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Steppe Cement Limited  
15 December 2005

## Steppe Cement Limited

### Market Update on Proposals to Expand Production Capacity and Financing - 15 December 2005

The directors of Steppe Cement are pleased to update the market on proposals to refurbish the Company's two dry-process clinker production kilns.

#### Clinker Production Capacity

Since admission to AIM in September 2005, the Company has continued to operate its four wet-process kilns (numbers 1 to 4) which have a combined annual clinker production capacity of 600,000 tonnes. At the same time the Company has progressed with studies to recommence production from its two dry-process kilns (numbers 5 and 6) which have been mothballed since 1995.

Each of the dry-process kilns had a clinker production capacity of 1 million tonnes per annum prior to them being mothballed.

The findings of the studies into the dry-process lines and proposals of the Company arising there from are:

Line number 5 which was commissioned in 1975, had some design faults that require the cyclones, kiln and cooler to be rebuilt. The Company proposes to maintain the crushers, raw materials, coal and cement mills. Filters and control equipment will be upgraded to western standards. It is anticipated that this substantial refurbishment will cost US\$73 million inclusive of interest and taxes during construction and will take 18 to 24 months to complete. The company has tendered 3 out of 9 packages and it expects that the kiln will be re-commissioned before the end of 2007. It will have a capacity of 1 million tons of clinker (1.3 million tons cement).

Line number 6 was commissioned in 1983 with an improved design from that used on the number 5 line and the Company has been advised by its technical consultants that it can be refurbished and re-commissioned at a cost estimated at approximately US\$20 million. A project management team has been recruited to undertake this project and work has commenced. Present estimates are that this work will be unlikely to be completed before the winter of 2006/7. On re-commissioning the number 6 line will have a maximum design capacity of 0.8 million tons per annum of clinker (1.0 million tons of cement).

Financing Proposals for the Expansion of Production Capacity: EBRD loan agreement, proposed bond issue and new equity capital

The Company has signed a loan agreement with the European Bank for Reconstruction and Development (EBRD) whereby EBRD will provide loans of US\$35 million towards the dry-process kiln refurbishment costs. An agreement has also been signed with Halyk Finance of Kazakhstan, whereby Halyk Finance will distribute to Kazakh domestic investors two fixed coupon, medium term, Tenge denominated bonds, equivalent in total to US\$15 million. The balance required to finance the two re-furbishment projects, of US\$43 million, will be met by internally generated funds and by a proposed share placing which it is anticipated will raise approximately US\$20 million of new equity.

The Company has received expressions of interest from several parties wishing to

subscribe to new equity and anticipates that it will complete such an issue no later than January 2006.

The material terms of the two loan facilities are summarised as follows:

EBRD (US\$35 million principal): Repayment term 10 equal instalments from May 2008 to November 2012, establishment fee 1% Front-end plus 0.5% commitment fee on funds not drawn down, coupon LIBOR +3.75%.

Halyk Finance (Two tranches of Tenge 1,025 million-equivalent to US\$7.5 million each principal): Repayment term 5 years, establishment fee 1%, coupon 9%pa.

#### Future Production and Demand

During 2005, the shortage of cement production capacity in Kazakhstan was met by imports of 1.5 million tonnes from neighbouring countries. It is anticipated by the Company that demand will increase further in 2006 and beyond as the Kazakh GDP continues to grow in tandem with the increase in production of oil and other commodities. Kazakhstan's ability to import cement is limited by railway capacity and the Company believes that it is vital for the economy of the country that it increases its production capacity as quickly as possible. From 700,000 tons of cement in 2005 the Company expects to be able to produce 800,000 tons in 2006, 1.5 million tons in 2007, and 2.5 million tons in 2008.

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