

HOLCIM (LIBAN) S.A.L
BOARD OF DIRECTORS REPORT
FOR THE GENERAL ASSEMBLY OF DECEMBER 15, 2020

Dear Shareholders

Market update

Lebanon was in a state of “economic recession” in 2019 as GDP contracted by -5.5% and inflation reached 2.9% e-o-y. A political deadlock prolonged parliamentary negotiations which extended over 8 months, before the formation a new cabinet was announced on Jan. 31st 2019 (following the elections of May 2018). Nonetheless, progress on reforms for the pledged CEDRE funds was delayed. By October 17th 2019 civic protests erupted across Lebanon, catalyzing a full-fledged financial and economic crisis and hiking inflation. Informal capital controls were imposed for the first time in Lebanon in November 2019. The restrictions led to the emergence of a parallel market with the USD/LBP surpassing the 2,000 mark by YE 2019 while the official rate remained at 1,507.5.

The construction activity abruptly slowed with demand on new projects remaining subdued with total number of construction permits and construction area authorized slumping by 19.8% and 32.7%YOY respectively, to 11,074 permits covering 6.1Msqm in 2019.

Cement deliveries dropped by -33% in 2019 and total market reached 3.2mt coming from 4.8mt in 2018. Holcim Liban sold 1.2 million tons of grey cement in 2019 with a drop of -32% compared to 2018.

White cement

The local market of white cement declined by -15 % compared to 2018. Consequently, sales reached 45 354 tons against 53 364 tons in 2018.

White cement exports have dropped by 58% compared to the previous year.

Northern Cyprus (Boğaz Endüstri ve Madencilik Ltd - BEM)

Sale volumes in Cyprus are lower by -20.9% compared with 2018, leading to sales of 162'635 tons. Market demand decreased by -14.6% compared to the previous year.

Ready mix

RMX activity is still stopped, as by the decision taken in 2018.

Quarry challenge

Quarry operations were repetitively interrupted and for extended periods of time in 2019. In total, only 4 months of operations were allowed through three administrative delays extended by the authorities. The quarry licensing process in place duly followed by the Company has not reached any outcome and the status of the legal an administrative framework of the reviewed National Plan for Quarries and Crushers remains ambiguous.

Year 2019 witnessed a series of events and decisions that were the turning point for our quarry operations.

Shortly after the formation of the new Cabinet (January 2019), a nationwide closure of quarries and crushers was put into force based on a decision issued by the Ministry of Interior. The closure extended until end of March upon issuing an 'Administrative Delay' allowing quarries to operate for 90 days until the development of a Quarry Master Plan as stated by the Ministry of Environment (MoE). During this period, as no blasting was allowed, excavation was restricted to surface mining technique, which negatively affected extracted volumes as well as our cost.

Meanwhile, community mobilization against the cement industry escalated in parallel with media campaigns and pressure for clinker imports. As our lobbying efforts intensified, we engaged in technical meetings with the Ministries of Industry and Environment to ensure sustainable quarrying activity beyond the 90 days. Consequently, the government ordered the closure of all quarries for permitting reasons in September. At the same time, the Council of Ministers approved a National Master Plan for Quarrying and Crushing. The Plan required that a quarrying permit would be granted following the approval of a two-year mining and rehabilitation plan as requested by the MoE.

For four months, Holcim Lebanon was fully engaged with the designated team of experts who managed to present the Plan at the end of 2019. The plan included a detailed excavation plan over 2 years focusing on reducing the extraction footprint, moving away from residential areas and respecting local and international guidelines. Concurrently, a rehabilitation plan was developed focusing on landscape integration, rehabilitation of areas affected by quarrying and dedicating areas for preservation. A vision for rehabilitation and mining for 10 years is also included.

Ten months after the decision of closure, we have no visibility on the Government's stance on the matter despite the formation of a technical committee led by the Prime Minister during which Holcim showed full cooperation with all stakeholders.

Investments to improve productivity and environmental impact

Holcim Liban completed several project to maintain and secure safety of operations such as, the kiln shell replacement, the cyclone refurbishment and the firefighting system for the power plant.

In order to improve the electrical energy consumption, the Hot Gas Generator project was concluded in 2019.

Several maintenance and replacement projects were executed in 2019 such as the VSD drives for 427-FN2, IKN grate Cooler Overall, the false air project, Raw mill complete overall, replacement of PLC engine 6, Gas analyzer

Occupational Health & Safety

Holcim Liban proceeded with the implementation of the group wide “Health and safety management system” which was standardized and launched by the group. Accordingly and as part of LH group strategy, many projects sustained and several new projects were launched:

- The Road safety project in which Holcim (Liban) launched the Rewards and recognition policy, ensured physical fitness checkups for all drivers, put in place the journey management system and the preventive maintenance, approved site circulation plan and the queuing system to deal with driver waiting time .
An Average of 78.6 % Safe driven Km’s was recorded for the trucks by end of the year.
- The health program continued: Medical fitness certification for all operations staff and medical emergency drills done with Red Cross.
- The risk management approach and the stock piling are in progress.

One of the main achievements in 2019 was the Successful Safe Replacement of 26 meters of kiln shell. Process was fully managed by the local teams, it was considered as best practice by “LH-Cement Excellence team”.

In 2020, the key challenge is the Prevention of having Covid-19 into our premises; therefore, several key control measures are put in place such as:

- Activation of the stay at home policy.
- Minimum number of employees on site (BCP)
- Fever Measurement at the gates.
- 6 months stock of FFP2 masks & 2 months of sanitizers.
- Awareness package distributed to all employees.
- WhatsApp group including all Employees.
- Continuous & frequent messages from CEO informing on updates.
- Dedicated Local Intranet page updated on daily basis.

Sustainable Development 2019

In 2019, Holcim Lebanon collaborated with a consortium of experts to develop extraction and rehabilitation plans covering Holcim quarry sites. The team, composed of international multidisciplinary experts. The plan is composed of 13 projects addressing local communities and focusing on rehabilitation and preservation of surrounding ecosystems. Additionally, experts will monitor the implementation of the activities in line with international best practices and national regulations, and will regularly report progress to the relevant authorities.

Holcim Lebanon remains committed to continuous improvement of environmental performance, as depicted in the levels of atmospheric emissions achieved in 2019. Yearly average of dust emitted at the stack is 8.7 mg/Nm³, respecting the internal target of 20 mg/Nm³ and the legal limit of 150 mg/Nm³. Levels of NO_x and SO₂ have decreased 4% (1096 mg/Nm³) and 25% (143 mg/Nm³) respectively compared to 2018, and remain compliant with their respective limit values of 2500 mg/Nm³ and 850 mg/Nm³. Similarly, net

CO2 emissions per ton of cement was 627 kg / ton cementitious material, achieving a 15% decrease compared to the previous year.

On the other hand, the 6th cycle of the LafargeHolcim Awards for Sustainable Construction was launched in 2019. The competition proved its significant impact in boosting careers, realizing projects and opening networking opportunities. Regional winners for Africa Middle East will be announced in 2020 following the virtual jury meetings.

The 30th of April 2020

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

Analyses

Volumes

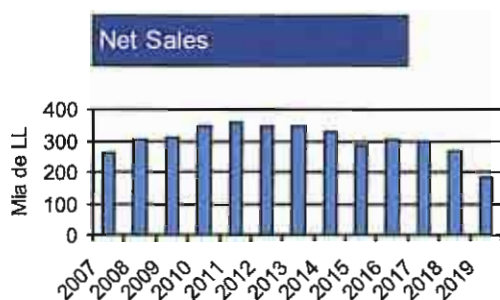
Following the lower demand, especially for the local cement, the consolidated sales volumes decreased by 30.9% compared to 2018 reaching 1.409 Mt versus 2.039 Mt in the previous year.

Local white cement sales dropped by -14.9% in 2019. Moreover, export volumes decreased by -58.4%, leading to a drop in the total white volumes by 30.7%.

Northern Cyprus Grinding volumes decreased by 20.9% compared to 2018 (0.163Mt vs 0.206Mt last year).

Consolidated Net sales

The consolidated net sales show a decrease of 32.4% reaching a level of 181.6 bn LL.



Consolidated operating profit

Impacted by lower sales revenue and higher costs, the operating profit decreased by 83.7% compared to 2018. The negative impact on the costs was due to higher variable cost driven especially by the usage of old stock semi-finished material.

Moreover due quarry stoppage and limited conditional operations, no blasting was allowed, excavation was restricted to surface mining technique, which negatively affected extracted volumes as well as our cost.

The operating profit margin decreased to 6.45% compared to 26.7% in 2018.

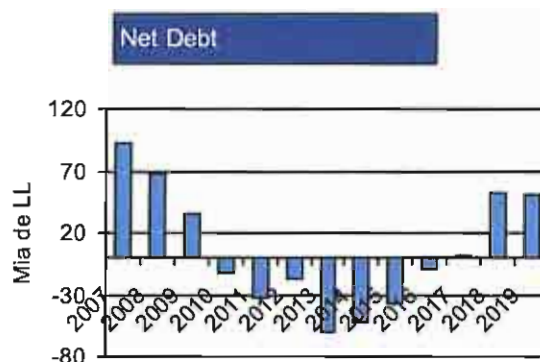


Financial expenses

Net debt slightly decreased in 2019 and reached a level of 50.36 bn L. L.

Following the financial needs and the usage of high credit facilities in 2018, the financial expenses have increased substantially by 39.7% in 2019 compared to the previous year.

The company has decided to replace the local banking facilities by a group loan as of March 2019.



Taxes

The Company's tax returns for the years 2015 to 2019 and VAT declarations for the years 2013 to 2019 remain subject to examination and final assessment by the tax authorities and any additional tax liability depends on the outcome of such a review.

The Company's records are still subject to examination by the National Social Security Fund for the years 2016 to 2019. The result of this examination cannot be determined at the present.

Consolidated Cash-Flow

Operating cash flow for 2019 stands at 34.496 bn LL, an increase of 20.586 bn LL compared to 2018. This is mainly because of a lower working capital – especially inventories.

Capital expenditure spending reached a level of 9.99 bn L.L. Which is higher compared to 2018 by 2.540 bn LL.

Due to lower dividend payments in 2019, cash flow from financing activities has increased by 28.2 bn LL.

Total cash and cash equivalents increased by 27.5 bn LL.

Equity

Holcim Liban recorded a loss of -1.288 bn L.L in 2019 against a profit of 41.26 bn LL in 2018.

The company distributed dividends for the year 2019 amounting to 7.611 bn LL in 2018.

Consequently, the total equity of Holcim (Liban) decreased from 223.03 bn LL in 2018 to 215.08 bn LL in 2019.

Financial and legal activities

Dividend Distribution

Due the current financing need, substantial business slow down and low visibility of the economy for the year,

The Board proposes to pay no dividends in 2020.

Therefore, the loss of -1,287 bn LL (One Billion two hundred eighty eight million) is added to the retained earnings amounting to 34.36bn LL at end of 2019.

Board of Directors

The Mandate of Le Patriarcat Maronite, Seament Holding SAL and Holcibel SA will expire at the GA that will look into the accounts of the year 2019.

The Board of Directors decides at unanimity to suggest renewing the mandate of Le Patriarcat Maronite, Seament Holding SAL and Holcibel SA for 3 years ending at the General Assembly meeting that will look into the accounts of the year 2022.

Auditors

The Board of Directors proposes to nominate Deloitte & Touch as auditors for the accounts of the company for the year ending 31.12.2020.

Outlook 2019-2020

Lower results in 2019 were due to lower volumes, higher production cost - impacted by higher operational charge using the old stocks of semi-finished Products and quarry stoppage. However, the negative impact was partially compensated by better price and cost management.

As for 2020, the economy is expected to contract sharply, with the consequence of Covid-19, currency instability, and restrictions to limit the access to dollars.

A worsening of the viral outbreak, possible further social unrest and uncertainty over the government's commitment to reform pose disadvantage risks to the outlook.

In this context, we are focusing our work on our costs and keeping the efficiency of our operations.