

RNS Number : 5005Q  
Steppe Cement Limited  
14 April 2009

## STEPPE CEMENT LTD

Preliminary annual results (unaudited) for the year ended 31 December 2008

Steppe Cement Ltd ("Steppe Cement" or "the Company") is pleased to announce its preliminary annual results (unaudited) for the year ended 31 December 2008:

Key financials	Year ended 31-Dec-08	Year ended 31-Dec-07	Inc/ (Dec) %
Sales (tonnes)	807,300	820,287	(2)
Consolidated turnover (USD Million)	91.5	100.8	(9)
Consolidated profit before tax (USD Million)	26.6	53.6	(50)
Consolidated profit after tax (USD Million)	18.6	37.2	(50)
Earnings per share (cents)	16	33	(50)
Shareholders' funds (USD Million)	128.9	110.5	(17)
Exchange rate (USD/KZT)	120.8	122.5	

### CEO Statement

Thanks to the exceptional efforts of Steppe Cement employees, Dry Line #6 ("Line #6") was commissioned in October 2008. The operating license for commercial operation of Line #6 was received on 5th February 2009 and all other necessary licenses and permits were received during the first quarter of 2009. Cement produced from this dry line will cost USD8 to USD12 per tonne less than cost of cement produced from the wet lines, a competitive advantage that should help Steppe Cement deal with the uncertainties imposed by current market conditions.

The cement market in 2008 continued its declining trend which was anticipated in 2007. The first half of 2008 saw a slower cement market than in 2007 but the same seasonal pattern persists. The second half of 2008 saw a sharp deceleration in economic activity that was compounded by the drop in commodity prices, resulting in lower demand and prices.

Banks struggled to repay their foreign debts and the Kazakhstan Government finally decided to step in to support them. On 4 February 2009, the Kazakhstan Tenge ("KZT") was devalued against the USD by 25% from KZT 120 to KZT 150. An adverse effect of the devaluation for Steppe Cement will be the increase in the amount of KZT required to service its USD denominated bank loans.

Import volumes have continued to decrease during the second half of 2008 and the beginning of 2009.

Our four wet lines performed according to expectations and produced 807,300 tonnes during 2008. Following the commissioning of Line #6, Steppe Cement produced clinkers for inventory. Its production will be increased progressively through 2009 and will reach its full 800,000 tonnes capacity per year when Steppe Cement completes the second string of the pre-heater. Steppe Cement plans to meet demand first from Line #6 and then from the wet lines.

Steppe Cement has decided to slow down further investment in Dry Line #5 ("Line #5") with an expected annual production capacity of 1.4 million tonnes) until Steppe Cement has greater clarity on the size of the market and the prevailing prices. Steppe Cement estimates that an additional USD25 million is needed to complete Line #5. Steppe Cement intends to continue with its construction as soon as market conditions permit.

The team to run Line #6 has been assembled and Steppe Cement will maintain a skeleton team to work on Line #5. In 2008, Steppe Cement experienced a small decrease of 2% in the sales volume, mostly in the last three months of the year. Prices fell by 9% overall for the year but the decrease was sharper in the second half of 2008.

The available production capacity in Kazakhstan outstrips the demand in the last two months of 2008. As a result, all cement companies in Kazakhstan either curtailed operations or stockpiled inventories through the winter.

The overall cement market decreased by 25% in 2008 and a similar further decrease is anticipated in 2009.

The market demand for cement in 2008 decreased by 25% to 5.7 million tonnes as GDP growth slowed to 3% per annum in 2008 from 10% per annum in 2007. Currently, Steppe Cement estimates the demand for cement in 2009 to contract further by approximately 25%, to about 4.5 million tonnes, due to continuing limited credit availability. The size of the 2009 market will not be visible until the spring

construction season begins. Nevertheless, it is expected that Steppe Cement will be able to increase its volumes as Steppe Cement continues to replace imports through aggressive pricing which Steppe Cement could afford due to Steppe Cement's competitive cost structure. Prices in the neighbouring countries are slightly higher than in Kazakhstan and transportation costs remain significant, so Steppe Cement expects imports to decrease to approximately 10% of the market in 2009 from 30% in 2008. Russia and other neighbouring countries are experiencing a macro economic situation similar to the one in Kazakhstan.

After the drop of prices in the last months of 2008 and the beginning of 2009, Steppe Cement expects prices to remain flat during the remaining of 2009.

Steppe Cement dedicated much of its cash flows in 2008 to the refurbishment project. In 2009, Steppe Cement intends to apply available cash flows to repay the existing loans and credit lines. As a result, Steppe Cement does not anticipate to distribute any dividends to shareholders in 2009.

Costs: Inflation for our inputs is now contained and Steppe Cement does not expect any increases in utilities or salaries.

Costs increased during the first half of 2008 but remained relatively stable subsequently due to lower oil and commodity prices in the second half of 2008 as well as to a lack of credit. Overall, utility and coal prices were significantly higher in 2008 than in 2007 but coal prices are now stable or cheaper than last year. Transport prices started to fall in late 2008 and this trend continued to date in 2009.

Steppe Cement has initiated a program to optimize the use of in-house labor in the wet lines. Steppe Cement has subcontracted certain departments to external companies. In cooperation with the local authorities, Steppe Cement has encouraged retraining and redeployment in other companies. Steppe Cement intends to maximize the productivity of the remaining work force. As of 31 March 2009, the labor force of the wet lines had been reduced from 1316 average in 2008 to 1073 people. Further improvements in production efficiency and optimization are expected to follow. The dry lines currently have a total headcount of 240.

Effective 1st January 2009, the Kazakhstan Government reduced the VAT and corporate income tax rates from 13% to 12% and from 30% to 20% respectively. The reduction in taxes will have a positive impact on Steppe Cement's cash flows although it is expected for Karcement JSC to take a longer time to recover its substantial accumulated import VAT.

Wet lines output remains stable; the wet lines will be used to supplement production according to market demand

The four kilns production capacity increased slightly in 2008. In 2009, Steppe Cement plans to commission a new chain system in two kilns and re-commissioning of Cement Mill #6.

The limestone quarry license was extended by 25 years until 2043.

Line #6 refurbishment project completed and Line #5 is on stand by

Steppe Cement completed the commissioning of Line #6 in October 2008. Clinkers of increasing quality were produced for stock. No cement was sold from the dry lines in 2008 until receipt of the official license for commercial operations. Steppe Cement received all remaining licenses during the first quarter of 2009. As a result, the five year tax holiday will start from the 5th of February 2009.

Steppe Cement will devote the rest of 2009 to improve the productivity and stability of Line #6 with minimal investment and to optimize the output of the four 80 tonnes/hour cement mills.

Steppe Cement aims to reduce production costs and fixed expenses to remain competitive in the market place.

The local authorities have stood by the Company during 2008 and Steppe Cement and the board of Directors would like to thank them, our shareholders and the main banks - EBRD, HSBC, Halyk and Centercredit - for their continuing support.

Javier del Ser  
Chief Executive Officer

### **Annual report and Annual General Meeting 2009**

Steppe Cement expects to release its 2008 Annual Report on its web site [www.steppecement.com](http://www.steppecement.com) during the week commencing 20 April 2009.

The Company's Annual General Meeting will take place in London at offices of Hanson Westhouse Limited, 12th Floor, One Angel Court, London EC2R 7HJ, England on Thursday, 7 May 2009 at 2.00 p.m.

Steppe Cement's AIM nominated adviser is RFC Corporate Finance Ltd.  
Contact Stephen Allen or Trinity McIntyre on +61 8 9480 2500.

STEPPE CEMENT LTD

(Incorporated in Labuan FT, Malaysia under the Offshore Companies Act, 1990)

AND ITS SUBSIDIARY COMPANIES

INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

	The Group		The Company	
	2008	2007	2008	2007
	USD	USD	USD	USD
Revenue	91,525,652	100,824,297	100,000	100,000
Cost of sales	(40,859,535)	(31,821,857)	-	-
Gross profit	50,666,117	69,002,440	100,000	100,000
Selling expenses	(7,536,189)	(5,331,059)		-
General and administrative expenses	(13,892,248)	(9,236,831)	(591,711)	(707,799)
Operating profit/(loss)	29,237,680	54,434,550	(491,711)	(607,799)
Investment income	21,545	197,120	-	5,085
Finance costs	(2,804,520)	(2,100,779)	-	-
Other income/(expense), net	180,640	1,071,835	2,524	(2,651)
Profit/(Loss) before income tax	26,635,345	53,602,726	(489,187)	(605,365)
Income tax expense	(7,993,412)	(16,377,433)	-	-
Profit/(Loss) for the year	18,641,933	37,225,293	(489,187)	(605,365)
Attributable to:				
Shareholders of the Company	18,641,933	37,225,293	(489,187)	(605,365)
Earnings per share:				
Basic (cents)	16	33		

## BALANCE SHEETS

AS OF 31 DECEMBER 2008

### Assets

	The Group			
	2008	2007	2008	2007
	USD	USD	USD	USD
Non-Current Assets:				
Property, plant and equipment	172,250,501	123,064,383	-	-
Investment in subsidiary companies	-	-	26,500,001	26,500,001
Advances paid	9,145,506	19,958,584	-	-
Other assets	33,492,095	9,564,717	-	-
<b>Total Non-Current Assets</b>	<b>214,888,102</b>	<b>152,587,684</b>	<b>26,500,001</b>	<b>26,500,001</b>
Current Assets				
Inventories, net	20,508,732	9,605,742	-	-
Trade receivables, net	957,932	553,845	-	-
Amount owing by subsidiary companies	-	-	746,873	656,861
Other receivables, advances and prepaid expenses	8,950,510	13,711,356	3,467	1,320
Short-term investments	2,391,437	-	-	-
Cash and bank balances	729,636	5,573,108	135,408	169,271
<b>Total Current Assets</b>	<b>33,538,247</b>	<b>29,444,051</b>	<b>885,748</b>	<b>827,452</b>
<b>Total Assets</b>	<b>248,426,349</b>	<b>182,031,735</b>	<b>27,385,749</b>	<b>27,327,453</b>

### Equity and Liabilities

#### Capital and Reserves

Share capital	1,140,000	1,140,000	1,140,000	1,140,000
Share premium	26,646,982	26,646,982	26,646,982	26,646,982
Revaluation reserve	3,364,936	4,601,668	-	-
Translation reserve	5,400,137	5,589,530	-	-
Retained earnings/ (Accumulated loss)	92,369,081	72,490,416	(2,368,194)	(1,879,007)

**Total Equity** 128,921,136 110,468,596 25,418,788 25,907,975

#### Non-Current Liabilities

Bonds	22,871,578	22,731,206	-	-
Loans	55,089,531	24,588,764	-	-
Deferred tax liabilities, net	9,547,203	11,671,362	-	-

**Total Non-Current Liabilities** 87,508,312 58,991,332 - -

Current liabilities				
Trade payables	12,341,535	5,292,633	-	-
Other payables and accrued liabilities	2,855,764	4,803,803	666,191	678,572
Loans	14,987,979	276,168	-	-
Amount owing to subsidiary companies	-	-	1,300,770	740,906
Taxes payable	<u>1,811,623</u>	<u>2,199,203</u>	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>31,996,901</u>	<u>12,571,807</u>	<u>1,966,961</u>	<u>1,419,478</u>
Total Liabilities	<u>119,505,213</u>	<u>71,563,139</u>	<u>1,966,961</u>	<u>1,419,478</u>
Total Equity and Liabilities	<u>248,426,349</u>	<u>182,031,735</u>	<u>27,385,749</u>	<u>27,327,453</u>

STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2008

The Group	Share capital	Non-distributable Share Premium	Revaluation reserve	Translation reserve	Distributable Retained earnings/(Accumulated loss)	Total/Net
	USD	USD	USD	USD	USD	USD
Balance as at 1 January 2007	1,140,000	26,646,982	6,491,683	1,530,917	33,375,108	69,184,690
Exchange differences arising on translation of foreign subsidiary companies	-	-	-	4,058,613	-	4,058,613
Profit for the year	-	-	-	-	37,225,293	37,225,293
Depreciation of revaluation reserve	-	-	(1,890,015)	-	1,890,015	-
Balance as at 31 December 2007	<u>1,140,000</u>	<u>26,646,982</u>	<u>4,601,668</u>	<u>5,589,530</u>	<u>72,490,416</u>	<u>110,468,596</u>

The Group	Share capital	Non-distributable Share Premium	Revaluation reserve	Translation reserve	Distributable Retained earnings/(Accumulated loss)	Total/Net
	USD	USD	USD	USD	USD	USD
Balance as at 1 January	1,140,000	26,646,982	4,601,668	5,589,530	72,490,416	110,468,596

2008						
Exchange differences arising on translation of foreign subsidiary companies	-	-	-	(189,393)	-	(189,393)
Profit for the year	-	-	-	-	18,641,933	18,641,933
Depreciation of revaluation reserve	-	-	(1,236,732)	-	1,236,732	-
Balance as at 31 December 2008	<u>1,140,000</u>	<u>26,646,982</u>	<u>3,364,936</u>	<u>5,400,137</u>	<u>92,369,081</u>	<u>128,921,136</u>

The Company	Non-distributable			Total/Net
	Share capital	Share premium	Accumulated loss	
	USD	USD	USD	USD
Balance as at 1 January 2007	1,140,000	26,646,982	(1,273,642)	26,513,340
Loss for the year		<u>-</u>	<u>-</u>	<u>(605,365)</u>
Balance as at 31 December 2007	<u>1,140,000</u>	<u>26,646,982</u>	<u>(1,879,007)</u>	<u>25,907,975</u>
Balance as at 1 January 2008	1,140,000	26,646,982	(1,879,007)	25,907,975
Loss for the year		<u>-</u>	<u>-</u>	<u>(489,187)</u>
Balance as at 31 December 2008	<u>1,140,000</u>	<u>26,646,982</u>	<u>(2,368,194)</u>	<u>25,418,788</u>

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