

CEO STATEMENT

In 2017, Steppe Cement posted a net profit of USD 1.2 million. Steppe Cement's EBITDA increased to USD 11.6 million from USD 9.7 million in 2016 mostly due to higher prices and volumes.

The overall domestic cement market was stable at 9 million tonnes and our sales volume increased by 4%, while the price in KZT increased by 14%. The continued weakness of the KZT against the surrounding currencies has allowed the company to increase exports significantly.

In 2017 we produced exclusively from the dry lines and our cost of production per tonne in KZT increased by 15%, partly explained by higher coal prices, maintenance and the allocation of some of the annual maintenance cost of late 2016 to the early months of 2017.

Steppe Cement operated Line 5 at 95% of its current capacity (1.1 million tonnes) and Line 6 at 74% of capacity (0.8 million tonnes) as we continue the improvements to increase its reliability for 2018.

Shareholders' funds increased marginally to USD59.5 million from USD58 million. Due to the historical devaluation of the local currency over the years since the key investments were made, the replacement cost of the company's assets is many times higher than their current book value.

Key financials	Year ended 31- Dec-17	Year ended 31- Dec-16	Inc/(Dec)%
Sales (tonnes of cement)	1,630,230	1,570,140	4
Consolidated turnover (KZT million)	21,443	17,941	20
Consolidated turnover (USD million)	65.9	52.5	25
Consolidated profit before tax (USD million)	1.9	0.7	184
Consolidated profit after tax (USD million)	1.2	0.2	602
Profit per share (US cents)	0.6	0.1	602
Shareholders' funds (USD million)	59.5	58.0	3
Average exchange rate (USD/KZT)	326	342	(5)
Exchange rate as at year end (USD/KZT)	332	333	0

The overall market volume was stable in 2017 and we expect it to improve in 2018

The Kazakh cement market in 2017 was 9 million tonnes, the same as in 2016. Imports into Kazakhshtan increased by 43% to 0.67 million tonnes or 7% of the total. Exports from local producers increased by 120% to 0.9 million tonnes generating a small net outflow of cement from the country for the first time.

Our expectations are that overall market demand in 2018 will increase by 4 to 7%. We expect the demand to grow stronger in the south / west regions and in the smaller cities. Kazakhstan's population has reached 18 million, implying that cement consumption per capita is now 500 kg per annum.

Improving exports helped local companies to increase slightly their overall volumes. The companies that benefited most were the ones in the south with new commissioned dry kilns in 2016. In the north a new competitor has started operating and will increase its production steadily during the year.

In 2018, the local cement factories should maintain these trends with greater exports to Uzbekistan helped as well by the local environment, as currency restrictions were lifted. Imports into Kazakhstan should remain contained to regions near the Russian border.

Steppe Cement's average cement selling prices increased by 15% in KZT and by 21% in USD, to USD 40.4 per tonne delivered.

Line 5 produced 1,050,183 tonnes of cement while Line 6 produced 580,047 tonnes as we continue to make changes to increase production in 2018 that are already having an effect in the first half. We expect Line 6 to contribute additional 150,000 tons in 2018.

Line 5's current capacity is 1.1 million tonnes of cement and Line 6 is 0.8 million tonnes and we expect them to operate at least at 90% capacity in 2018.

Capital investment in 2017 was limited to the new packing line financed at subsidised rates

During 2017, capital investment was reduced to USD1.6 million from USD4.8 million in 2016. Most of the capex in 2017 was directed to packing and logistics, including a new 90 tonnes per hour packing plant and the increase of the big bag facility to 100 tonnes per hour.

Cost increased more than inflation due to coal and maintenance

The average cash production cost of cement increased to USD24/tonne from USD21/tonne in 2016, but is expected to be contained or reduced in 2018 as production and sales increase.

Selling expenses, reflecting mostly cement delivery costs, increased to USD7/tonne from USD5/tonne in 2016, due to higher transportation tariffs, less truck deliveries and increased shipments to more distant markets.

General and administrative expenses

General and administrative expenses decreased by 11% to USD4.2 million from USD4.8 million in 2016, due mostly to management efforts.

The labour count stood at 735 on 31 March 2018 compared with 724 on 31 March 2017.

Financial position: Continuous debt reduction

In 2017, we signed a new long term subsidized loan to build the new packing plant for KZT 580 million (equivalent to USD1.8 million) for 5 years at 6%.

During the year, our long term loans were reduced from USD15.4 million to USD 9.8 million.

We repaid:

- The outstanding KZT1.5 billion bond
- USD 3.5 million in principal to Halyk Bank for wagons and government subsidised loans
- And we drew KZT225 million from the new subsidised loan for the packing plant.

The effective interest rate in the long term loans in USD and KZT was maintained at 6.2%.

Our short term loans and current part of the long term loans were reduced to USD10 million in 2017 from USD11 million in 2016, while the cash position increased to USD3 million from USD1 million. We consider the risk of further devaluation is now much lower and therefore we have chosen to borrow short term mostly in USD from December 2017 as the interest differential was 6 to 8%, although we borrowed opportunistically at 10% in KZT when the banks offered it.

We maintain three short term credit lines available as stand by:

- KZT 3 billion from Halyk Bank at 6% in USD or 12% in KZT which includes a government subsidized program of KZT0.5 billion in KZT at 6%.
- KZT 0.9 billion from Altyn Bank at 10% in KZT.
- KZT 3 billion from VTB Bank Kazakhstan at 11.5% signed in March 2018.

In 2017, finance costs decreased to USD2.2 million from USD2.8 million in 2016 due to the continuous repayment of loan principals.

All covenants under the various credit lines have been met comfortably.

Depreciation increased to USD7.3 million in 2017, from USD6.8 million in 2016, due to the capex made in previous years and the exchange rate.

The statutory corporate income tax rate remains at 20% in Kazakhstan.

Javier del Ser
Chief Executive Officer

2017 Annual Report and Annual General Meeting

Steppe Cement expects to release its 2017 Annual Report on its web site at www.steppecement.com during the week commencing 29 May 2018.

The Company's 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, 14 June 2017 at 2.30 p.m.

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 2017

	The Group		The Company	
	2017	2016	2017	2016
	USD	USD	USD	USD
Revenue	65,855,137	52,479,370	3,535,005	100,000
Cost of sales	<u>(46,215,796)</u>	<u>(36,870,866)</u>	<u>-</u>	<u>-</u>
Gross profit	19,639,341	15,608,504	3,535,005	100,000
Selling expenses	(11,819,521)	(8,368,084)	-	-
General and administrative expenses	(4,241,309)	(4,759,148)	(270,136)	(290,771)
Interest income	61,449	5,205	39	-
Finance costs	(2,236,516)	(2,783,082)	-	-
Net foreign exchange (loss)/gain	(205,610)	657,937	(81,355)	164,559
Other income, net	<u>736,727</u>	<u>320,449</u>	<u>-</u>	<u>-</u>
Profit/(Loss) before income tax	1,934,561	681,781	3,183,553	(26,212)
Income tax expense	<u>(703,091)</u>	<u>(505,779)</u>	<u>(4,941)</u>	<u>-</u>
Profit/(Loss) for the year	<u>1,231,470</u>	<u>176,002</u>	<u>3,178,612</u>	<u>(26,212)</u>
Attributable to: Shareholders of the Company	<u>1,231,470</u>	<u>176,002</u>	<u>3,178,612</u>	<u>(26,212)</u>
Earnings per share: Basic and diluted (cents)	<u>0.6</u>	<u>0.1</u>		

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	The Group		The Company	
	2017	2016	2017	2016
	USD	USD	USD	USD
Profit/(Loss) for the year	1,231,470	176,002	3,178,612	(26,212)
Other comprehensive income:				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Exchange differences arising on translation of foreign operations	244,646	1,138,811	-	-
Total other comprehensive income	244,646	1,138,811	-	-
Total comprehensive income/(loss) for the year	1,476,116	1,314,813	3,178,612	(26,212)
Attributable to: Shareholders of the Company	1,476,116	1,314,813	3,178,612	(26,212)

STATEMENTS OF FINANCIAL POSITION
AS OF 31 DECEMBER 2017

	The Group		The Company	
	2017	2016	2017	2016
	USD	USD	USD	USD
Assets				
Non-Current Assets:				
Property, plant and equipment	67,358,584	71,886,844	-	-
Investment in subsidiary companies	-	-	26,500,001	26,500,001
Advances	508,555	458,619	-	-
Other assets	1,247,835	1,439,233	-	-
Deferred taxes	-	47,097	-	-
Total Non-Current Assets	<u>69,114,974</u>	<u>73,831,793</u>	<u>26,500,001</u>	<u>26,500,001</u>
Current Assets				
Inventories	13,013,642	14,169,249	-	-
Trade and other receivables	3,101,667	3,168,763	3,435,005	-
Income tax recoverable	127,208	505,359	-	-
Loans and advances to subsidiary companies	-	-	39,605,291	39,710,120
Advances and prepaid expenses	3,477,179	3,070,077	6,579	9,128
Cash and cash equivalents	3,045,336	1,023,205	12,985	73,636
Total Current Assets	<u>22,765,032</u>	<u>21,936,653</u>	<u>43,059,860</u>	<u>39,792,884</u>
Total Assets	<u><u>91,880,006</u></u>	<u><u>95,768,446</u></u>	<u><u>69,559,861</u></u>	<u><u>66,292,885</u></u>

	The Group		The Company	
	2017	2016	2017	2016
	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	2,680,003	3,062,343	-	-
Translation reserve	(106,741,124)	(106,985,770)	-	-
Retained earnings/ (Accumulated loss)	89,817,170	88,203,360	(5,275,486)	(8,454,098)
	<u>59,516,973</u>	<u>58,040,857</u>	<u>68,485,438</u>	<u>65,306,826</u>
Non-Current Liabilities				
Borrowings	9,834,719	15,453,251	-	-
Deferred taxes	637,777	-	-	-
Deferred income	1,519,487	1,525,359	-	-
Provision for site restoration	66,861	59,003	-	-
	<u>12,058,844</u>	<u>17,037,613</u>	<u>-</u>	<u>-</u>
Current liabilities				
Trade and other payables	7,684,371	7,577,986	-	-
Accrued and other liabilities	2,229,254	1,918,230	1,069,482	986,059
Borrowings	10,194,584	10,963,824	-	-
Taxes payable	195,980	229,936	4,941	-
	<u>20,304,189</u>	<u>20,689,976</u>	<u>1,074,423</u>	<u>986,059</u>
Total Liabilities	<u>32,363,033</u>	<u>37,727,589</u>	<u>1,074,423</u>	<u>986,059</u>
Total Equity and Liabilities	<u>91,880,006</u>	<u>95,768,446</u>	<u>69,559,861</u>	<u>66,292.885</u>

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

The Group	Share capital USD	Revaluation reserve USD	Translation reserve USD	Distributable Retained earnings USD	Total USD
Balance as at 1 January 2017	73,760,924	3,062,343	(106,985,770)	88,203,360	58,040,857
Profit for the year	-	-	-	1,231,470	1,231,470
Other comprehensive income	-	-	244,646	-	244,646
Total comprehensive income for the year	-	-	244,646	1,231,470	1,476,116
<i>Other transactions impacting equity:</i>					
Transfer on revaluation reserve relating to property, plant and equipment through use	-	(382,340)	-	382,340	-
Balance as at 31 December 2017	<u>73,760,924</u>	<u>2,680,003</u>	<u>(106,741,124)</u>	<u>89,817,170</u>	<u>59,516,973</u>

The Group	Share capital USD	Revaluation reserve USD	Translation reserve USD	Distributable Retained earnings USD	Total USD
Balance as at 1 January 2016	73,760,924	3,443,582	(108,124,581)	87,646,119	56,726,044
Profit for the year	-	-	-	176,002	176,002
Other comprehensive income	-	-	1,138,811	-	1,138,811
Total comprehensive income for the year	-	-	1,138,811	176,002	1,314,813
<i>Other transactions impacting equity:</i>					
Transfer on revaluation reserve relating to property, plant and equipment through use	-	(381,329)	-	381,239	-
Balance as at 31 December 2016	<u>73,760,924</u>	<u>3,062,343</u>	<u>(106,985,770)</u>	<u>88,203,360</u>	<u>58,040,857</u>

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	The Group		The Company	
	2017	2016	2017	2016
	USD	USD	USD	USD
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES				
Profit/(Loss) before income tax	1,934,561	681,781	3,183,553	(26,212)
Adjustments for:				
Depreciation of property, plant and equipment	7,265,935	6,834,012	-	-
Amortisation of quarry stripping costs	30,398	17,966	-	-
Amortisation of site restoration costs	1,656	1,580	-	-
Dividend income	-	-	(3,435,005)	-
Loss on disposal of property, plant and equipment	72,728	65,760	-	-
Interest income	(61,449)	(5,205)	-	-
Finance costs	2,236,516	2,783,082	-	-
Net foreign exchange loss/(gain)	205,610	(657,937)	79,897	(164,559)
Provision for obsolete inventories	33,175	379,408	-	-
Provision for doubtful receivables	25,532	4,720	-	-
Provision for advances paid to third parties	43,782	2,400	-	-
Reversal of provision for obsolete inventories	(356,280)	-	-	-
Deferred income	(49,096)	(5,299)	-	-
Reversal of doubtful receivables	(138)	(252)	-	-
Reversal of provision on advances paid to third parties	-	(31,045)	-	-
Write-off of inventories	46,820	-	-	-
Reversal of provision for electricity charges	-	(613,563)	-	-
Operating Profit/(Loss) Before Working Capital Changes	11,429,750	9,457,408	(171,555)	(190,771)
Movement in working capital: Decrease/(Increase) in:				
Inventories	2,606,085	(929,844)	-	-
Trade and other receivables	430,552	495,396	-	-
Loans and advances to subsidiary companies	-	-	104,828	135,784
Advances and prepaid expenses	(2,682,456)	(1,738,605)	2,549	(2,546)

Increase/(Decrease) in:				
Trade and other payables	(140,863)	3,016,254	-	-
Accrued and other liabilities	570,636	(655,754)	3,527	(206,955)
Net Cash From/(Used In) Operations	12,213,704	9,644,855	(60,651)	(264,488)
Income tax paid	-	(106,731)	-	-
Net Cash From/(Used In) Operating Activities	12,213,704	9,538,124	(60,651)	(264,488)
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(2,104,293)	(4,810,425)	-	-
Purchase of other assets	(68,273)	(48,749)	-	-
Proceeds from disposal of property, plant and equipment	476,689	2,190	-	-
Interest received	61,449	5,205	-	-
Net Cash Used In Investing Activities	(1,634,428)	(4,851,779)	-	-
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES				
Redemption of bonds	(4,483,495)	-	-	-
Proceeds from bank borrowings	18,201,873	36,522,283	-	-
Repayment of bank borrowings	(20,045,342)	(39,840,598)	-	-
Interest paid	(2,235,965)	(2,755,206)	-	-
Net Cash Used In Financing Activities	(8,562,929)	(6,073,521)	-	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,016,347	(1,387,176)	(60,651)	(264,488)
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES	5,784	4,072	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,023,205	2,406,309	73,636	338,214
CASH AND CASH EQUIVALENTS AT END OF YEAR	3,045,336	1,023,205	12,985	73,636