

9 June 2023

Steppe Cement Ltd

CEO STATEMENT

Overall, the cement market in Kazakhstan remained stable in 2022 compared with the historical high achieved during 2021 and on a per capita level, the consumption for the 2022 year of 630 kg per capita is consistent with that which should be expected based on actual GDP and the anticipated GDP growth rate.

The Kazak cement market remained stable at 11.6 million tonnes, with sales volume by Steppe Cement decreasing by 1% year on year, due mostly to logistical problems in the railway system in the third and fourth quarters. The blend of this was that domestic sales increased by 4% and exports reduced to virtually zero.

Imports into Kazakhstan decreased by 25% to 0.6 million tonnes, being equivalent to 5% of the total market, with these coming mostly from Russia. Exports from local producers decreased again by 33% to 1.1 million tonnes, with these being mostly to Uzbekistan and Kyrgyzstan as new capacity has been commissioned in Uzbekistan. Exports remain concentrated to the Tashkent and Bishkek areas.

The market demand in 2023 has shown a decrease in the first quarter due to weather conditions, logistics and persistent high inflation and we expect the market to improve in the coming quarters. High interest rates will slow down the mortgage market but the economy remains strong driven by commodities.

During 2021 and 2022 the government implemented incentives which helped the construction industry, particularly the ability to withdraw part of the individual pension funds and use them for real estate acquisitions. The development of the main cities continues, and the rate of urbanization is estimated to grow from the current 59% to 69% in the next 25 years. The banks are actively promoting long term mortgages and the program has been very successful.

The political unrest at the beginning of 2022 as well as the conflict in Ukraine have brought higher inflation and more populist policies. After a phase of salary increases to compensate for inflation, the government seems to be committed to lowering inflation.

In 2022, Steppe Cement posted a net profit of USD17.9 million while EBITDA remained stable at USD31 million. Higher pricing compensated for the increase in costs and slightly lower volumes. Steppe Cement's average cement selling prices increased by 12% in KZT and 4% in USD, to USD52 per tonne delivered.

Steppe Cement operated both lines at 86% of their current combined capacity (which is 1.1 million tonnes for line 5 and 0.85 million tonnes for line 6).

Shareholders' funds remained stable at USD65.1million after the dividend distribution USD12.6 million to shareholders (5 UK pence per share).

Key financials	Year ended 31- Dec-22	Year ended 31- Dec-21	Inc/(Dec)%
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Sales (tonnes of cement)	1,670,174	1,688,544	(1%)
Consolidated turnover (KZT million)	40,023	36,020	11%
Consolidated turnover (USD million)	86.7	84.6	3%
Consolidated profit before tax (USD million)	21.7	21.4	1%
Consolidated profit after tax (USD million)	17.9	17.1	5%
Profit per share (US cents)	8.2	7.8	5%
Shareholders' funds (USD million)	65.1	65.6	(1%)
Average exchange rate (KZT/USD)	461	426	(8%)
Exchange rate as at year end (KZT/USD)	462	434	(6%)

Production and costs

Line 5 produced 60% 995,933 tonnes of cement while Line 6 produced 663,955 tonnes.

Line 5 performed at 90% capacity as it was limited by roller maintenance while Line 6 was limited by reliability. In 2023 we expect higher production from Line 6 and similar in Line 5.

Cost per tonne increased by 20% in KZT at slightly higher pace than inflation. The average cash production cost of clinker increased from USD20/tonne to USD23/tonne while cement cash cost increased from USD23/tonne to USD26/tonne in 2022. The cost of production increased by 20% in local currency in line with inflation of 18.8% year on year. The devaluation of the currency was limited to 8%.

Despite the increase of transportation costs, selling expenses, reflecting mostly cement delivery costs, were reduced to USD6.6/tonne as we focused in markets closer to the factory.

General and administrative expenses we reduced to USD6.4 million from USD6.7 million in 2021 due to cost control measures.

On 31 March 2023 the company had 799 employees a similar level to 2022.

In 2022, finance costs remained stable at USD 1 million. Without operating lease interest of USD0.2 million under IFRS 16, the finance cost was USD0.8 million, mostly interest on loans.

Other income of USD2.4 million reflects the write-back of receivables previously written down and the write-back of deferred income from the government subsidised loans.

The factory receives an allocation CO₂ emissions from the government and does not trade them as they are at a level similar to historical production. There is a very limited market for alternative fuels and the increase in additives in the cement is not yet accepted beyond certain levels.

Capital investment increased significantly in 2022 but it will be limited going forward

Capital investment was accelerated to USD10 million to complete the work started in 2021 and to compensate for the slow down in investment during 2019 and 2020 due to COVID19. Apart from the traditional maintenance capex and purchase of key spares for USD3 million per year, we managed to complete a significant number of projects in 2022:

- New FL Smith close circuit separator for cement mill number 1 with an investment of USD3.6 million. The mill capacity was increased by 30%, slag content can be increased to 25%, power consumption has been reduced and the quality and stability has improved
- A similar separator for cement mill number 2,. The project was started and USD1.5 million was spent in 2022. Commissioning will be done between the winter 2023 and spring 2024.

- Replacement of one reducer for one cement mill at a cost of USD 0.9 million
- Bucket crane revamping to support summer sales USD 0.3 million
- Online monitoring of main stack emissions to comply with ecological requirements USD0.15 million
- Coal dosing system to improve feeding reliability
- High tension drive motors to maintain key spares
- Additional gas analyzer for kiln system to maintain clinker stability

Those projects were financed by USD4.3 million in subsidized loans and USD 3.5 million from internal cash flow.

We have plans for a further USD4 million investment in 2023 and the first quarter of 2024 including:

- Complete the new separator for cement mill 2 for USD 2 million
- Preheater raiser duct extension by 24 meters to improve the preheater calcination in line 6
- Software upgrades to the ABB control system at a cost of USD0.7 million to allow further automatisations of the factory and prevent obsolescence
- Engineering of raw mill 3 separator conversion to dynamic separator to support the increase in production of line 6 by 10% when completed
- Upgrades to bag filters to improve maintenance and future environment requirements

The government has announced that the subsidized credit lines will be limited as the focus shifts to the control of inflation. We will try to complete the remaining capex planned with our cash flow to avoid borrowings at commercial KZT rates as much as possible.

Financial position: New debt will be limited as interest rates in Kazakhstan have increased to 20% per annum in 2023

During the year, our total loans outstanding were stable at USD6.7 million versus USD5.6 million in 2021. The loans had good subsidized rates in KZT but the renewal will be most likely made at near commercial rates and the company has an incentive to reduce the borrowing in 2023. The company ended the year with net debt of USD2.6 million, excluding IFRS 16 leases.

Long-term loans were increased from USD3.2million to USD5.4million while short term loans were reduced from USD 2.3 to USD 1.3million.

Despite the politically unstable environment in Kazakhstan at the beginning of the year, the unpredictable situation in the region and the surge in inflation, the KZT had only an 8% devaluation against the USD and an average exchange rate of 461 vs 426 in 2021.

We maintain short term credit lines available as stand by:

- KZT 1 billion short term in a government subsidized program in KZT at 6% per annum, but it will difficult to renew
- KZT 2 billion from Halyk Bank at 6% p.a. in USD or 20% in KZT.

Depreciation of property, plant and equipment decreased to USD6.1 million in 2022 due to devaluation

Steppe Cement's effective income tax rate was 20% consistent with last year.

Annual Report 2022 and Annual General Meeting

Steppe Cement will release its Annual Report 2022 on its web site at www.steppecement.com during the week commencing 20th June 2023. 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, 12th July 2023 at 4 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 680

STEPPE CEMENT LTD

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

**STATEMENTS OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Note	The Group		The Company	
		2022	2021	2022	2021
		USD	USD	USD	USD
Revenue	4	86,732,039	84,578,739	14,641,442	1,469,264
Cost of sales		<u>(49,107,243)</u>	<u>(44,834,182)</u>	-	-
Gross profit		37,624,796	39,744,557	14,641,442	1,469,264
Selling expenses		(10,997,920)	(12,264,221)	-	-
General and administrative expenses		(6,393,080)	(6,761,722)	(369,812)	(324,207)
Interest income		573,913	401,619	-	-
Finance costs	5	(1,048,888)	(1,090,949)	-	-
Net foreign exchange loss	6	(435,204)	(227,951)	(330,675)	(825)
Other income, net		<u>2,367,459</u>	<u>1,616,216</u>	-	112,940
Profit before income tax	7	21,691,076	21,417,549	13,940,955	1,257,172
Income tax expense	8	<u>(3,807,706)</u>	<u>(4,352,182)</u>	-	-
Profit for the year		<u>17,883,370</u>	<u>17,065,367</u>	<u>13,940,955</u>	<u>1,257,172</u>
Attributable to shareholders of the Company		<u>17,883,370</u>	<u>17,065,367</u>	<u>13,940,955</u>	<u>1,257,172</u>
Earnings per share:					
Basic and diluted (cents)	9	<u>8.2</u>	<u>7.8</u>		

STEPPE CEMENT LTD

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**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022**

	The Group		The Company	
	2022	2021	2022	2021
	USD	USD	USD	USD
Profit for the year	17,883,370	17,065,367	13,940,955	1,257,172
Other comprehensive (loss)/income:				
<i>Items that may not be reclassified subsequently to profit or loss:</i>				
Revaluation gain on property, plant and equipment, net of tax	-	-	-	-
Gain on recovery of impaired assets	-	15,373	-	-
Increase in provision for site restoration	-	(23,611)	-	-
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Exchange differences arising from translation of foreign operations	(5,829,119)	(1,923,738)	-	-
Total other comprehensive loss	(5,829,119)	(1,931,976)	-	-
Total comprehensive income for the year	12,054,251	15,133,391	13,940,955	1,257,172
Attributable to the shareholders of the Company	12,054,251	15,133,391	13,940,955	1,257,172

STEPPE CEMENT LTD

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

**STATEMENTS OF FINANCIAL POSITION
AS OF 31 DECEMBER 2022**

	Note	The Group		The Company	
		2022 USD	2021 USD	2022 USD	2021 USD
Assets					
Non-Current Assets					
Property, plant and equipment	10	49,361,749	48,437,801	-	-
Right-of-use assets	11	5,525	1,700,510	-	-
Investment in subsidiary companies	12	-	-	36,199,599	36,199,599
Loans to subsidiary company	27	-	-	30,050,000	30,080,000
Other assets	13	1,530,916	155,132	-	-
Total Non-Current Assets		<u>50,898,190</u>	<u>50,293,443</u>	<u>66,249,599</u>	<u>66,279,599</u>
Current Assets					
Inventories	14	20,646,156	16,023,541	-	-
Trade and other receivables	15	2,045,004	1,751,720	2,372,114	1,724,364
Other assets	13	1,081,719	2,258,501	-	-
Income tax recoverable		602,734	911,395	-	-
Loans and advances to subsidiary companies	27	-	-	60,352	49,536
Advances and prepaid expenses	16	8,577,714	5,233,894	7,305	4,971
Cash and cash equivalents	17	4,143,953	10,136,022	1,239,827	614,225
Total Current Assets		<u>37,097,280</u>	<u>36,315,073</u>	<u>3,679,598</u>	<u>2,393,096</u>
Total Assets		<u>87,995,470</u>	<u>86,608,516</u>	<u>69,929,197</u>	<u>68,672,695</u>

STEPPE CEMENT LTD

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

**STATEMENTS OF FINANCIAL POSITION
AS OF 31 DECEMBER 2022 (CONTINUED)**

	Note	The Group		The Company	
		2022 USD	2021 USD	2022 USD	2021 USD
Equity and Liabilities					
Capital and Reserves					
Share capital	18	73,760,924	73,760,924	73,760,924	73,760,924
Revaluation reserve	19	1,795,426	2,068,114	-	-
Translation reserve	19	(126,267,201)	(120,438,082)	-	-
Retained earnings/ (Accumulated losses)	19	115,791,111	110,190,323	(4,220,191)	(5,605,876)
Net Equity		<u>65,080,260</u>	<u>65,581,279</u>	<u>69,540,733</u>	<u>68,155,048</u>
Non-Current Liabilities					
Borrowings	20	3,913,689	1,941,383	-	-
Lease liabilities	21	-	8,571	-	-
Deferred taxes	22	3,266,775	4,318,652	-	-
Deferred income	23	2,572,552	1,588,098	-	-
Provision for site restoration		178,420	180,314	-	-
Total Non-Current Liabilities		<u>9,931,436</u>	<u>8,037,018</u>	<u>-</u>	<u>-</u>
Current Liabilities					
Trade and other payables	24	7,348,587	5,061,705	-	-
Accrued and other liabilities	25	2,250,689	1,552,778	143,808	227,897
Amount owing to a subsidiary company	27	-	-	244,656	289,750
Borrowings	20	2,814,525	3,614,801	-	-
Lease liabilities	21	58,960	2,017,879	-	-
Deferred income	23	140,259	103,720	-	-
Taxes payable	26	370,754	639,336	-	-
Total Current Liabilities		<u>12,983,774</u>	<u>12,990,219</u>	<u>388,464</u>	<u>517,647</u>
Total Liabilities		<u>22,915,210</u>	<u>21,027,237</u>	<u>388,464</u>	<u>517,647</u>
Total Equity and Liabilities		<u>87,995,470</u>	<u>86,608,516</u>	<u>69,929,197</u>	<u>68,672,695</u>

Company No. LL04433

STEPPE CEMENT LTD

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**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

The Group	Non-distributable			Di
	Share capital USD	Revaluation reserve USD	Translation reserve USD	
As of 1 January 2022	73,760,924	2,068,114	(120,438,082)	
Profit for the year	-	-	-	
Other comprehensive loss	-	-	(5,829,119)	
Total comprehensive income for the year	-	-	(5,829,119)	
Other transactions impacting equity:				
Dividends paid (Note 19)	-	-	-	
Transfer of revaluation reserve relating to property, plant and equipment through use	-	(272,688)	-	
As of 31 December 2022	<u>73,760,924</u>	<u>1,795,426</u>	<u>(126,267,201)</u>	

* Attributable to the shareholders of the Company

Company No. LL04433

STEPPE CEMENT LTD

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

The Group	Non-distributable			Di
	Share capital USD	Revaluation reserve USD	Translation reserve USD	
As of 1 January 2021	73,760,924	2,370,706	(118,514,344)	
Profit for the year	-	-	-	
Other comprehensive loss	-	(8,238)	(1,923,738)	
Total comprehensive income for the year	-	(8,238)	(1,923,738)	
Other transactions impacting equity:				
Dividends paid (Note 19)	-	-	-	
Transfer of revaluation reserve relating to property, plant and equipment through use	-	(294,354)	-	
As of 31 December 2021	<u>73,760,924</u>	<u>2,068,114</u>	<u>(120,438,082)</u>	

* Attributable to the shareholders of the Company

Company No. LL04433

STEPPE CEMENT LTD

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

The Company	Share Capital USD	(Accumulated losses)/ Distributable Retained earnings USD	Net USD
As of 1 January 2022	73,760,924	(5,605,876)	68,155,048
Total comprehensive income for the year	-	13,940,955	13,940,955
Dividends paid (Note 19)	-	(12,555,270)	(12,555,270)
	<u>73,760,924</u>	<u>(4,220,191)</u>	<u>69,540,733</u>
As of 31 December 2022	<u>73,760,924</u>	<u>(4,220,191)</u>	<u>69,540,733</u>
As of 1 January 2021	73,760,924	631,352	74,392,276
Total comprehensive income for the year	-	1,257,172	1,257,172
Dividends paid (Note 19)	-	(7,494,400)	(7,494,400)
	<u>73,760,924</u>	<u>(5,605,876)</u>	<u>68,155,048</u>
As of 31 December 2021	<u>73,760,924</u>	<u>(5,605,876)</u>	<u>68,155,048</u>

Company No. LL04433

STEPPE CEMENT LTD

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

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

The Group

The Company

	The Group		The Company	
	2022	2021	2022	2021
	USD	USD	USD	USD
CASH FLOWS FROM/ (USED IN) OPERATING ACTIVITIES				
Profit before income tax	21,691,076	21,417,549	13,940,955	1,257,172
Adjustments for:				
Depreciation of property, plant and equipment	6,135,236	7,039,116	-	-
Depreciation of right-of-use assets	1,587,293	1,716,748	-	-
Dividend income	-	-	(13,309,140)	-
Gain on disposal of property, plant and equipment	(27,725)	-	-	-
Interest income	(573,913)	(401,619)	(1,332,302)	(1,469,264)
Finance costs	1,048,888	1,090,949	-	-
Net unrealised foreign exchange loss	538,663	227,951	-	-
Provision for obsolete inventories	167,628	142,387	-	-
Credit loss allowance for doubtful receivables	174,650	594,901	-	-
Allowance for advances paid to third parties	157,723	11,676	-	-
Deferred income	(140,259)	(105,947)	-	-
Reversal of allowance for trade receivable no longer required	(172,464)	(769,654)	-	-
Operating cash flows before movements in working capital	30,586,796	30,964,057	(700,487)	(212,092)
Movement in working capital: (Increase)/Decrease in:				
Inventories	(8,501,824)	(6,054,197)	-	-
Trade and other receivables	(427,760)	302,194	(865,000)	(90,000)
Loans and advances to subsidiary companies	-	-	19,184	20,176
Advances, prepaid expenses and other assets	(5,608,461)	(2,820,912)	(2,334)	877

Company No. LL04433

STEPPE CEMENT LTD

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STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

	The Group		The Company	
	2022	2021	2022	2021
	USD	USD	USD	USD
Increase/(Decrease) in:				
Trade and other payables	2,097,417	659,458	-	-
Accrued and other liabilities	786,440	54,890	(84,089)	41,149
Cash Generated From/(Used In)	18,032,608	23,105,400	(1,632,726)	(730,800)

Operations	18,772,000	23,100,700	(1,002,720)	(23,000)
Income tax paid	(4,599,594)	(3,985,384)	-	-
Net Cash From/(Used In) Operating Activities	14,333,014	19,120,106	(1,632,726)	(239,890)
CASH FLOWS (USED IN)/ FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(7,768,695)	(6,215,744)	-	-
Contribution to site restoration fund	(334)	(18,414)	-	-
Proceeds from disposal of property, plant and equipment	85,599	118,234	-	-
Dividends received from subsidiary	-	-	13,309,140	6,610,895
Interest received	573,913	401,619	1,549,552	-
Net Cash (Used In)/From Investing Activities	(7,109,517)	(5,714,305)	14,858,692	6,610,895
CASH FLOWS FROM/ (USED IN) FINANCING ACTIVITIES				
(Repayment to)/Advance from a subsidiary company	-	-	(45,094)	289,750
Return of net investment from a subsidiary company	-	-	-	94,920
Proceeds from borrowings*	7,299,722	5,502,753	-	-
Repayment of borrowings*	(4,472,018)	(6,345,979)	-	-
Repayment of lease liabilities*	(1,838,949)	(1,805,362)	-	-
Dividends paid	(12,555,270)	(7,494,400)	(12,555,270)	(7,494,400)
Interest paid	(1,038,335)	(1,081,123)	-	-
Net Cash Used In Financing Activities	(12,604,850)	(11,224,111)	(12,600,364)	(7,109,730)

Company No. LL04433

STEPPE CEMENT LTD

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

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

	The Group		The Company	
	2022 USD	2021 USD	2022 USD	2021 USD
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(5,381,353)	2,181,690	625,602	(738,725)
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES	(610,716)	(259,348)	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,136,022	8,213,680	614,225	1,352,950

**CASH AND CASH
EQUIVALENTS AT
END OF YEAR (Note 17)**

4,143,953	10,136,022	1,239,827	614,225
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