



FOR IMMEDIATE RELEASE

30 April, 2009

## **KAZAKHSTAN KAGAZY PLC**

### **FINANCIAL RESULTS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2008**

**Almaty, Kazakhstan** – 30 April, 2009 – Kazakhstan Kagazy plc (the “Group” or “Kagazy”), Central Asia’s largest producer of paper, corrugated board and packaging, and a leading operator of commercial warehousing and industrial infrastructure facilities in Central Asia, today announced its consolidated financial results for the twelve months ended December 31, 2008.

#### **HIGHLIGHTS FOR THE FULL YEAR 2008**

- **Consolidated revenues up 4.2% year on year to US\$ 82.0 million**
- **Gross profit up by 16.2% year on year to US\$ 32.2 million with a gross profit margin of 39.3%**
- **EBITDA, Profit from operations and Net profit for the full year 2008 include a US\$ 47.5 million non-cash gain<sup>1</sup> from the acquisition of Astana Contract**
- **EBITDA<sup>2</sup> increased almost 1.7 times year on year to US\$ 44.5 million with an EBITDA margin of 54.3%**
- **Profit from operations more than tripled year on year to US\$ 36.9 million with an operating margin of 45.1%**
- **Net profit up 1.8 times year on year to US\$ 35.0 million with a net profit margin of 42.7%**
- **Total assets up 33.4% to US\$ 842.9 million as at 31 December, 2008, compared to US\$ 631.4 million as at 31 December, 2007**

Yuriy Bogday, Chief Executive Officer of Kazakhstan Kagazy plc, commented: “2008 has been an important year for Kazakhstan Kagazy. Our consolidated revenues increased by 4.2% year on year to US\$ 82.0 million. Pre-tax profit increased by 23.1% year on year to US\$ 16 million and earnings per share of US\$ 0.33. These results include a US\$ 47.5 million credit for negative goodwill arising from the acquisition of Astana Contract. Excluding this credit we would have reported a EBITDA loss of US\$ 3.0 million, which represents a creditable performance given the difficult trading conditions.

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<sup>1</sup> US\$ 47.5 million non-cash gain resulted from the negative goodwill following the acquisition of a 90% stake in Astana Contract in April 2008.

<sup>2</sup> EBITDA is defined as profit before interest, tax, amortisation and depreciation and other operating income and expenses as presented in the income statement.

In 2008 Kagazy maintained its leading position in corrugated packaging in Central Asia with a 25%<sup>3</sup> market share. Kagazy significantly increased its position in corrugated packaging and container board in Kazakhstan, to 56.5%<sup>4</sup> (including Kazupack) and to 73%<sup>5</sup>, respectively. In response to market conditions, we have suspended our expansion plans, closed our low margin fine paper cutting and packaging business and reduced paper trading activities.

In April 2008, we announced the acquisition of a 90% stake in Astana Contract and by year end we increased our holding to 100%. This has made a significant contribution to our logistics and warehousing business and to our cash flows. As a result, Kazakhstan Kagazy became the market leader in logistics infrastructure in Central Asia.

In October 2008, the European Bank for Reconstruction and Development (EBRD) issued a EUR 33 million loan to our paper subsidiary. Despite the difficult market conditions the tenure and interest rate charged remained unchanged from those agreed in May 2007.

In February 2009, the National Bank of the Republic of Kazakhstan allowed the tenge to devalue by 25%. Therefore, we anticipate that our consolidated 2009 US Dollar revenues will be lower than those 2008 as most sales are invoiced in local currency. However, we expect production volumes to increase in 2009, compared to 2008, due to the defensive nature of our local client base which is engaged largely in local production.

Furthermore, I am pleased to announce that we have renegotiated the Astana Contract purchase price down from US\$ 29 million to US\$ 13 million to be paid immediately with a US\$ 2 million payment being deferred for one year.

We continue to see tremendous potential both in our paper and industrial infrastructure businesses and expect the trading to pick up in the medium to long term. We plan to start construction of a logistics park in Astana city in 2009 and expect that this project will be completed in 2010. We do not anticipate having any other significant capital expenditure in the near future. We expect to see an improvement in economic conditions during 2010.”

## **FINANCIAL SUMMARY**

**A non-cash gain of US\$ 47.5 million arose from the acquisition of a 90% stake in Astana Contract by Kagazy in April 2008 for a total fair value consideration of US\$ 57.8 million. Astana Contract is the largest logistics and warehousing operator in Central Asia. Part of the payment for this acquisition was deferred by Kagazy. The fair value of Kagazy’s interest in the assets of Astana Contract totaled US\$ 92.6 million, whilst the fair value of the total consideration was US\$ 45.1 million.**

**EBITDA, Profit from operations and Net income were negatively impacted in 2008 by the non-recurring charge of EUR 2 million for the write-off of the advance payment to a contractor relating to the Class A warehousing project at Phase 2 of the Southern Plot which was terminated by Kagazy and an asset impairment charge of US\$ 8.9 million for projects terminated in paper and industrial property segments.**

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<sup>3</sup> Company estimate.

<sup>4</sup> Company estimate.

<sup>5</sup> Company estimate.

<i>(US\$ millions)</i>	<b>FY 2008</b>	FY 2007	Year on Year Change
Revenues	<b>82.0</b>	78.7	4.2%
Gross profit	<b>32.2</b>	27.7	16.2%
EBITDA	<b>44.5</b>	16.6	168.0%
EBIT	<b>36.9</b>	11.6	218.1%
Net Profit	<b>35.0</b>	12.5	180.0%

## **OPERATING REVIEW**

### **Group**

Kagazy's consolidated revenues increased by 4.2% year on year in 2008 to US\$ 82.0 million primarily as a result of the significant growth in PEAK's operations and the contribution from Astana Contract. The Group's paper business faced challenging macroeconomic conditions and the segment's revenues declined 9.7% year on year during the reporting period. PEAK, the commercial warehousing and industrial infrastructure business of Kagazy, generated US\$ 5.0 million of revenue in 2008, compared to US\$ 2.6 million for the corresponding period of 2007. Astana Contract contributed US\$ 8.3 million to the Group's revenues following its acquisition in April 2008.

The Group's gross profit increased by 16.2% year on year in 2008. The gross profit margin was up in 2008 to 39.3% from 35.2% in the previous year, mainly as a result of increased contribution from the industrial property segment and the integrated container terminal and warehouse segment.

Kagazy's EBITDA increased almost 1.7 times year on year in 2008 with an EBITDA margin of 54.3%, compared with 21.1% for the corresponded period of 2007. EBITDA, Operating profit and Net income for 2008 include a negative goodwill non-cash gain of US\$ 45.7 million which is related to the acquisition of Astana Contract. Astana Contract's facilities are managed by the logistics operator, CALM.

Excluding the negative goodwill credit arising from the acquisition of Astana Contract, Kagazy would have reported an EBITDA loss of US\$ 3.0 million, a loss from operations of US\$ 10.6 million and a net loss in the amount of US\$ 12.5 million.

Selling and administrative expenses increased to US\$ 31.3 million in 2008, compared to US\$ 16.1 million in the prior period. This increase includes a provision for irrecoverable VAT of US\$ 5.8 million and an increase in provision for bad debts of US\$ 3.35 million, increases in insurance costs and office rent account for a further US\$ 1.5 million. The cancellation of a contract for the construction of A Class warehouses at Phase II of the PEAK Logistics Centre accounts for an additional EUR 2 million of administrative expenses. The remaining increase primarily resulted from additional headcount following the acquisition of Astana Contract which has contributed US\$ 2.0 million.

Profit from operations more than doubled year on year from US\$ 11.6 million in 2007 to US\$ 36.9 million in 2008.

Net finance income, comprising interest income and foreign exchange gains after the deduction of interest expense and foreign exchange losses, amounted to US\$ 5.8 million in 2008, compared to US\$ 14.1 million in the corresponding period of 2007.

Finance costs increased to US\$ 26.7 million in 2008, compared to US\$ 12.7 million in 2007, mainly as a result of the higher average level of leverage in the group, interest charges and foreign exchange losses.

Net profit for the period increased to US\$ 35.0 million in 2008 from US\$ 12.5 million in 2007.

The Group's basic earnings per share<sup>6</sup> declined to US\$ 33 cents in 2008. The corresponding figure for 2007 was US\$ 46 cents. The weighed average number of ordinary shares in 2008 was 104,700,000.

The Group did not declare or pay dividends in respect of any of its issued share capital in 2008 or in 2007. Kagazy's current dividend policy is to use all profits for the development of the Group's business, rather than for the distribution of dividends.

## Paper

Kagazy is the largest producer of paper, corrugated board and packaging products in Central Asia.

<i>Production Volume</i>	<b>FY 2008</b>	<b>FY 2007</b>	<b>Year on Year Change</b>
Corrugated packaging ( <i>square metres</i> ) ('000)	70,881	75,047	(5.6%)
Container board ( <i>tonnes</i> )	47,025	57,596	(18.4%)
Cut fine paper ( <i>tonnes</i> )	-	1,104	-

The Group's paper and packaging segment revenue declined 9.7% year on year to US\$ 68.7 million. The segment accounted for 83.8% of the Group's revenues in 2008. The segment's results were impacted by the decrease in production volumes of its core products - corrugated packaging and container board which declined by 5.6% and 18.2% year on year, respectively. Furthermore, the Group suspended its production of low margin cut fine paper in 2008.

During 2008, Kagazy opened a waste recycling base, SibInvest, in Novosibirsk, Russia, for the collection of high quality waste paper in addition to twenty-one bases it already operates in Kazakhstan and one base in Kyrgyzstan. Novosibirsk is the largest city in Siberia which possesses well developed transportation links, including the Trans-Siberian Railway, making it cost effective to supply waste paper.

## Industrial property business

Kagazy's industrial property segment revenue amounted to US\$ 5 million in 2008. The segment revenue increased over 92.3% year on year following the launch of Phase 1 of the PEAK Logistics Centre of 35,000 square metres of Class B warehousing and office space. The logistics centre is used by clients that operate in the real sector of the economy such as producers of foods and beverages. During the year, the Group has completed, as planned, major engineering and utilities infrastructure works, including a railway connection and gas pipeline at 'Paragon Industrial Park' project located near PEAK Logistics Centre. However,

<sup>6</sup> Basic EPS is determined by dividing the net profit or loss for the period attributable for ordinary shareholders by the weighted average number of ordinary shares outstanding during the reporting period

Kagazy has put on hold its future development plans for the Industrial Park at the Northern Plot and also Phase 2 of the PEAK logistics centre.

## **FINANCIAL REVIEW**

Net cash outflow from operating activities totalled US\$ 18.8 million in 2008, compared to the cash outflow of US\$ 4.3 million for 2007, mainly due to changes in working capital.

Net cash used in investing activities totalled US\$ 78.5 million for the year compared to US\$ 92.3 million in 2007.

Net cash flows from financing activities amounted to US\$ 55.2 million, compared to US\$ 202.5 million in 2007. Major changes in financing activities during the year included: a US\$ 28.6 million local bond placement; US\$ 71.0 million of bank loans, including EUR 33 million (approximately US\$ 45.8 million) EBRD loan to paper business.

The Group's cash balances totalled US\$ 62.7 million as at December 31, 2008, as compared to US\$ 115.3 million a year ago. Total debt amounted to US\$ 269.1 million as at December 31, 2008, compared to US\$ 156.7 million in the previous period. Net debt amounted to US\$ 206.4 million in 2008, compared to US\$ 41.4 million as at December 31, 2007.

## **SIGNIFICANT EVENTS FOLLOWING THE END OF THE REPORTING PERIOD**

In April 2009, Kagazy has renegotiated a deferred consideration due to the vendors of Astana Group. As a result, Kagazy paid US\$ 13 million upon signing the agreement with a further US\$ 2 million due on April 2010. This transaction represents a reduction of US\$ 14.3 million in the outstanding deferred consideration.

In March 2009, Baglan Zhunus (formerly Baglan Zhunussov), one of the founding shareholders of Kagazy, acquired 5,100,000 Global Depositary Receipts of Kazakhstan Kagazy plc through a company, in which he is a beneficiary. Mr Zhunus total interest in the Group now amounts to 30,100,000 shares which is equivalent to 30,100,000 GDRs or 28.75% of Kagazy's ordinary share capital.

In January 2009, Kagazy placed US\$ 9.9 million of local bonds.

## **OTHER INFORMATION**

Kagazy management will host a conference call today at 9 AM (New York time) / 2 PM (London time) / 5 PM (Moscow Time)/ 7 PM (Almaty Time) to discuss its full year financial results.

The dial-in number for the conference call:

UK/International: + 44 20 7190 1595

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For further information, please visit [www.kazakhstankagazy.com](http://www.kazakhstankagazy.com) or contact:

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**Kazakhstan Kagazy plc runs Central Asia's largest producer of paper, corrugated board and packaging products. It also operates one of the leading developers of commercial warehousing and industrial infrastructure facilities in Kazakhstan through PEAK LLP, which owns approximately 711 hectares of prime land, strategically located in newly created industrial zones in Almaty. The Group's assets totalled approximately US\$ 842.9 million as at December 31, 2008 and consolidated revenues amounted to approximately US\$ 82.0 million for the twelve months of 2008. Kazakhstan Kagazy plc's securities are listed under the symbol "KAG" on the London Stock Exchange.**

*This statement contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of Kazakhstan Kagazy plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this statement should be construed as a profit forecast.*

**KAZAKHSTAN KAGAZY PLC**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT 31 DECEMBER 2008 AND 31 DECEMBER 2007**  
*(Amounts in thousands of U.S. dollars)*

	31 Dec 2008	31 Dec 2007
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	485,727	319,530
Investment property	115,213	36,246
Intangible assets	3,565	3,922
Prepayments	15,049	15,399
Other loans	3,614	-
VAT recoverable	18,178	16,328
Other non-current assets	1,652	133
	<u>642,998</u>	<u>391,558</u>
<b>Current assets</b>		
Inventories	89,128	71,624
Prepayments	32,483	31,472
Other current assets	1,720	598
Trade and other receivables	13,874	20,865
Cash and cash equivalents	62,736	115,305
	<u>199,941</u>	<u>239,864</u>
<b>Total assets</b>	<b><u>842,939</u></b>	<b><u>631,422</u></b>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Share capital	10,470	10,470
Share premium	244,340	244,340
Revaluation reserve	85,755	57,893
Other reserves	81,181	81,181
Translation reserve	5,275	8,118
Retained earnings	62,337	22,387
	<u>489,358</u>	<u>424,389</u>
<b>Non-current liabilities</b>		
Interest bearing loans and borrowings	234,527	146,970
Deferred tax liabilities	32,601	28,672
Deferred consideration	29,038	-
	<u>296,166</u>	<u>175,642</u>
<b>Current liabilities</b>		
Interest bearing loans and borrowings	34,589	9,689
Trade and other payables	20,338	20,639
Corporate income tax payable	512	61
Other tax liabilities	1,942	1,002
Other current liabilities	34	-
	<u>57,415</u>	<u>31,391</u>
<b>Total liabilities</b>	<b><u>353,581</u></b>	<b><u>207,033</u></b>
<b>Total equity and liabilities</b>	<b><u>842,939</u></b>	<b><u>631,422</u></b>

**KAZAKHSTAN KAGAZY PLC**  
**CONSOLIDATED INCOME STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007**  
*(Amounts in thousands of U.S. dollars)*

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	<b>2008</b>	<b>2007</b>
Revenue	82,029	78,702
Cost of sales	(49,812)	(51,013)
Gross profit	<b>32,217</b>	<b>27,689</b>
Selling expenses	(4,875)	(4,181)
Property, plant and equipment disposal losses	(826)	(148)
Asset impairment expense	(8,868)	-
Other administrative expenses	(26,379)	(11,837)
Total administrative expenses		



**KAZAKHSTAN KAGAZY PLC**

**CONSOLIDATED CASH FLOW STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007  
(Amounts in thousands of U.S. dollars)**

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**KAZAKHSTAN KAGAZY PLC**

**CONSOLIDATED CASH FLOW STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007 (CONTINUED)  
(Amounts in thousands of U.S. dollars)**

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## **Cash flows from financing activities**

Proceeds from issue of bonds

28,624

2,955

Settlement of bank loans

(44,348)

(120,507)

Payments under finance lease obligations

(78)

-

Receipt of bank loans

71,048

65,288

Proceeds from issue of shares

-

273,501

Payment of share issue costs

-

(18,691)

**Net cash inflow from financing activities**

**55,246**

**202,546**

**Net (decrease)/increase in cash and cash equivalents**

**(54,567)**

**99,518**

Effects of exchange rate changes on the balance of cash

**Basis of preparation**

The financial statements have been prepared in accordance with the International Financial Reporting Standards, International Accounting Standards and IFRIC interpretations (collectively “IFRSs”) issued by the International Accounting Standards Board (IASB) as adopted by the European Union (“adopted IFRSs”) and with those parts of Isle of Man law applicable to companies preparing their financial statements under IFRS. Accounting policies have been applied consistently for years 2007 and 2008.