

14 July 2015

Steppe Cement Ltd

Market update for the first half of 2015

In the first half of 2015, Steppe Cement Ltd (“Steppe Cement” or the “Company”) sold 717,654 tonnes of cement for 8,277 million Tenge, which compares with 709,459 tonnes of cement for 9,125 million Tenge in the first half of 2014. This represents an increase of 1% and a decrease of 9% respectively over the same period in 2014.

The average price for the current period for delivered cement was 11,533 Tenge per tonne (ex VAT), compared with 12,862 Tenge per tonne in the corresponding period of 2014. The ex-factory price for the current period was 9,665 Tenge per tonne, compared with 10,797 Tenge per tonne in the corresponding period of 2014.

The market reduction in selling price was driven by the unfavorable Rouble exchange rate against the Kazakh Tenge. Kazakh cement manufacturers reacted by cutting their prices aggressively to fence out imports. Most of Steppe Cement’s competitors chose a strategy of volume over price. Steppe Cement chose to maintain its stock of clinker and push for higher volumes at higher prices in the third quarter.

The situation has improved in June and July 2015 allowing price increases. Pricing in the second half will be influenced by the Rouble/Kazakh Tenge exchange rate and the cement market evolution.

The Kazakhstan cement market continued to recover in 2015, driven by public infrastructure. The cement volume sold in Kazakhstan increased by 10% during the first half of 2015 compared to the same period last year. Over the same period Steppe Cement’s market share fell to 17% from 19% in the same period of 2014.

The Company has revised its estimate for country consumption upwards from 8.5 to 9.2 million tonnes for 2015 and anticipates recovering the lost market share in the coming months.

On 19 June 2015 Steppe’s operating subsidiaries (Central Asia Cement JSC and Karcement JSC) finalised a loan agreement with Halyk Bank JSC on terms subsidised by government programs. The loan comes at a fixed interest rate of 6% per annum and is available for drawdown over the year to 19 June 2016. The loan totals 2,188 million Kazakh Tenge, and comprises of:

- a) 500 million Tenge for 5 years working capital on revolving basis.
- b) 1,688 million Tenge for capital investment of which 1,188 million Tenge have 2 years grace for principal and 8 years repayment; and the remaining 500 million Tenge with no grace period and 10 years repayment.

The capital investment proportion of the loan will be used to cover capex requirements in 2015 and 2016 mostly in milling, utilities and transportation.

A waiver has been received from VTB Bank for the technical breach of a financial covenant that occurred on 31 December 2014.

On 15 July 2015 Steppe Cement will make a US\$5.5 million debt repayment under tranche A to VTB Bank and the total long-term debt of the Company will then stand at US\$29.2 million plus a bond of 1,490 million Kazakh Tenge due in November 2017.

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