Singapore dollar	326,576	244,879

For the purpose of the cash flow statement, cash and cash equivalents comprise the following at the end of the reporting period

	2013 €	2012 €
Cash and cash equivalents	369,779	249,812

8. Trade and other payables

	2013 €	2012 €
Trade and other payables:		
Amount due to holding company (trade)	1,204,722	921,100
Amount due to related companies (non-trade)	16,313	–
Other payables	125,560	128,347
Total trade and other payables	1,345,540	1,049,447
Add: Provision for warranty claim	145,244	10,173
Accrued operating expenses	189,102	291,677
Total accrued operating expenses	334,346	301,850
Loan from holding company	2,248,642	2,192,592
Less: GST Payable	(42,985)	(34,544)

Total financial liabilities carried at amortised cost	3,885,543	3,509,345

8. Trade and other payables (continued)

Amount due to holding and related companies

These amounts are unsecured, non-interest bearing, repayable on demand and are to be settled in cash.

Loan from holding company

The loan from holding company is unsecured, interest free and repayable on demand on or after 5 years. The loan is denominated in Israeli New Shekel.

Provision for warranty claim

Included in provision for warranty claim, a provision of €130,000 is recognised for expected warranty claim on certain goods sold to a customer during the year. The provision amount is made based on the management's best estimate of the replacement cost. At the end of the reporting period, no formal claim has been logged by the customer in relation to the claim.

9. Share capital

	2013		**2012**	
	Number of shares	€	Number of shares	€
Issued and fully paid ordinary shares				
At beginning and end of the financial year	100	49	100	49

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

10. Revenue

Revenue of the Company represents invoiced value of goods sold less returns inwards and discounts allowed net of goods and services tax.

11. Other operating income

	2013	**2012**
	€	€
Miscellaneous income	59,470	26,062

Miscellaneous income includes project secondment commission of € 25,462 (2012: €2,714) which is calculated at 5% of the total project revenue.

12. Loss before tax

The following items have been included in arriving at loss before tax:

	2013 €	2012 €
Depreciation of property, plant and equipment	40,157	44,460
Employee benefits (including directors' remuneration) :		
- Salaries, bonuses and allowances	824,846	898,329
- Central Provident Fund contributions	60,139	70,153
Advertising and sales promotion	322,027	294,592
Professional services	21,747	35,332

13. Income taxation

Major components of income taxation

The major components of income taxation for the financial years ended 31 December 2013 and 2012 are:

	2013 €	2012 €
Current income tax	–	–

Relationship between tax expense and accounting profit

The reconciliation between tax expense and the product of accounting loss multiplied by the corporate tax rate for the years ended 31 December 2013 and 2012 are as follows:

	2013 €	2012 €
Loss before tax	(388,227)	(499,565)
Tax at statutory rate of 17% (2012: 17%)	(65,999)	(84,926)
Non-deductible expenses	8,342	18,690
Deferred tax assets not recognised	57,657	66,236
Income tax expense recognised in profit or loss	–	–

Unrecognised tax losses

At the end of the reporting period, the Company has unutilised tax losses of approximately €1,169,182 (2012: €830,025), that are available for offset against future taxable profits of the Company, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation.

14. Related party transactions

(a) Sale and purchase of goods and services

In addition to the related party information disclosed elsewhere in the financial statements, the following significant between the Company and related parties took place at terms agreed between the parties during the financial year:

	2013 €	2012 €
Sale of finished goods to:		
- holding company	–	87,120
- related companies	42,724	106,733
Purchase of finished goods from:		
- holding company	2,913,736	2,184,253
- related company	13,427	18,377
Rental expense to a related company	48,018	62,126
Miscellaneous expense to a related company	13,918	9,461

(b) Compensation of key management personnel

Short term employee benefits	190,485	161,448
Central Provident Fund contributions	7,511	13,130
	197,996	174,578
Comprise amounts paid to:		
Director of the Company	197,996	174,578

15. Commitments

Operating lease commitments as lessee

The Company has entered into commercial leases on office and warehouse. The lease agreements of the office and warehouse will be ending within a year with renewal option. Operating lease payments recognised as an expense in the profit or loss for the financial year amounted to €213,812 (2012: €219,420).

Future minimum rental payable under non-cancellable operating leases at the end of the reporting period are as follows:

	2013 €	2012 €
Within 1 year	228,449	163,119
After 1 year but less than 5 years	268,267	–

496,716	163,119

16. Fair value of financial instruments

Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables (including balances with intercompanies), are reasonably approximation of fair values, due to their short-term to nature.

The loan from holding company has no repayment terms and is repayable only when the cash flows of the borrower permits. Accordingly, the fair value of the amount is not determinable as the timing of the future cash flows cannot be estimated reliably.

17. Financial risk management policies and objectives

The Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk and foreign currency risk. The board of directors reviews and agrees policies and procedures for the management of these risks.

The following sections provide details regarding the Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

There has been no change to the Company's exposure to these financial risks or the manner in which it manages and measures the risks.

(a) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (mainly cash and cash equivalents), the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

The Company's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Company trades only with recognised and creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

<u>Exposure to credit risk</u>

At the end of the reporting period, the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheets.

17. Financial risk management policies and objectives (continued)

(a) Credit risk (continued)

Credit risk concentration profile

The Company determines concentrations of credit risk by monitoring the country profile of its trade receivables on an ongoing basis. The credit risk concentration profile of the Company's trade receivables at the end of the reporting period is as follows:

	2013		2012	
	€'000	% of total	€'000	% of total
By country:				
Singapore	569	76	460	70
Malaysia	6	1	–	–
Indonesia	130	17	178	26
Japan	41	6	–	–
Thailand	–	–	27	4
	746	100	665	100

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are with creditworthy debtors with good payment record with the Company. Cash and cash equivalents, are placed with reputable financial institutions.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 6.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

17. **Financial risk management policies and objectives (continued)**

(b) **Liquidity risk (continued)**

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial assets and liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	2013 €			2012 €		
	One year or less	One to five years	Total	One year or less	One to five years	Total
Financial assets:						
Trade and other receivables	840,968	–	840,968	933,972	–	933,972
Cash and cash equivalents	369,779	–	369,779	249,813	–	249,813
Total undiscounted financial assets	1,210,747	–	1,210,747	1,183,785	–	1,183,785
Financial liabilities:						
Trade and other payables	1,345,540	–	1,345,540	1,049,447	–	1,049,447
Provision for warranty claim	145,244	–	145,244	10,173	–	10,173
Accrued operating expenses	189,102	–	189,102	291,677	–	291,677
Total accrued operating expenses	334,346	–	334,346	301,850	–	301,850
Loan from holding company	–	2,248,642	2,248,642	–	2,192,592	2,192,592
Less: GST Payable	(42,985)	–	(42,985)	(34,544)	–	(34,544)
Total undiscounted financial liabilities	1,636,901	2,248,642	3,885,543	1,316,753	2,192,592	3,509,345
Total net undiscounted financial liabilities	(426,154)	(2,248,642)	(2,674,796)	(132,968)	(2,192,592)	(2,325,560)

(c) **Foreign currency risk**

The Company has transactional currency exposures arising from sales that are denominated in currency other than the functional currency of the Company. The foreign currencies in which these transactions are denominated are Singapore Dollars ("SGD") and United States Dollars ("USD"). Approximately 53% (2012: 18%) are denominated in foreign currencies. The Company's trade receivables at the end of the reporting period have similar exposure.

The Company also holds cash and short-term deposits denominated in foreign currency for working capital purposes. At the end of the reporting period, such foreign currency balances are mainly in SGD and USD.

The Company also has currency exposure on the loan from its holding company, which is denominated in Israeli New Shekel ("INS").

17. **Financial risk management policies and objectives (continued)**

(c) **Foreign currency risk (continued)**

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Company's profit before tax to a reasonably possible change in the exchange rates of SGD, INS and USD against EURO with all other variables held constant.

		Profit before tax 2013 $	Profit before tax 2012 $
SGD/EURO	- Strengthened 5% (2012: 5%)	(18,487)	(23,789)
	- Weakened 5% (2012: 5%)	20,433	26,293
INS/EURO	- Strengthened 4% (2012: 4%)	(14,932)	(19,214)
	- Weakened 4% (2012: 4%)	16,176	20,815
USD/EURO	- Strengthened 1% (2012: 1%)	(3,844)	(4,946)
	- Weakened 1% (2012: 1%)	3,921	5,046

18. **Capital management**

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholder, return capital to shareholder or issue new shares. No changes were made in the objectives, policies or processes during the financial years ended 31 December 2013 and 31 December 2012.

19. **Authorisation of financial statements**

The financial statements for the financial year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 31 March 2014.