

HOLCIM (LIBAN) S.A.L
BOARD OF DIRECTORS REPORT
FOR THE GENERAL ASSEMBLY OF JULY 3, 2018

Dear Shareholders

Market update

The political stability in 2017 allowed for some institutional order, security and slight economic recovery. The fragility and dependence of local stability and economic activity on the regional equilibrium were once again reflected in the political crisis of November. On the economic side many overdue steps have been taken but prospects remain low as the real GDP growth falls in the range of 2% for 2017.

Construction market showed some slowdown - number of new construction permits down by 9%, surface area down by 4% in 2017 and this trend seems to continue into 2018. More specifically, the housing sector which structurally stands for around 80% of the construction activity, is still in oversupply. Banque du Liban's subsidized housing loans scheme was currently stopped and should be replaced by a new scheme to support the sector.

The local cement market decreased slightly by -2% staying at a high level of 5.15 million tons in 2017 (2016: 5.26 million tons).

Holcim Liban sold 1.913 million tons of grey cement in 2017 which, compared to 2016, is a decrease of -4% (0.083 million tons).

The local market of white cement declined by -3.1 % compared to 2016, impacted mainly by white cement imports during the period of Q3 2016 until Q1 2017. Consequently, sales reached 55 499 tons against 57 259 tons in 2016.

Exports are limited to white cement

In order to concentrate on the supply of the local market and to maintain a certain stock level, the company decided not to export grey cement.

White cement exports have decreased by 6.5% compared to the previous year.

Northern Cyprus (Boğaz Endüstri ve Madencilik Ltd – (BEM))

Sale volumes in Cyprus are higher by 3.8% in comparison with 2016, market demand increased by 31% compared to the previous year.

Ready mix

The ready mix market is facing different challenges. Holcim Beton volumes and prices have decreased compared to 2016 suffering from fierce competition in a not regulated market.

Investments to improve productivity and environmental impact

- Rehabilitation works of silo No. 2 is in progress and expected to be finalized in 2018
- Hydraulic Turbine project in DJOZ aims to improve the efficiency of the electrical energy production and will be finalized in 2018
- Several safety initiatives were executed in 2017 such as the kiln foundation repair, circulation plan and the access control in white cement.

Occupational Health & Safety

Holcim Lebanon started the implementation of the “Health and safety management system” which was standardized and launched by the group.

The Visible Personal Commitment (VPC) practices were launched, Cross functional teams- operational and non-operational had to visit all the industrial and operational areas to interact with the operation staff.

During 2017, the health program was put in place, tackling several areas such as:

- Occupational Health Program: checkups started for all the operational team to be sure of the physical fitness of the staff versus the jobs they are performing
- Industrial Hygiene Measurement: in cooperation with Bureau Veritas, Holcim Liban performed the IH-study to check the impact of the working conditions especially what is related to Dusty or noisy environments
- Medical emergency Response: in cooperation with the Lebanese Red cross, Certification of 20 internal first aiders and heart savers was done

Moreover, in 2017 the “Contractors Safety Management” program was reviewed and updated. New Contractors prequalification process was approved through which the Contractors capabilities are being assessed before the final selection.

As part of LH group strategy, and as a part of the driver behavioral management, Holcim Lebanon launched “Drivers certification program” in cooperation with “Smith Systems” (leader in drivers behavioral safety management): 4 in-house trainers delivered the training to more than 100 drivers. In addition 4 driver safety evaluators were trained to support the continuity evolution for the drivers. The program is expected to continue in 2018.

Premises control project phase one was successfully finalized by having the SLCB access fully controlled. Project will continue in 2018 to secure the grey line access.

Design structure and construction quality program - what is called DSCQP - was launched in 2017. The program includes all the needed elements to ensure that all the structure (e.g. buildings, installations) undergoes three level of technical inspection depending on its criticality.

Sustainable Development 2017

Holcim Lebanon continues to monitor atmospheric emissions and maintains levels below the legal requirements. Average emissions of dust at stack in 2017 remains below our internal target of 20 mg/Nm³ (2017 average is 15 mg/Nm³ and legal limits are 150 mg/Nm³). We are on track to achieving the 2020 target for net specific CO₂ emissions with 709 Kg of CO₂ per ton of cement produced (Target is 700 Kg / ton).

In terms of biodiversity, field activities in the orchids protected site were launched following a four year management plan developed with a national expert. Fieldwork is accompanied by stakeholder awareness activities targeting academics, researchers and our employees. In addition more than 2'000 trees have been planted in our quarry sites in 2017.

The fifth cycle of the International LafargeHolcim Awards for Sustainable Construction was concluded in September 2017, in a prize-handover ceremony whereby two projects from Lebanon received prestigious prizes for architectural excellence in the region Africa Middle East. Holcim Lebanon is proud of the achievements of the Awards competition, which come as a result of our communication and promotional efforts and the partnerships we have built

with prestigious academic institutions. This success is an opportunity to hold high the Holcim brand in Lebanon and further develop our network with stakeholders.

Under Holcim Lebanon's commitment to social responsibility, we continue our support to the surrounding local communities of Chekka, Hery, Kfarhazir and Kefraya, within the focus areas of education, infrastructure and sustainable community development.

1 June 2018

**For the Board of Directors
Grant Earnshaw
Chairman**

Analyses

Volumes

Following the lower demand, especially for the local cement, the consolidated sales volumes decreased by 3.4% compared to 2016 reaching 2.241 Mt versus 2.339 Mt in the previous year.

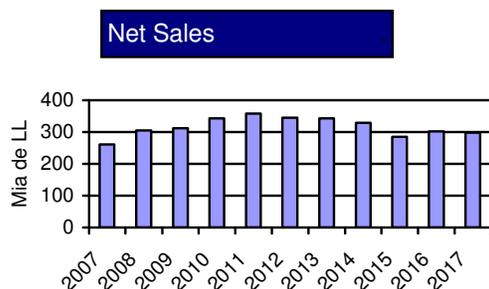
Local white cement dropped by 3.1% and export volumes by 6.5% in comparison to 2016.

BEM volumes increased by 3.8% compared to 2016 (0.248Mt vs 0.239Mt last year), market share decreased from 57% in 2016 to 45% in 2017.

In ready mix, lower volumes are due to the fierce competition in Beirut region, reaching 106 thousand cubic meters in 2017 (114 thousand cubic meters in 2016)

Consolidated Net sales

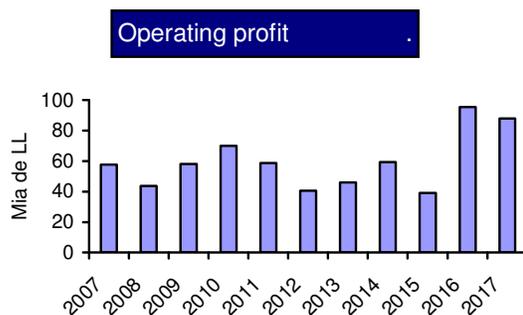
The consolidated net sales show a decrease of 1.2% (or 3.5 bn LL). They reached a level of 298.2 bn LL.



Consolidated operating profit

Impacted by lower sales revenue and higher costs, the operating profit decreased by 8% (7.55 bn LL) compared to 2016. The negative impact on the costs was due to higher variable cost driven especially by higher fuel and petcoke prices and the new cement tax on production.

The operating profit margin decreased to 29.5% compared to 31.65% in 2016.

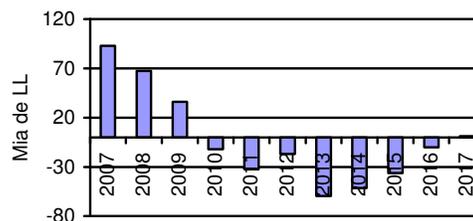


Financial expenses

The Net Financial expenses increased in 2017 mainly due to the interest paid on the usage of the company's credit limits

Net debt remains on a low level, despite the fact that the company is distributing all possible retained earnings to shareholders.

Net Debt



Taxes

During 2017, the Company's records were subject to review by the income tax department in respect of the fiscal years 2012 to 2014. The preliminary tax assessment amounted to LBP5billion, out of which an amount of LBP4.5billion was paid by the Company during February 2018 after reduction of tax penalties. A provision of LBP4.4billion was recorded as at December 31, 2017 to cover for such an exposure.

The Company's tax returns for the years 2015 to 2017 and VAT declarations for the years 2013 to 2017 remain subject to examination and final assessment by the tax authorities and any additional tax liability depends on the outcome of such a review.

Consolidated Cash-Flow

The operating cash flow for 2017 decreased by 29.83 bn LL compared to 2016 essentially because of: lower Ebitda, higher receivables and inventories and higher income tax paid.

Capital expenditure spending is slightly lower compared to 2016 (0.438 bn LL).

Due to the capital decrease payment in 2016 amounting to 95.86 bn LL, the cash flow from financing activities has increased by 48.04 bn LL in 2017

Total cash and cash equivalents increased by 5.74 bn LL.

Equity

The profit for the year of Holcim Liban decreased from 74.19 bn LL to 65.25 bn L. L. in 2017.

The company distributed dividends for the year 2016 amounting to 73.956 bn LL in 2017.

Consequently, the total equity of Holcim (Liban) decreased from 274.6 bn LL in 2016 to 265.4 bn LL in 2017.

Financial and legal activities

Dividend Distribution

The board proposes to reduce the legal reserve to the legal minimum of 1/3 of the capital by allocating an amount of 19.774 bn LL from legal reserve to retained earnings and subsequently to increase the dividend distribution by this amount.

The Board of Directors proposes to distribute the maximum possible out of the profits for the year 2017 as dividends.

Therefore, the Board proposes a gross dividend of 4 300 LL per share (net 3 870 LL per share), subsequently a total of 83.919 bn LL (Eighty three billions nine hundred nineteen millions Lebanese pounds) of which 19.77 bn LL were allocated from legal reserves to retained earnings .

Nominative shares

On November 3, 2016, law no. 75 was issued cancelling bearer shares in Lebanese companies and imposing their substitution with nominative shares.

In application to the abovementioned law, HCL took the following measures:

- 1- An Extraordinary General Assembly was concluded in which the by-laws were amended according to the law
- 2- Midclear was appointed to manage the exchange process and the shareholders register
- 3- Multiple publications were issued urging the shareholders to conduct the exchange of their shares and detailing the exchange process
- 4- A collaboration was undertaken with the Beirut Stock Exchange in order to ensure such process is done in compliance with the public trade course

As of June 1, 2018 97.2% of Holcim Liban shares have been exchanged to nominative shares. The deadline for a shareholder to exchange the shares ends on November 3, 2018. Such deadline was communicated in all publications.

Board of Directors

The mandate of Mr. Farouk Jabre and Mr. Dominique Drouet, as members of the Board, will expire at the General Assembly meeting that will look into the accounts of the year 2017.

Auditors

The Board of Directors proposes to nominate Deloitte & Touch as auditors for the accounts of the company for the year ending 31.12.2018.

Developments in 2017

Lower results in 2017 were due to lower volumes, higher variable production cost (impacted by higher thermal and electrical energy cost) and higher fixed cost (due to the tax on cement production). However, the negative impact was partially compensated by higher prices, better kiln performance and cost management.

The outlook for 2018 is challenging with higher energy prices, soft market demand and the full impact of the new production tax on cement. In this context, we are focusing our work on our costs and improving the efficiency of our operations.