

CEO STATEMENT

In 2018, Steppe Cement posted a net profit of USD 8.9 million. Steppe Cement's EBITDA increased to USD 21.3 million from USD 11.6 million in 2017 mostly due to higher prices and volumes.

The overall domestic cement market decreased by 4% to 8.6 million tonnes, but our sales volume increased by 6% mostly due to an increase of 63% in exports, helped by the continued weakness of the KZT against the neighbouring currencies. The delivered price in USD increased by 18%.

In 2018 our cost of production per tonne in KZT increased by 6%, in line with inflation.

Steppe Cement operated both lines at 90% of their current combined capacity (which is 1.1 million tonnes for line 5 and 0.8 million tonnes for line 6). We aim to increase their utilization and we are planning to increase the capacity of line 6 to 0.9 million tonnes in late 2019.

Shareholders' funds decreased to USD55.9 million from USD59.5 million after dividend distribution of USD3 million to shareholders and due to the devaluation of the KZT. However, the replacement cost of the Company's assets remains many times higher than their current book value.

Key financials	Year ended 31- Dec-18	Year ended 31- Dec-17	Inc/(Dec)%
Sales (tonnes of cement)	1,720,629	1,630,230	6
Consolidated turnover (KZT million)	28,342	21,443	32
Consolidated turnover (USD million)	82.2	65.9	25
Consolidated profit before tax (USD million)	10.7	1.9	>400
Consolidated profit after tax (USD million)	8.9	1.2	>700
Profit per share (US cents)	4.1	0.6	>600
Shareholders' funds (USD million)	55.9	59.5	(6)
Average exchange rate (USD/KZT)	345	326	6
Exchange rate as at year end (USD/KZT)	384	332	13

The Kazakh cement market decreased by 4% in 2018 but we expect it to improve in 2019

The Kazakh cement market in 2018 was 8.6 million tonnes, a decrease of 4% from 2017. Imports into Kazakhstan decreased by 4% to 0.65 million tonnes or 8% of the total market. Exports from local producers increased by 118% to 1.9 million tonnes.

Our expectations are that overall market demand in 2019 will increase by 5% reflecting a recovering of the market from 2018. The Kazakh population has reached 18 million people and therefore consumption represents 500 kg/person per year.

Improving exports mostly to Uzbekistan and Kyrgyzstan helped local companies to increase their overall volumes by 7%. The companies that benefited most were the ones in the south. In the west, a new competitor has started near Kyzylorda and is expected to increase its production steadily during the year.

In 2019, the local cement factories should maintain these trends with similar level of exports. Imports into Kazakhstan should remain contained to regions near the Russian border and be subject to competition from a new factory.

Steppe Cement's average cement selling prices increased by 25% in KZT and by 18% in USD, to USD 47.7 per tonne delivered.

Line 5 produced 993,850 tonnes of cement while Line 6 produced 726,767. We continue to make small improvements in Line 6 that we expect will contribute to an additional 80,000 tonnes in 2019.

Capital investment in 2018 was directed to the improvement of packing and logistics and we will continue to do so in 2019

The new packing line for 1,800 bags per hour was commissioned in the summer of 2018 and we have doubled the capacity of the big bag facility to 100 tonnes per hour. Capital investment was increased slightly to USD2.7 million from USD1.6 million in 2017.

In 2019, we will plan the following capital investments:

- Increase the capacity of the 50 kg bags packing line to 2,400 bags per hour, equivalent to 120 tonnes per hour.
- Commission the fully automated loading of wagons and trucks.
- Installation of a separator in cement mill number four.
- Change the two preheater fans in Line 6 to improve energy efficiency.
- Automatize the silos and loading in the wet line mill area.

Cost per tonne were maintained as volumes increased

The average cash production cost of cement was maintained at USD23/tonne as production and sales increased offsetting some of inflation increases. Some of the variable costs have been reassigned to fixed costs in 2018 - if we compare with the same cost base 2017 and 2018, the variable cost has increased by around USD0.7/tonne or 3%.

Selling expenses, reflecting mostly cement delivery costs, increased to USD9/tonne from USD7/tonne in 2017, due to higher export volumes (+63%) and transportation tariffs.

General and administrative expenses

General and administrative expenses increased by 19% to USD 6.2 million from USD 5.2 million in 2017. The general expenses have been adjusted both for 2017 and 2018 and include expense previously included in the production costs.

In 2017, we transferred USD1 million from cost of production to general expenses of which USD0.65 million were transfers of management salaries and USD0.35 million were provisions for obsolete inventory. Cost of production for 2017 was therefore decreased by 0.6 USD/tonne.

After taking into consideration these adjustments, the general expenses in 2018 have still increased by USD1 million. This is broken down as follows:

- USD0.28 million as transfers of maintenance and logistic from production to general expenses.
- USD0.25 million as a provision of doubtful receivables in accordance with changes in IFRS9.
- USD0.15 million as increased salaries, extra half month bonus and other compensation as company performance has improved.
- USD0.06 million in increased bank commission as we try to reduce the cash payments.

The balance represents an effective increase of 5% which is in line with the increase of volumes.

On 31 March 2019 the labour count stood at 735 the same level as last year.

Financial position: Continuous debt reduction

During the year, our total loans outstanding were reduced from USD20 million to USD11.8 million.

Long term loans were reduced from USD9.8 million to USD 6.6 million as we continued to repay principals to Halyk Bank for the long term loan for wagons and various government subsidised loans for capex. In addition, due to devaluation, the KZT denominated loans were reduced in USD.

The effective interest rate in the long term loans in USD and KZT was maintained at 6.2% per annum (p.a.).

Our short term loans and current part of the long term loans were significantly reduced from USD10.2 million in 2017 to USD5.2 million in 2018, while the cash position at the end of the year was increased from USD3 million to USD5.7 million.

We consider the risk of a sharp devaluation is now much lower but we have not borrowed significantly since December 2018. We have drawn subsidized short term loans at 6% p.a. in KZT and short term loans at 10% p.a. in KZT when the banks offered them.

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

- KZT3 billion from Halyk Bank at 6% p.a. in USD or 12% p.a. in KZT which includes a government subsidized program of KZT0.5 billion in KZT at 6% p.a.
- KZT0.9 billion from Altyn Bank at 10% p.a. in KZT.
- KZT3 billion from VTB Bank Kazakhstan at 11.5% p.a. signed in March 2018.

In 2017, finance costs decreased to USD1.6 million from USD2.2 million in 2017 due to the continuous repayment of loan principals.

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

Depreciation stayed the same in 2018 at USD7.3 million.

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

Javier del Ser
Chief Executive Officer

2018 Annual Report and Annual General Meeting

Steppe Cement expects to release its 2018 Annual Report on its web site at www.steppecement.com during the week commencing 15 May 2019.

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 Wednesday, 12 June 2019 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 2018

	The Group		The Company	
	2018	2017	2018	2017
	USD	USD	USD	USD
Revenue	82,184,670	65,855,137	8,912,843	3,535,005
Cost of sales	<u>(46,871,195)</u>	<u>(45,211,517)</u>	<u>-</u>	<u>-</u>
Gross profit	35,313,475	20,643,620	8,912,843	3,535,005
Selling expenses	(15,612,203)	(11,819,521)	-	-
General and administrative expenses	(6,226,994)	(5,245,588)	(300,517)	(270,136)
Interest income	42,649	61,449	458	39
Finance costs	(1,637,834)	(2,236,516)	-	-
Net foreign exchange (loss)/gain	(1,786,724)	(205,610)	26,141	(81,355)
Other income, net	<u>576,570</u>	<u>736,727</u>	<u>(4,855)</u>	<u>-</u>
Profit before income tax	10,668,939	1,934,561	8,634,070	3,183,553
Income tax expense	<u>(1,744,486)</u>	<u>(703,091)</u>	<u>-</u>	<u>(4,941)</u>
Profit for the year	<u>8,924,453</u>	<u>1,231,470</u>	<u>8,634,070</u>	<u>3,178,612</u>
Attributable to: Shareholders of the Company	<u>8,924,453</u>	<u>1,231,470</u>	<u>8,634,070</u>	<u>3,178,612</u>
Earnings per share: Basic and diluted (cents)	<u>4.1</u>	<u>0.6</u>		

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	The Group		The Company	
	2018	2017	2018	2017
	USD	USD	USD	USD
Profit for the year	8,924,453	1,231,470	8,634,070	3,178,612
Other comprehensive (loss)/income:				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Exchange differences arising on translation of foreign operations	(9,525,368)	244,646	-	-
Total other (loss)/comprehensive income	(9,525,368)	244,646	-	-
Total comprehensive (loss)/income for the year	(600,915)	1,476,116	8,634,070	3,178,612
Attributable to: Shareholders of the Company	(600,915)	1,476,116	8,634,070	3,178,612

STATEMENTS OF FINANCIAL POSITION
AS OF 31 DECEMBER 2018

	The Group		The Company	
	2018	2017	2018	2017
	USD	USD	USD	USD
Assets				
Non-Current Assets:				
Property, plant and equipment	54,611,723	67,358,584	-	-
Investment in subsidiary companies	-	-	26,500,001	26,500,001
Loan to subsidiary company	-	-	30,170,000	-
Advances	191,242	508,555	-	-
Other assets	2,203,459	1,247,835	-	-
Total Non-Current Assets	57,006,424	69,114,974	56,670,001	26,500,001
Current Assets				
Inventories	13,381,295	13,013,642	-	-
Trade and other receivables	3,500,468	3,101,667	8,883,956	3,435,005
Income tax recoverable	175,336	127,208	-	-
Loans and advances to subsidiary companies	-	-	9,634,325	39,605,291
Advances and prepaid expenses	2,312,534	3,477,179	6,704	6,579
Cash and cash equivalents	5,719,491	3,045,336	23,570	12,985
Total Current Assets	25,089,124	22,765,032	18,548,555	43,059,860
Total Assets	82,095,548	91,880,006	75,218,556	69,559,861

	The Group		The Company	
	2018	2017	2018	2017
	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	2,349,282	2,680,003	-	-
Translation reserve	(116,266,492)	(106,741,124)	-	-
Retained earnings/ (Accumulated losses)	96,112,997	89,817,170	399,237	(5,275,486)
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Total Equity	55,956,711	59,516,973	74,160,161	68,485,438
Non-Current Liabilities				
Borrowings	6,606,910	9,834,719	-	-
Deferred taxes	2,054,758	637,777	-	-
Deferred income	1,629,508	1,519,487	-	-
Provision for site restoration	65,354	66,861	-	-
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Total Non-Current Liabilities	10,356,530	12,058,844	-	-
Current liabilities				
Trade and other payables	6,614,604	7,684,371	-	-
Accrued and other liabilities	2,682,569	2,229,254	1,058,395	1,069,482
Borrowings	5,217,009	10,194,584	-	-
Taxes payable	1,268,125	195,980	-	4,941
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Total Current Liabilities	15,782,307	20,304,189	1,058,395	1,074,423
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Total Liabilities	26,138,837	32,363,033	1,058,395	1,074,423
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Total Equity and Liabilities	82,095,548	91,880,006	75,218,556	69,559,861
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STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

The Group	Share capital USD	Revaluation reserve USD	Translation reserve USD	Distributable Retained earnings USD	Total USD
Balance as at 1 January 2018	73,760,924	2,680,003	(106,741,124)	89,817,170	59,516,973
Profit for the year	-	-	-	8,924,453	8,924,453
Other comprehensive loss	-	-	(9,525,368)	-	(9,525,368)
Total comprehensive (loss)/income for the year	-	-	(9,525,368)	8,924,453	(600,915)
<i>Other transactions impacting equity:</i>					
Dividends paid	-	-	-	(2,957,347)	(2,957,347)
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>(116,266,492)</u>	<u>96,112,997</u>	<u>55,956,711</u>

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>

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	The Group		The Company	
	2018	2017	2018	2017
	USD	USD	USD	USD
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES				
Profit before income tax	10,668,939	1,934,561	8,634,070	3,183,553
Adjustments for:				
Depreciation of property, plant and equipment	7,272,439	7,265,935	-	-
Amortisation of quarry stripping costs	4,654	30,398	-	-
Amortisation of site restoration costs	1,566	1,656	-	-
Dividend income	-	-	(8,389,233)	(3,435,005)
Reversal of dividend accrued	-	-	4,855	-
Loss on disposal of property, plant and equipment	30,925	72,728	-	-
Interest income	(42,649)	(61,449)	(524,068)	-
Finance costs	1,637,834	2,236,516	-	-
Net foreign exchange loss/(gain)	1,786,724	205,610	(50,676)	79,897
Provision for obsolete inventories	46,562	33,175	-	-
Credit loss allowance for doubtful receivables	168,365	25,532	-	-
Allowance for advances paid to third parties	139,979	43,782	-	-
Reversal of provision for obsolete inventories	(346,533)	(356,280)	-	-
Deferred income	(41,192)	(49,096)	-	-
Reversal of doubtful receivables	-	(138)	-	-
Write-off of inventories	-	46,820	-	-
	<u>21,327,613</u>	<u>11,429,750</u>	<u>(325,052)</u>	<u>(171,555)</u>
Movement in working capital:				
Decrease/(Increase) in:				
Inventories	(2,304,350)	2,606,085	-	-
Trade and other receivables	(2,434,470)	430,552	(125)	-
Loans and advances to subsidiary companies	-	-	(199,034)	104,828
Advances and prepaid expenses	-	(2,682,456)	-	2,549
Increase/(Decrease) in:				
Trade and other payables	(161,809)	(140,863)	-	-

Accrued and other liabilities	<u>2,244,060</u>	<u>570,636</u>	<u>39,589</u>	<u>3,527</u>
Cash Generated From/(Used In) Operations	18,671,044	12,213,704	(484,622)	(60,651)
Income tax paid	<u>(151,305)</u>	<u>-</u>	<u>(4,941)</u>	<u>-</u>
Cash Generated From/(Used In) Operating Activities	<u>18,519,739</u>	<u>12,213,704</u>	<u>(489,563)</u>	<u>(60,651)</u>
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(3,138,098)	(2,104,293)	-	-
Purchase of other assets	(25,621)	(68,273)	-	-
Proceeds from disposal of property, plant and equipment	-	476,689	-	-
Dividends received from subsidiary	-	-	3,430,150	-
Interest received	<u>42,649</u>	<u>61,449</u>	<u>29,345</u>	<u>-</u>
Net Cash Used In/(From) Investing Activities	<u>(3,121,070)</u>	<u>(1,634,428)</u>	<u>3,459,495</u>	<u>-</u>
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES				
Redemption of bonds	-	(4,483,495)	-	-
Proceeds from bank borrowings	9,363,949	18,201,873	-	-
Repayment of bank borrowings	(16,732,905)	(20,045,342)	-	-
Dividends paid	(2,959,347)	-	(2,959,347)	-
Interest paid	<u>(1,650,182)</u>	<u>(2,235,965)</u>	<u>-</u>	<u>-</u>
Net Cash Used In Financing Activities	<u>(11,978,485)</u>	<u>(8,562,929)</u>	<u>(2,959,347)</u>	<u>-</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	3,420,184	2,016,347	10,585	(60,651)
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES	(746,029)	5,784	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,045,336</u>	<u>1,023,205</u>	<u>12,985</u>	<u>73,636</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>5,719,491</u>	<u>3,045,336</u>	<u>23,570</u>	<u>12,985</u>