7 June 2021

Steppe Cement Ltd

CEO STATEMENT

I would like to thank all of our staff in Kazakhstan that showed incredible resilience in spite of all public health challenges and limitations. Our factory continued to work almost normally and this is only thanks to our employees and their commitment to the future of the company.

In 2020, Steppe Cement posted a net profit of USD11.1 million. Steppe Cement's EBITDA increased to USD 24.2 million from USD23.9 million in 2019 as higher prices in KZT, lower cost of production and the implementation of IFRS 16 were balanced by a devaluation of 8%.

The overall domestic cement market increased by 6% to 9.4 million tonnes, while our sales volume decreased slightly. Our local sales decreased by 6% due to milling limitations during two months of the high season, while exports increased by 20% in line with the market.

In 2020, our cost of production per tonne in KZT decreased by 3%.

Steppe Cement operated both lines at 85% of their current combined capacity (which is 1.1 million tonnes for line 5 and 0.85 million tonnes for line 6).

Shareholders' funds decreased to USD57.9 million from USD62.9 million due to currency devaluation and after dividend distribution to shareholders. The replacement cost of the Company's assets remains many times higher than their current book value.

Key financials	Year ended 31- Dec-20	Year ended 31- Dec-19	Inc/(Dec)%
Sales (tonnes of cement)	1,645,744	1,715,761	(4%)
Consolidated turnover (KZT million)	30,958	30,534	1%
Consolidated turnover (USD million)	74.8	79.9	(6%)
Consolidated profit before tax (USD million)	13.1	12.5	5%
Consolidated profit after tax (USD million)	11.1	9.7	14%
Profit per share (US cents)	5.1	4.4	14%
Shareholders' funds (USD million)	57.9	62.9	(8%)
Average exchange rate (KZT/USD)	413	383	(8%)

Exchange rate as at year end (KZT/USD)	421	381	(10%)

The Kazakh cement market increased by 6% in 2020 and we expect a modest increase in 2021

Despite the impact of Covid-19, the Kazakh cement market in 2020 increased to 9.4 million tonnes (6%) from 2019. Imports into Kazakshtan decreased by 13% to 0.6 million tonnes equivalent to 6% of the total market, mostly due to the ban on imports from Iran. Exports from local producers increased by 22% to 2 million tonnes mostly to Uzbekistan and Kyrgyzstan.

The market demand in 2021 seems strong despite the effects of COVID-19 temporary lock downs. We expect a potential increase of 2-4% as oil prices have recovered and the government stimulus packages continue.

Exports, mostly to Uzbekistan were increased as demand in the Tashkent area remained strong and the companies located in the south of Kazakhstan continued to benefit. Volumes exported to Uzbekistan by Kazakh operators will be reduced once the new factories built in Uzbekistan become operational, most likely in late 2021.

Steppe Cement’s average cement selling prices increased by 6% in KZT, but decreased by 3% in USD, to USD 45.4 per tonne delivered.

Production and costs

Line 5 produced 938,074 tonnes of cement while Line 6 produced 707,670. Line 5 had two planned maintenance stops during the year and L6 performed as planned, but further improvements are expected in 2021 when we expect production is excess of 1.75 million tonnes.

Cost per tonne decreased by 3% in KZT due to saving on electricity and coal, partly offset by increases repairs and maintenance.

The average cash production cost of cement was reduced to USD19/tonne due to cost savings and currency depreciation.

We expect the coal price to be maintained in 2021.

Selling expenses, reflecting mostly cement delivery costs, were maintained at USD8/tonne, due to higher export volumes (+20%) and transportation inflation.

Foreign exchange losses increased as we maintained some loans in USD until full repayment in August 2020 and the currency experienced an 8% devaluation having remained stable in 2019.

Other income increased significantly due to the write-back of a payable of USD 1 million previously written down, as well as the write-back of deferred income from the government subsidied loans.

General and administrative expenses

General and administrative expenses increased to USD6.2 million from USD5.6 million in 2019. The increase is due to higher provision for doubtful debts and withholding tax of USD0.4 million on transfers from Karcement to the holding company, Steppe Cement.

Labour and Covid-19

On 31 March 2021, the labour count stood at 781 from 751 in 2020. The difference is mostly due to the increased proportion of bagged cement on our product mix with subcontractors replaced by our own staff.

To prevent the spread of Covid-19 we took standard measures: temperature checking at the entry gates of the factory, masks and distribution of information and advice to all workers. We also made testing available to all workers who wished to be tested and in 2021 we have facilitated vaccination to those willing to take it, with this option still being offered.

During 2020, the government provided different statistics about the number of deceased due to Covid-19 or pneumonia without a clear distinction between the two. We had three employees that died in 2020 of which two had comorbidities although only one was recognised officially as a victim of Covid-19. In 2021, we had an additional casualty but he was not based in the factory as he had a sales position in Almaty.

Capital investment slowed down but will increase in 2021 and 2022

Capital investment in 2020 was directed to the improvement of packing and to reduce power consumption. We managed to invest less than USD1 million in investment capex due to the Covid-19 restrictions mostly during the summer of 2020 as we didn’t have a full team of engineers in place, but we executed our planned maintenance capex of USD2 million. We managed to complete the following projects:

- Pan conveyor replacement;
- Cooler EP fan system replacement;
- Cooler static head fan system; and
- Automatic bag feeder (commissioned in March 2021)

In the fourth quarter of 2020, we purchased through a 6% subsidized loan a new fleet of 70 boxed wagons for transportation of bagged cement. We borrowed KZT0.8 billion before the end of the year and an additioal KZT0.4 billion in February 2021 when the wagons arrived in the factory. We will use this small fleet year-round and we will rent between 200-250 additional box wagons during the high season. This operation is similar to the 330 bulk wagons that we bought in 2014. The return on these wagons is higher than the cost of funds.

In addition, in 2021 we plan to increase investment capex to at least USD3 million to compensate for the lower capex in 2020 while we expect maintenance capex to be smaller. The projects will include:

- a new XRF (X-ray analyser) for the laboratory to improve clinker quality and stability;
- slag drier filter and automation for ecological reasons;
- an automatic bag feeder to reduce labour cost and increase bagged cement;

- a new Schenck coal dosing system, to better control the feed to the preheater in line 6;
- coal mill ducting modifications to increase coal milling capacity;
- railway line extension purchase to save transportation fees; and
- cement mill separators that will allow us to increase the amount of additives as well as control the cement finess. This project will be carried over 2022.

Effects of application of IFRS 16 in the accounts

The application of IFRS 16 in our accounts continues to affect the accounting of the rental of wagons that Steppe Cement does not actually own. Some wagons are rented for more than two years and the accounting standard that we started to implement in 2019 requires us to account for a new non-current asset called 'right-of-use' assets evaluated in 2020 at USD 3.5 million vs USD 6.1 million in 2019 (the lease contracts have already been accounted for one year). The amount will be reduced yearly until these contracts are renewed and it may increase again depending on the renewal terms. The corresponding entries in the liabilities are called lease liabilities seggregated between non-current at USD2.1 million in 2020 vs USD4.3 million in 2019 and current of USD1.8 million vs USD2.2 million in 2019.

The selling expenses have been reduced to USD13 million while the corresponding lease finance cost has been calculated at USD0.6 million increasing the financial expenses but less than in 2019 when they were increased by USD0.9 million.

Without IFRS 16 accounting, the finance expenses would have been USD0.6 million and the selling expenses USD 13.5 million. Consequently, the gross profit has been reduced by USD 0.1 million.

The EBITDA has been increased due to the recognition of the depreciation of right-of-use assets. Without this depreciation, the EBITDA for 2020 would have been USD22.1 million.

Financial position: Debt has all been repaid apart from the subsidised lines.

During the year, our total loans outstanding were reduced from USD10.3 million to USD6.8 million, the majority of these loans have very favourable subsidized rates in KZT. The company ended the year with a net cash position of USD1.4 million, excluding IFRS 16 leases.

Long-term loans were reduced from USD3.9 million to USD2.4 million. Of this reduction USD1.5 million were due to repayment of loans and the balance due to the lower value in USD of long-term KZT denominated loans. The effective blended interest rate in the long term loans in USD and KZT was reduced to 5% per annum.

Our short term loans and current part of the long term loans decreased from USD6.4 million in 2019 to USD4.4 million in 2020, while the cash position at the end of the year was slightly decreased from USD9 million to USD8.2 million.

In 2020, finance costs decreased to USD1.2 million from USD2.1 million in 2019. Without operating lease interest of USD0.6 million under IFRS 16, the finance cost was USD0.6 million of which USD0.4 million was interest on loans.

The KZT had a very bumpy ride against the USD, devaluing from 380 to 430 KZT/USD during the beginning of the Covid crisis and following the drop of oil prices. It then strengthened back to 400 by the beginning of the summer and devalued to 430 by the winter. The average rate for the year was 413.

We maintain short term credit lines available as stand by:

- KZT 1 billion in a government subsidized program in KZT at 6% p.a.
- KZT 2 billion from Halyk Bank at 6% p.a. in USD or 13% in KZT.
- KZT 0.9 billion from Altyn Bank at 12% p.a. in KZT.

All covenants under the various credit lines have been met comfortably.
Depreciation of property, plant and equipment remained the same at USD6.9 million for 2020 and 2019.

Steppe Cement’s effective income tax rate has decreased to 15%. The statutory corporate income tax rate remains at 20% in Kazakhstan.

Javier del Ser Perez
Chief Executive Officer

Annual Report 2020 and Annual General Meeting

Steppe Cement will release its Annual Report 2020 on its web site at www.steppecement.com during the week commencing 7 June 2021.

The Company's virtual Annual General Meeting is expected to take place at its Malaysian Office at Suite 10.1, 10th Floor, West Wing, Rohas Perkasa, 8 Jalan Perak, Kuala Lumpur Malaysia on Wednesday, 7 July 2021 at 4 p.m., due to travelling restrictions.

Steppe Cement's AIM nominated adviser and broker is RFC Ambrian Limited.

Nominated Adviser contact: Stephen Allen or Andrew Thomson on +61 8 9480 2500.

Broker contact: Charlie Cryer at +44 20 3440 6800

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

STATEMENTS OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2020

	The Group		The Company	
	2020 USD	2019 USD	2020 USD	2019 USD
Revenue	74,774,297	79,929,953	10,796,326	9,915,657
Cost of sales	(42,439,633)	(46,244,126)	-	-
Gross profit	32,334,664	33,685,827	10,796,326	9,915,657
Selling expenses	(12,966,168)	(13,371,624)	-	-
General and administrative expenses	(6,225,928)	(5,921,545)	(311,871)	(318,980)
Interest income	199,332	128,735	934	6,023
Finance costs	(1,249,051)	(2,061,008)	-	-
Net foreign exchange loss	(808,977)	(84,400)	(3,981)	(35,941)
Other income, net	1,817,314	166,115	82,507	-
Profit before income tax	13,101,186	12,542,100	10,563,915	9,566,759
Income tax expense	(1,983,727)	(2,835,709)	-	-
Profit for the year	11,117,459	9,706,391	10,563,915	9,566,759
Attributable to:				
Shareholders of the Company	11,117,459	9,706,391	10,563,915	9,566,759
Earnings per share:				
Basic and diluted (cents)	5.1	4.4		

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	The Group		The Company	
	2020	2019	2020	2019
	USD	USD	USD	USD
Profit for the year	11,117,459	9,706,391	10,563,915	9,566,759
Other comprehensive (loss)/income:				
Items that will not be reclassified subsequently to profit or loss:				
Revaluation gain on property, plant and equipment, net of tax	760,291	-	-	-
Increase in provision for site restoration	(74,671)	-	-	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising from translation of foreign operations	(5,228,388)	572,722	-	-
Total other comprehensive (loss)/income	(4,542,768)	572,722	-	-
Total comprehensive income for the year	6,574,691	10,279,113	10,563,915	9,566,759
Attributable to:				
Shareholders of the Company	6,574,691	10,279,113	10,563,915	9,566,759

STATEMENTS OF FINANCIAL POSITION
AS OF 31 DECEMBER 2020

	The Group		The Company	
	2020	2019	2020	2019
	USD	USD	USD	USD
Assets				
Non-Current Assets:				
Property, plant and equipment	48,856,410	55,807,917	-	-
Right-of-use assets	3,483,259	6,140,152	-	-
Investment in subsidiary companies	-	-	36,294,519	36,197,767
Loan to subsidiary company	-	-	30,110,000	30,140,000
Advances	-	5,992	-	-
Other assets	1,900,656	2,426,938	-	-
Total Non-Current Assets	54,240,325	64,380,999	66,404,519	66,337,767
Current Assets				
Inventories	11,097,613	10,811,542	-	-
Trade and other receivables	2,332,410	5,790,278	6,775,995	8,847,922
Other assets	304,946	-	-	-
Income tax recoverable	1,435,100	405,147	-	-
Loans and advances to subsidiary companies	-	-	39,712	30,079
Advances and prepaid expenses	3,644,038	3,682,896	5,848	15,944
Cash and cash equivalents	8,213,680	9,014,360	1,352,950	261,798
Total Current Assets	27,027,787	29,704,223	8,174,505	9,155,743
Total Assets	81,268,112	94,085,222	74,579,024	75,493,510

	The Group		The Company	
	2020	2019	2020	2019
	USD	USD	USD	USD
Equity and Liabilities				
Capital and Reserves				
Share capital	73,760,924	73,760,924	73,760,924	73,760,924
Revaluation reserve	2,370,706	2,015,943	-	-
Translation reserve	(118,514,344)	(113,285,956)	-	-
Retained earnings	100,325,002	100,386,012	631,352	1,576,763
Total Equity	57,942,288	62,876,923	74,392,276	75,337,687
Non-Current Liabilities				
Borrowings	2,368,296	3,892,851	-	-
Lease liabilities	2,076,668	4,306,929	-	-
Deferred taxes	4,559,927	4,651,541	-	-
Deferred income	1,492,432	1,421,368	-	-
Provision for site restoration	150,878	74,435	-	-
Total Non-Current Liabilities	10,648,201	14,347,124	-	-
Current liabilities				
Trade and other payables	4,075,078	6,203,453	-	-
Accrued and other liabilities	1,531,039	1,405,123	186,748	155,853
Borrowings	4,429,053	6,420,573	-	-
Lease liabilities	1,830,755	2,190,586	-	-
Deferred income	106,420	81,387	-	-
Taxes payable	705,278	560,053	-	-
Total Current Liabilities	12,677,623	16,861,175	186,748	155,853
Total Liabilities	23,325,824	31,208,299	186,748	155,853
Total Equity and Liabilities	81,268,112	94,085,222	74,579,024	75,493,510

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

The Group	Share capital USD	Revaluation reserve USD	Translation reserve USD	Distributable Retained earnings USD	Net USD
As of 1 January 2020	73,760,924	2,015,943	(113,285,956)	100,386,012	62,876,923
Profit for the year	-	-	-	11,117,459	11,117,459
Other comprehensive loss	-	685,620	(5,228,388)	-	(4,542,768)
Total comprehensive income/(loss) for the year	-	685,620	(5,228,388)	11,117,459	6,574,691
Other transactions impacting equity:					
Dividends paid	-	-	-	(11,509,326)	(11,509,326)
Transfer on revaluation reserve relating to property, plant and equipment through use	-	(330,857)	-	330,857	-
As of 31 December 2020	73,760,924	2,370,706	(118,514,344)	100,325,002	57,942,288

The Group	Share capital USD	Revaluation reserve USD	Translation reserve USD	Distributable Retained earnings USD	Net USD
As of 1 January 2019	73,760,924	2,349,282	(113,858,678)	98,735,515	60,987,043
Profit for the year	-	-	-	9,706,391	9,706,391
Other comprehensive income	-	-	572,722	-	572,722
Total comprehensive income for the year	-	-	572,722	9,706,391	10,279,113
Other transactions impacting equity:					
Dividends paid	-	-	-	(8,389,233)	(8,389,233)
Transfer on revaluation reserve relating to property, plant and equipment through use	-	(333,339)	-	333,339	-
As of 31 December 2019	73,760,924	2,015,943	(113,285,956)	100,386,012	62,876,923

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	The Group		The Company	
	2020	2019	2020	2019
	USD	USD	USD	USD
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES				
Profit before income tax	13,101,186	12,542,100	10,563,915	9,566,759
Adjustments for:				
Depreciation of property, plant and equipment	6,873,876	6,880,944	-	-
Depreciation of right-of-use assets	2,116,952	2,285,530	-	-
Amortisation of site restoration costs	-	1,410	-	-
Dividend income	-	-	(9,441,251)	(8,678,970)
Reversal of dividend accrued	-	-	-	-
Loss on disposal of property, plant and equipment	26,546	140,656	-	-
Interest income	(199,332)	(128,375)	(1,356,009)	(1,242,710)
Finance costs	1,249,051	2,061,008	-	-
Net foreign exchange loss	702,427	84,400	-	1,339
Provision for obsolete inventories	100,475	36,146	-	-
Credit loss allowance for doubtful receivables	813,812	433,412	-	-
Allowance for advances paid to third parties	69,152	142,400	-	-
Reversal of provision for obsolete inventories	(170,345)	(118,792)	-	-
Deferred income	(108,310)	(246,290)	-	-
Operating profit/(loss) before working capital changes	24,575,490	24,114,189	(233,345)	(353,582)
Movement in working capital:				
(Increase)/Decrease in:				
Inventories	(2,528,062)	2,704,172	-	-
Trade and other receivables	2,167,282	(2,687,961)	-	-
Loans and advances to subsidiary companies	-	-	(76,385)	(63,520)
Advances and prepaid expenses	(390,332)	(1,514,504)	10,096	(9,240)
(Decrease)/Increase in:				
Trade and other payables	(1,538,598)	(354,224)	-	-
Accrued and other liabilities	449,819	(2,002,941)	30,925	(903,911)

Cash Generated From/(Used In) Operations	22,735,599	20,258,731	(268,709)	(1,330,253)
Income tax paid	(2,925,488)	(493,734)	-	-
Net Cash From/(Used In) Operating Activities	19,810,111	19,764,997	(268,709)	(1,330,253)
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(3,108,678)	(2,837,509)	-	-
Contribution to site restoration fund	(33,825)	(14,982)	-	-
Proceeds from disposal of property, plant and equipment	134,630	149,482	-	-
Dividends received from subsidiary	-	-	11,509,326	8,389,233
Interest received	199,332	128,735	1,359,861	1,568,481
Net Cash (Used In)/From Investing Activities	(2,808,541)	(2,574,274)	12,869,187	9,957,714
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES				
Proceeds from bank borrowings	7,414,558	7,834,646	-	-
Repayment of bank borrowings	(9,657,053)	(9,432,630)	-	-
Repayment of lease liabilities	(2,014,790)	(1,929,741)	-	-
Dividends paid	(11,509,326)	(8,389,233)	(11,509,326)	(8,389,233)
Interest paid	(1,240,129)	(2,036,609)	-	-
Net Cash Used In Financing Activities	(17,006,740)	(13,953,567)	(11,509,326)	(8,389,233)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(5,170)	3,237,156	1,091,152	238,228
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES	(795,510)	57,713	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	9,014,360	5,719,491	261,798	23,570
CASH AND CASH EQUIVALENTS AT END OF YEAR	8,213,680	9,014,360	1,352,950	261,798