

CEO STATEMENT

In 2019, Steppe Cement posted a net profit of USD 9.7 million. Steppe Cement's EBITDA increased to USD 23.9 million from USD 21.4 million in 2018 as higher prices in KZT, lower cost of production and the implementation of IFRS 16 were balanced by a devaluation of 11%.

The overall domestic cement market increased by 2% to 8.9 million tonnes, while our sales volume remained flat. Our local sales increased by 4% while exports decreased by 29% due to increased competition from new factories and the strength of the KZT against the Uzbek Som in the second half of the year.

In 2019 our cost of production per tonne in KZT increased by 10%, higher than inflation of 5% due to coal and transportation pricing.

Steppe Cement operated both lines at 88% of their current combined capacity (which is 1.1 million tonnes for line 5 and 0.85 million tonnes for line 6).

Shareholders' funds increased to USD 62.9 million from USD 61.0 million 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-19	Year ended 31- Dec-18	Inc/(Dec)%
Sales (tonnes of cement)	1,715,761	1,720,629	0
Consolidated turnover (KZT million)	30,594	28,342	8%
Consolidated turnover (USD million)	79.9	82.2	(3%)
Consolidated profit before tax (USD million)	12.5	10.8	16%
Consolidated profit after tax (USD million)	9.7	9.1	7%
Profit per share (US cents)	4.4	4.1	
Shareholders' funds (USD million)	62.9	61.0	3%
Average exchange rate (KZT/USD)	383	345	(11%)
Exchange rate as at year end (KZT/USD)	381	384	1%

The Kazakh cement market increased by 2% in 2019 but we expect headwinds in 2020

The Kazakh cement market in 2019 was 8.9 million tonnes, an increase of 2% from 2018. Imports into Kazakhstan decreased by 10% to 0.7 million tonnes or 8% of the total market. Exports from local producers decreased by 17% to 1.6 million tonnes.

The market demand in 2020 is very difficult to estimate as we can see the drop in demand during the COVID-19 lock down period. We expect a potential decrease of 10% as the effect of the lockdown and lower oil prices are felt across the economy. However we are still confident to maintain the volumes over the summer.

Exports, mostly to Uzbekistan and Kyrgyzstan, were reduced as they deployed their new factories and prices became more competitive. Still the companies located in the south of Kazakhstan benefited most. In April 2020, the government closed imports from Iran to west Kazakhstan and so it will benefit the companies operating in that region. At the same time Uzbekistan stopped imports from Kazakhstan. We expect imports and exports to be significantly reduced.

Steppe Cement's average cement selling prices increased by 8% in KZT, but decreased by 2% in USD, to USD 46.6 per tonne delivered.

Line 5 produced 995,141 tonnes of cement while Line 6 produced 720,620. We continue to make small improvements in Line 6 that will deliver additional production capabilities and lower costs in 2020.

Capital investment in 2019 was directed to the improvement of cement mills, silos, packing and to reduce power consumption. In 2020 we will endeavour to conserve cash and limit the capital investment to ecological and energy saving projects.

In 2019 we completed the following projects:

- Increasing the capacity of the new 50 kg bags packing line to 2,400 bags per hour, equivalent to 120 tonnes per hour,
- Commissioning the fully automated loading of wagons and trucks,
- Installing a separator in cement mill number four that will allow us to increase the sales of M500 and decrease the production cost of M400,
- Changing the two preheater fans in Line 6 to improve energy efficiency, and
- Automating the silos and loading in the wet line mills area.

Capital investment was maintained at USD 3 million.

In 2020, we plan to limit the capex to USD 2 million including:

- Cooler EP fan system,
- Pan conveyor replacement,
- Slag drier filter and automation,
- Cooler fan replacement, and
- Laboratory equipment.

Cost per tonne increased on the back of coal price increases

The average cash production cost of cement was maintained at USD 23/tonne as cost increases in KZT were balanced by currency depreciation of 11% over the year.

We expect the coal price to be reduced in 2020.

Selling expenses, reflecting mostly cement delivery costs, decreased to USD 8/tonne from USD 9/tonne in 2018, due to lower export volumes (-29%) and the net reclassification of 0.4 million wagon rental expenses from selling expenses to cost of sales and finance costs based on IFRS 16.

Effects of application of IFRS 16 in the accounts

The application of IFRS 16 in our accounts affects mostly the accounting of the expenses associated with the rental of wagons that Steppe Cement does not own. Some wagons are rented for more than one year and the accounting standard requires to account for a new non-current asset called right-of-use assets evaluated at USD 6.1 million (note 11 of the financial statements). The corresponding entries in the liabilities are called lease liabilities segregated between non-current and current at USD 4.3 million and USD 2.2 million respectively (note 21). The transportation expenses have been reduced by USD 0.4 million to USD 13.3 million while the corresponding lease finance cost has been calculated at USD 0.9 million (note 5) increasing the financial expenses.

Without IFRS 16 accounting, the finance expenses would have been USD 1.1 million and the transportation expenses USD 13.8 million. Consequently, the gross profit has been reduced by USD 0.4 million. As the tax authorities do not recognise for the effects of IFRS 16 accounting, Steppe Cement's effective income tax rate has increased to 23%.

The EBITDA has been increased due to the recognition of the depreciation of right of use assets. Without this depreciation, the EBITDA for 2019 would have been USD 21.6 million.

General and administrative expenses

General and administrative expenses decreased by 5% to USD 5.9 million from USD 6.2 million in 2018 as we reduced the number of expatriates and contained inflation in salaries.

On 31 March 2020, the labour count stood at 751 from 735 in 2018. The increase is due to the termination of the subcontractor for bag packing. We are now employing directly the required personnel.

Financial position: Continuous debt reduction

During the year, our total loans outstanding were reduced from USD 11.8 million to USD 10.3 million. The cash position increased to USD 9.0 million leaving the company almost in net cash position at the end of 2019.

Long term loans were reduced from USD 6.6 million to USD 3.9 million. Of this reduction USD 1.6 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 maintained at 6.2% per annum.

Our short term loans and current part of the long term loans were slightly increased from USD 5.2 million in 2018 to USD 6.4 million in 2019, while the cash position at the end of the year was increased from USD 5.7 million to USD 9.0 million.

In 2019, finance costs (ex-operating leases) decreased to USD 1.1 million from USD 1.6 million in 2018 due to the continuous repayment of loan principal. Finance costs increased to USD 2.0 million after accounting for operating lease interest costs of USD 0.9 million under IFRS 16.

Following the drop of oil prices and the devaluation of the Russian Rouble in March 2020, the KZT devalued from 380 to 430 KZT/USD. Our current loans in USD are balanced by similar cash deposits in foreign currency.

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

- KZT 3 billion from Halyk Bank at 6% p.a. in USD or 13% in KZT which includes a government subsidized program of KZT0.5 billion in KZT at 6% p.a.
- KZT 0.9 billion from Altyn Bank at 11% p.a. in KZT.

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

Depreciation of property, plant and equipment decreased slightly from USD 7.1 million in 2018 to USD 6.9 million in 2019.

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

Javier del Ser Perez
Chief Executive Officer

2019 Annual Report and Annual General Meeting

Steppe Cement will release its 2019 Annual Report on its web site at www.steppecement.com during the week commencing 8 June 2020.

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 8 July 2020 at 4 p.m. and telematically 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 2019

	The Group		The Company	
	2019 USD	2018 USD Restated	2019 USD	2018 USD
Revenue	79,929,953	82,184,670	9,915,657	8,912,843
Cost of sales	<u>(46,244,126)</u>	<u>(46,737,415)</u>	<u>-</u>	<u>-</u>
Gross profit	33,685,827	35,447,255	9,915,657	8,912,843
Selling expenses	(13,371,624)	(15,612,203)	-	-
General and administrative expenses	(5,921,545)	(6,226,994)	(318,980)	(300,517)
Interest income	128,735	42,649	6,023	458
Finance costs	(2,061,008)	(1,637,834)	-	-
Net foreign exchange (loss)/gain	(84,400)	(1,786,724)	(35,941)	26,141
Other income/(expense), net	166,115	576,570	-	(4,855)
Profit before income tax	<u>12,542,100</u>	<u>10,802,719</u>	<u>9,566,759</u>	<u>8,634,070</u>
Income tax expense	<u>(2,835,709)</u>	<u>(1,744,486)</u>	<u>-</u>	<u>-</u>
Profit for the year	<u>9,706,391</u>	<u>9,058,233</u>	<u>9,566,759</u>	<u>8,634,070</u>
Attributable to: Shareholders of the Company	<u>9,706,391</u>	<u>9,058,233</u>	<u>9,566,759</u>	<u>8,634,070</u>
Earnings per share: Basic and diluted (cents)	<u>4.4</u>	<u>4.1</u>		

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	The Group		The Company	
	2019	2018	2019	2018
	USD	USD	USD	USD
		Restated		
Profit for the year	9,706,391	9,058,233	9,566,759	8,634,070
Other comprehensive income/(loss):				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Exchange differences arising on translation of foreign operations	572,722	(9,445,330)	-	-
Total other comprehensive income/(loss)	572,722	(9,445,330)	-	-
Total comprehensive income/(loss) for the year	10,279,113	(387,097)	9,566,759	8,634,070
Attributable to: Shareholders of the Company	10,279,113	(387,097)	9,566,759	8,634,070

STATEMENTS OF FINANCIAL POSITION
AS OF 31 DECEMBER 2019

	The Group		The Company	
	2019	2018	2019	2018
	USD	USD	USD	USD
		Restated		
Assets				
Non-Current Assets:				
Property, plant and equipment	55,807,917	59,642,055	-	-
Right-of-use assets	6,140,152	-	-	-
Investment in subsidiary companies	-	-	36,197,767	26,500,001
Loan to subsidiary company	-	-	30,140,000	30,170,000
Advances	5,992	191,242	-	-
Other assets	2,426,938	2,203,459	-	-
Total Non-Current Assets	64,380,999	62,036,756	66,337,767	56,670,001
Current Assets				
Inventories	10,811,542	13,381,295	-	-
Trade and other receivables	5,790,278	3,500,468	8,847,922	8,883,956
Income tax recoverable	405,147	175,336	-	-
Loans and advances to subsidiary companies	-	-	30,079	9,634,325
Advances and prepaid expenses	3,682,896	2,312,534	15,944	6,704
Cash and cash equivalents	9,014,360	5,719,491	261,798	23,570
Total Current Assets	29,704,223	25,089,124	9,155,743	18,548,555
Total Assets	94,085,222	87,125,880	75,493,510	75,218,556

	The Group		The Company	
	2019	2018	2019	2018
	USD	USD	USD	USD
		Restated		
Equity and Liabilities				
Capital and Reserves				
Share capital	73,760,924	73,760,924	73,760,924	73,760,924
Revaluation reserve	2,015,943	2,349,282	-	-
Translation reserve	(113,285,956)	(113,858,678)	-	-
Retained earnings	100,386,012	98,735,515	1,576,763	399,237
Total Equity	62,876,923	60,987,043	75,337,687	74,160,161
Non-Current Liabilities				
Borrowings	3,892,851	6,606,910	-	-
Lease liabilities	4,306,929	-	-	-
Deferred taxes	4,651,541	2,054,758	-	-
Deferred income	1,421,368	1,490,942	-	-
Provision for site restoration	74,435	65,354	-	-
Total Non-Current Liabilities	14,347,124	10,217,964	-	-
Current liabilities				
Trade and other payables	6,203,453	6,614,604	-	-
Accrued and other liabilities	1,405,123	2,682,569	155,853	1,058,395
Borrowings	6,420,573	5,217,009	-	-
Lease liabilities	2,190,586	-	-	-
Deferred income	81,387	138,566	-	-
Taxes payable	560,053	1,268,125	-	-
Total Current Liabilities	16,861,175	15,920,873	155,853	1,058,395
Total Liabilities	31,208,299	26,138,837	155,853	1,058,395
Total Equity and Liabilities	94,085,222	87,125,880	75,493,510	75,218,556

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

The Group	Share capital USD	Revaluation reserve USD	Translation reserve USD	Distributable Retained earnings USD	Total USD
As at 1 January 2019					
As previously stated	73,760,924	2,349,282	(116,266,492)	96,112,997	55,956,711
Adjustments	-	-	2,407,814	2,622,518	5,030,332
As restated	<u>73,760,924</u>	<u>2,349,282</u>	<u>(113,858,678)</u>	<u>98,735,515</u>	<u>60,987,043</u>
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
<i>Other transactions impacting equity:</i>					
Dividends paid	-	-	-	(8,389,233)	(8,389,233)
Transfer on revaluation reserve relating to property, plant and equipment through use	-	(333,339)	-	333,339	-
Balance as at 31 December 2019	<u>73,760,924</u>	<u>2,015,943</u>	<u>(113,285,956)</u>	<u>100,386,012</u>	<u>62,876,923</u>

The Group	Share capital USD	Revaluation reserve USD	Translation reserve USD	Distributable Retained earnings USD	Total USD
As at 1 January 2018					
As previously stated	73,760,924	2,680,003	(106,741,124)	89,817,170	59,516,973
Adjustments	-	-	2,327,776	2,488,738	4,816,514
As restated	73,760,924	2,680,003	(104,413,348)	92,305,908	64,333,487
Profit for the year as previously stated	-	-	-	8,924,453	8,924,453
Adjustments	-	-	-	133,780	133,780
Profit for the year as restated	-	-	-	9,058,233	9,058,233
Other comprehensive loss as previously stated	-	-	(9,525,368)	-	(9,525,368)
Adjustments	-	-	80,038	-	80,038
Other comprehensive loss as restated	-	-	(9,445,330)	-	(9,445,330)
Total comprehensive (loss)/income for the year	-	-	(9,445,330)	9,058,233	(387,097)
<i>Other transactions impacting equity:</i>					
Dividends paid	-	-	-	(2,959,347)	(2,959,347)
Transfer on revaluation reserve relating to property, plant and equipment through use	-	(330,721)	-	330,721	-
Balance as at 31 December 2018	<u>73,760,924</u>	<u>2,349,282</u>	<u>(113,858,678)</u>	<u>98,735,515</u>	<u>60,987,043</u>

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	The Group		The Company	
	2019	2018	2019	2018
	USD	USD	USD	USD
		Restated		
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES				
Profit before income tax	12,542,100	10,802,719	9,566,759	8,634,070
Adjustments for:				
Depreciation of property, plant and equipment	6,880,944	7,138,659	-	-
Depreciation of right-of-use assets	2,285,530	-	-	-
Amortisation of quarry stripping costs	-	4,654	-	-
Amortisation of site restoration costs	1,410	1,566	-	-
Dividend income	-	-	(8,678,970)	(8,389,233)
Reversal of dividend accrued	-	-	-	4,855
Loss on disposal of property, plant and equipment	140,656	30,925	-	-
Interest income	(128,375)	(42,649)	(1,242,710)	(524,068)
Finance costs	2,061,008	1,637,834	-	-
Net foreign exchange loss/(gain)	84,400	1,786,724	1,339	(50,676)
Provision for obsolete inventories	36,146	46,562	-	-
Loss allowance for doubtful receivables	433,412	168,365	-	-
Allowance for advances paid to third parties	142,400	139,979	-	-
Reversal of provision for obsolete inventories	(118,792)	(346,533)	-	-
Deferred income	(246,290)	(41,192)	-	-
	24,114,189	21,327,613	(353,582)	(325,052)
Movement in working capital:				
Decrease/(Increase) in:				
Inventories	2,704,172	(2,304,350)	-	-
Trade and other receivables	(2,687,961)	(2,434,470)	-	(125)
Loans and advances to subsidiary companies	-	-	(63,520)	(199,034)
Advances and prepaid expenses	(1,514,504)	-	(9,240)	-
(Decrease)/Increase in:				
Trade and other payables	(354,224)	(161,809)	-	-
Accrued and other liabilities	(2,002,941)	2,244,060	(903,911)	39,589

Cash Generated From/(Used In) Operations	20,258,731	18,671,044	(1,330,253)	(484,622)
Income tax paid	<u>(493,734)</u>	<u>(151,305)</u>	<u>-</u>	<u>(4,941)</u>
Net Cash From/(Used In) Operating Activities	<u>19,764,997</u>	<u>18,519,739</u>	<u>(1,330,253)</u>	<u>(489,563)</u>
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(2,837,509)	(3,138,098)	-	-
Purchase of other assets	(14,982)	(25,621)	-	-
Proceeds from disposal of property, plant and equipment	149,482	-	-	-
Dividends received from subsidiary	-	-	8,389,233	3,430,150
Interest received	<u>128,735</u>	<u>42,649</u>	<u>1,568,481</u>	<u>29,345</u>
Net Cash (Used In)/From Investing Activities	<u>(2,574,274)</u>	<u>(3,121,070)</u>	<u>9,957,714</u>	<u>3,459,495</u>
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES				
Proceeds from bank borrowings	7,834,646	9,363,949	-	-
Repayment of bank borrowings	(9,432,630)	(16,732,905)	-	-
Repayment of lease liabilities	(1,929,741)	-	-	-
Dividends paid	(8,389,233)	(2,959,347)	(8,389,233)	(2,959,347)
Interest paid	<u>(2,036,609)</u>	<u>(1,650,182)</u>	<u>-</u>	<u>-</u>
Net Cash Used In Financing Activities	<u>(13,953,567)</u>	<u>(11,978,485)</u>	<u>(8,389,233)</u>	<u>(2,959,347)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,237,156	3,420,184	238,228	10,585
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES	57,713	(746,029)	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,719,491</u>	<u>3,045,336</u>	<u>23,570</u>	<u>12,985</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>9,014,360</u>	<u>5,719,491</u>	<u>261,798</u>	<u>23,570</u>