Steppe Cement Ltd
15 September 2014

Steppe Cement Ltd
Interim Results for the Half Year Ended 30 June 2014
and General Market Update

1. Interim Results

Steppe Cement Ltd ("Steppe Cement") posted a consolidated loss after tax of USD 4.1 million for the six months ended 30 June 2014.

	6 months ended 30 June 14	6 months ended 30 June 13	% of change
Sales (Tonnes)	709,459	564,440	26%
Consolidated turnover (KZT Million)	9,125	8,165	12%
Consolidated turnover (USD Million)	51.8	54.3	(5%)
Consolidated profit after tax (USD Million)	(4.1)	2.2	
Earnings per share (Cents)	(1.9)	1.0	
Average exchange rate (USD/KZT)	176	152	

- Sales increased by 26% in volume and 16% in Tenge (“KZT”) in 1H 2014 against 1H 2013. However, as a consequence of the February devaluation of the KZT against the USD, the turnover in USD decreased by 5%.
- The average ex-factory price decreased from KZT 12,084/tonne in 1H 2013 to KZT 10,797/tonne or 11% in the current period. Both the increase in volumes and the decrease in prices are consequences of the strategy of volume over prices pursued in 2014. This strategy will continue until we maximise production from the newly commissioned dry line number 5.
- Steppe Cement’s gross margin decreased from 37% in 1H 2013 to 29% in 1H 2014 but is expected to increase by the end of the year as Line 5 production increases.
- The devaluation resulted in a USD 5.1 million realized foreign exchange loss as the long term loans are denominated in USD as well as translation losses in the Group’s reserve arising from the translation of the financial statements of the Kazakh subsidiaries whose balance sheets are denominated in KZT.
- Selling expenses per tonne decreased by 13% in KZT (26% in USD terms) in 1H 2014 as sales to Astana increased significantly, and usage of hired trucks decreased relative to wagons.
- General and administrative expenses increased by 2% during the period in USD.
- Steppe Cement generated USD 6.4 million from operations before working capital changes in 1H 2014 compared to USD 10.6 million in 2013. This resulted from margin compression and the 19% Tenge devaluation, notwithstanding the 26% jump in sales volume.
- Increased inventories were kept in line with increased sales. The increase in receivables was mainly attributable to our main customers who provide us credit enhancement such as pledged assets and bank guarantees. Receivables as at 30 June 2014 represent approximately 2 weeks of sales.
- The Kazakhstan Tenge "KZT" depreciated sharply in February from 155 to 185 and currently stands at 182 (USD/KZT) while the trading band has recently been extended by the Government to the 170 - 188 (USD/KZT) range. The current exchange rate seems to follow the historical KZT to Rouble rate and the evolution of the USD/KZT exchange rate may partly depend on the USD/Rouble exchange rate.

- The Kazakhstan economy is expected to grow at 4% in 2014.
- Inflation has been maintained at 6% during 2014 but it is expected to increase in the last quarter.

2. Production and Wagons Purchase

- The proportion of production from dry lines has increased to 66% in 1H 2014 from 55% in 1H 2013. We expect 75% for the full year and 100% for 2015.
- Production costs per tonne increased by 2% in KZT. Line 5 production is still ramping up and the wet lines are operating at relatively low capacity as capex has been curtailed.
- We expect production costs to be reduced in the second half and to be significantly lower in 2015 once the wet lines kilns are stopped and Line 5 reaches capacity.
- Line 5 is currently able to produce 3,000 tonnes of clinker per day and is significantly more efficient than Line 6.
- Cash cost from the new Line 5 is estimated to be 35% below that from the wet lines and 13% below dry line 6.
- The wet lines clinker production lines will be stopped during the last quarter of 2014.
- All project costs to bring Line 5 to completion have been substantially settled now.
- We have completed the purchase of 330 new railway wagons for cement transportation for a cost of USD 15 million. Of these, approximately 48% were paid in the second quarter for delivery, increasing our debt by USD 7.2 million. The remaining 52% was completed during the months of July and August 2014. These wagons represent 40% of our current needs and are expected to generate savings in selling expenses of USD 3.3 million during a full financial year.
- The operation was financed by VTB bank through a 5 year loan repayable in equal monthly instalments with 30% of principal in a bullet payment at the end of year 5.
- A further USD 15 million credit line is available to continue the purchase of additional wagons.

3. Update on the Kazakh Cement Market

- The Kazakhstan cement market increased by 2.5% during the first half of 2014. Steppe Cement expects a market of 8.4 million tonnes for the full year 2014, up from 8.2 million in 2013.
- Imports into Kazakhstan have been decreasing since late 2013 and this trend has accelerated after the Tenge devaluation in February. In the first half of 2014 imports represented 16% of the market (down from 20% in 2013) and we expect the share of imports to be reduced to 11% for the full year as the factories commissioned in 2013 and 2014 reach capacity.
- Overall production of all factories in Kazakhstan has increased by 11% in 2014 compared to 2013. Exports now represent 6% of production, up from 3% a year ago.
- Prices are expected to remain flat in the remaining months of 2014 as all the factories compete to maintain their market share.
- Steppe Cement increased its market share from 15% in 1H 2013 to 18% in 1H 2014 and we currently expect to increase our market share to at least 19% for the full year.
- The Kazakhstan Government has continued its road building plan as well as significant infrastructure projects in most cities. The first stone of the International Exhibition to be held in Astana in 2017 has been laid and works have commenced on the new highway from Astana to Almaty.
- The three new cement factories commissioned in 2013 and early 2014 (Kazakh Cement, Caspi Cement and our Line 5) reached capacity during the summer months. Their combined production in the first half of 2014 was 0.7 million tonnes and we expect them to reach 1.5 million in 2014 and 2.5 million in 2015 with most of this growth coming from our Line 5.
- Currently 55% of production in the country is coming from dry lines and 45% from wet lines.

4. Financing

- Steppe Cement repaid USD 2.1 million of debt to HSBC during the first half of 2014.
- In April, we refinanced the remaining debt from EBRD (USD 24 million) and HSBC (USD 5.1 million) with a 2.5 year USD loan from VTB at 6.2% per annum. This loan allows us to divide the principal payments equally over 2014 to 2016 and pay during and after the selling season as opposed to the two years and repayments during the first half of each year with the previous loans. The pledge for the loan has been limited to Line 6 assets, giving us more flexibility for the future.
- In July, we repaid USD 2.5 million to VTB and we will repay a further USD 5.5 million in November.
- VTB financed the purchase of the first batch of wagons through a USD 15 million, 5 year loan at 7.2% per annum secured with the pledge of the wagons.
- We have maintained USD 20 million working capital lines from Halyk Bank and HSBC and we intend to increase the short term lines to USD 25 million in the second half of the year to keep pace with the increased sales. The lines will be drawn during the winter months and repaid in the second and third quarters of each year.
- Steppe Cement’s current low production cost compared to competitors using wet lines and combined with its low level of debt compared to the other producers with dry lines, should allow Steppe Cement to maximize dry production capacity quickly while maintaining sufficient cash flow generation to service the existing loan obligations and potential future dividend pay-outs.
- On 5 September 2014, Central Asia Cement JSC declared dividends of KZT 830 million (equivalent to USD 4.5 million) to its parent company, Steppe Cement Holdings B.V. Most of this dividend will be channelled through the Group structure in the coming weeks.

A pdf copy of the announcement and the full interim financial statements is available on the company's website at www.steppecement.com.

Steppe Cement's AIM nominated adviser is RFC Ambrian Limited.
Contact Stephen Allen or Trinity McIntyre at +61 8 94802500.

SUMMARY OF INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2014 (UNAUDITED)

(In United States Dollars)

The Notes to the Interim Financial Statements form an integral part of the Condensed Financial Statements. Please visit the Company's website at www.steppecement.com to view the full interim financial statements.

STEPPE CEMENT LTD
(Incorporated in Labuan FT, Malaysia under the Labuan Companies Act, 1990)
AND ITS SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2014 (UNAUDITED)

	The Group 6 months ended		The Company 6 months ended	
	30 June 2014 USD'000	30 June 2013 USD'000	30 June 2014 USD'000	30 June 2013 USD'000
Revenue	51,810	54,347	50	50
Cost of sales	(36,969)	(33,978)	-	-
Gross profit	14.841	20,369	50	50
Selling expenses	(8,463)	(9,101)	-	-
General and administrative expenses	(5,199)	(5,100)	(296)	(266)
Operating income/(loss)	1,179	6,168	(246)	(216)
Interest income	1	30	-	-
Finance costs	(2,143)	(1,598)	-	-
Other (expense)/income, net	(5,441)	(781)	(39)	63
(Loss)/Profit before income tax	(6,404)	3,819	(285)	(153)
Income tax credit/(expense)	2,285	(1,599)	-	-
(Loss)/Profit for the period	(4,120)	2,220	(285)	(153)
Attributable to:				
Shareholders of the Company	(4,120)	2,220	(285)	(153)
(Loss)/Profit per share:				
Basic (cent)	(1.9)	1.0		

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2014 (UNAUDITED)

	The Group 6 months ended		The Company 6 months ended	
	30 June 2014 USD'000	30 June 2013 USD'000	30 June 2014 USD'000	30 June 2013 USD'000
(Loss)/Profit for the period	(4,120)	2,220	(285)	(153)
Other comprehensive loss: *Item that may be reclassified subsequently to profit or loss*				
Exchange differences arising on translation of foreign subsidiary companies	(25,426)	(1,160)	-	-
Total other comprehensive loss for the period	(29,426)	1,060	-	-
Total comprehensive (loss)/income for the period	(29,426)	1,060	(285)	(153)
Attributable to: Shareholders of the Company	(29,546)	1,060	(285)	(153)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014 (UNAUDITED)

	The Group		The Company	
	Unaudited 30 June 2014 USD'000	Audited 31 Dec 2013 USD'000	Unaudited 30 June 2014 USD'000	Audited 31 Dec 2013 USD'000
Assets				
Non-Current Assets:				
Property, plant and equipment	156,167	167,165	-	-
Investment in subsidiary companies	-	-	30,500	30,500
Advances and prepaid expenses	1,146	678	-	-
Other assets	5,831	17,124	-	-
Total Non-Current Assets	163,144	184,967	30,500	30,500
Current Assets				
Inventories	20,016	20,466	-	-
Trade and other receivables	11,873	7,123	-	-
Amount owing by subsidiary companies	-	-	39,903	39,909
Advances and prepaid expenses	3,915	4,275	20	9
Cash and bank balances	3,121	4,299	4	238
Total Current Assets	38,925	36,164	39,927	40,156
Total Assets	202,069	221,131	70,427	70,656

	The Group		The Company	
	Unaudited	Audited	Unaudited	Audited
	30 June 2014	31 Dec 2013	30 June 2014	31 Dec 2013
	USD'000	USD'000	USD'000	USD'000
Equity and Liabilities				
Capital and Reserves				
Share capital	73,761	73,761	73,761	73,761
Revaluation reserve	5,012	5,604	-	-
Translation reserve	(51,047)	(25,622)	-	-
Retained earnings/ (Accumulated loss)	97,355	100,883	(4,665)	(4,380)
Total Equity	125,081	154,626	69,096	69,381
Non-Current Liabilities				
Borrowings	34,515	27,065	-	-
Deferred tax liabilities	5,661	9,357	-	-
Total Non-Current Liabilities	40,176	36,422	-	-
Current liabilities				
Trade and other payables	8,688	9,052	-	-
Accrued and other liabilities	7,919	6,802	1,331	1,275
Borrowings	19,645	13,729	-	-
Taxes payable	560	500	-	-
Total Current Liabilities	36,812	30,083	1,331	1,275
Total Liabilities	76,988	66,505	1,331	1,275
Total Equity and Liabilities	202,069	221,131	70,427	70,656

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2014 (UNAUDITED)

The Group	Share capital USD'000	Non-distributable Revaluation reserve USD'000	Translation reserve USD'000	Distributable Retained earnings USD'000	Total USD'000
Balance as at 1 January 2014	73,761	5,604	(25,622)	100,883	154,626
Loss for the period	-	-	-	(4,120)	(4,120)
Exchange differences arising on translation of foreign subsidiary companies	-	-	(25,425)	-	(25,425)
Total comprehensive loss for the period	-	-	(25,425)	(4,120)	(29,545)
Transfer of revaluation reserve relating to the depreciation of property, plant and equipment through use	-	(592)	-	592	-
Balance as at 30 June 2014	73,761	5,012	(51,047)	97,355	125,081

The Group	Share capital USD'000	Non-distributable Revaluation reserve USD'000	Translation reserve USD'000	Distributable Retained earnings USD'000	Total USD'000
Balance as at 1 January 2013	73,761	8,034	(21,645)	89,024	149,174
Profit for the period	-	-	-	2,220	2,220
Exchange differences arising on translation of foreign subsidiary companies	-	-	(1,160)	-	(1,160)
Total comprehensive loss for the period	-	-	(1,160)	2,220	(1,060)
Transfer of revaluation reserve relating to the depreciation of property, plant and equipment through use	-	(716)	-	716	-
Balance as at 30 June 2013	73,761	7,318	(22,805)	91,960	150,234

The Company	Share capital	Accumulated losses	Total
	USD'000	USD'000	USD'000
Balance as at 1 January 2013	73,761	(3,940)	69,821
Total comprehensive loss for the period	-	(153)	(153)
Balance as at 30 June 2013	73,761	(4,093)	69,668
Balance as at 1 January 2014	73,761	(4,380)	69,381
Total comprehensive loss for the period	-	(265)	(285)
Balance as at 30 June 2014	73,761	(4,665)	69,096

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2014 (UNAUDITED)

	The Group 6 months ended		The Company 6 months ended	
	30 June 2014 USD'000	30 June 2013 USD'000	30 June 2014 USD'000	30 June 2013 USD'000
OPERATING ACTIVITIES				
(Loss)/Profit before tax	(6,404)	3,819	(285)	(153)
Adjustments for non-cash items	12,789	6,819	37	(62)
Operating Profit/(Loss) Before Working Capital Changes	6,385	10,638	(248)	(215)
(Increase)/ Decrease in:				
Inventories	(3,390)	(5,352)	-	-
Trade and other receivables, advances and prepaid expenses	(5,192)	1,229	(11)	(7)
Amount owing by subsidiary companies	-	-	6	(1,550)
Increase in:				
Trade and other payables, accrued and other liabilities	2,987	3,807	19	93
Cash (Used In)/Generated From Operations	790	10,322	(234)	(1,679)
Income tax paid	(1,135)	(687)	-	-
Interest paid	(2,058)	(2,267)	-	-
Net Cash Generated From/(Used In) Operating Activities	(2,403)	7,368	(234)	(1,679)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(10,343)	(4,766)	-	-
Purchase of non-current assets	(2,225)	(9,690)	-	-
Proceeds from short-term investment	-	5,998	-	-
Interest received	1	30	-	-
Net Cash Used In Investing Activities	(12,567)	(8,428)	-	-
FINANCING ACTIVITIES				
Proceeds from borrowings	59,249	15,876	-	-
Repayment from borrowings	(44,853)	(23,600)	-	-
Net Cash Generated From/(Used In) Financing Activities	14,396	(7,724)	-	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(574)	(8,784)	(234)	(1,679)

EFFECTS OF FOREIGN EXCHANGE RATE CHANGES	(604)	(97)	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	4,299	14,016	238	2,923
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	3,121	5,135	4	1,244