

Annual Report 2021

Holcim (Liban) S.A.L



A MEMBER OF
HOLCIM GROUP

HOLCIM (LIBAN) S.A.L

BOARD OF DIRECTORS REPORT

FOR THE GENERAL ASSEMBLY OF JULY 28, 2022

Dear Shareholders

Market update

During 2021, Lebanon was still suffering the consequence of the economic collapse, multiple crisis left unsolved including the massive explosion in Beirut port, a deteriorating currency, rising political instability, and covid19 global pandemic; all contributing to a negative GDP growth of -9.3%

The country was plunging into severe inflationary spirals since the onset of the economic crisis in Q4 2019, consequently inflation rate reached 154.8 % 2021.

The most persistent is the economic crisis that is becoming very severe on all economic sectors. Construction was heavily affected and led to a drastic decrease of activity, with a complete absence of infrastructure and residential projects in greater Beirut and Mount Lebanon, which have been for years the most important micro markets in cement sales.

BDL quarterly business survey shows that construction activity reached -67% in the second quarter of 2021, relative to -65% in the first quarter, and -81% in the second quarter of 2020. The second quarter of 2021 constituted the fourth lowest quarterly level since 2004.

The real estate market maintained itself in 2021 thanks to some transactions made in Lollars by checks (as a way to withdraw money from the banks), and by Lebanese foreigners who saw prices dropped in fresh USD.

The Lebanese cement market has been sustained in 2021 at the level of 1.95Mt, as cement plants obtained temporary quarry permits and product was available.

Being able to access its quarries, HCL was able to ensure the availability of the product and pushed to recuperate volumes, which increased from 0.496mt in 2020 to 0.602mt in 2021.

White cement

Local white cement sales increased by 35% in 2021 due to product availability.

Consequently, local sales reached 38 560 tons against 28 621tons in 2020.

No exports in 2021.

Northern Cyprus (Boğaz Endüstri ve Madencilik Ltd - BEM)

Compared to 2020, the cement market grew by 13.78% in 2021. BEM sales therefore increased by 40.52%, reaching 214 568 tons.

Ready mix

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

Investments to improve productivity and environmental impact

Along with the regular maintenance projects carried out in 2021, several major environmental projects were also completed, including the upgrade of the main process filter, the modification of de-dusting filters leading to the improvement of fugitive dust as well as key projects in SLCB such as the Continuous Emission Measurement, Carbon Oxyde analyzer and the dust compliance project.

Occupational Health & Safety

COVID 19

In 2021 and as the virus continued to mutate, it spread globally and nationwide leading to widespread infections.

Holcim Lebanon maintained the strict precautionary measures to prevent the spread of the virus within the company, thus safeguarding the health and safety of employees, contractors, clients and all stakeholders. In 2021, the launching of the vaccine was a key step in protecting people and strengthening their immunity against the virus.

The Business Resilience Team, which was activated at the onset of the pandemic monitored the situation and its impact on the business. The team kept a close follow-up on the guidelines issued by the national authorities and by Holcim Group. Measures undertaken covered the following:

- Close monitoring and reporting of encounters and infections.
- Continuous updates to internal protocols and procedures.
- Strict controls including temperature screening at access points, the mandatory use of masks in offices and vehicles with more than one occupant and giving priority to virtual meetings over physical ones.
- Communication and awareness packages to employees and frequent updates on the situation.
- Protection activities including in-house production of hand sanitizers and regular disinfection of working areas.

Health and safety

In line with the requirements of the Health and Safety Management System, Holcim Lebanon implemented the annual strategic Health, Safety and Environment Improvement Plan (HSE-IP), following the HSE management review with the Executive management and plant leadership.

Country objectives and projects, identified with the ExCo team covered the following:

- Fatality elimination control focusing on machine guarding and lighting.
- Critical control management covering critical controls of 8 unwanted events.
- Occupational health control to eliminate major sources of fugitive dust, lower exposure to dust and enhance the visual aspect of the sites.
- Effective implementation of the Rewards and Recognition, and Consequence Management program under the commitment to road safety.
- Containment and prevention of spillages into the environment.
- Assessment of stack emissions compliance status and development of solutions to ensure legal compliance.

In May 2021, Holcim Lebanon launched Boots on the Ground (BoG), a global program supported with a mobile application aiming to drive workforce engagement. Efficient implementation of the program is based on visible leadership and sharing quality time with workers in the field. A total of 7479 hours were spent in the field contributing to 789 VPC (Visible Personnel Commitment tours) done, hence achieving the Group targets of 1.25% for Time in the Field (2021 average is 1.33%) and 1 for VPC rate (2021 result is 1.2).

The Critical Control Management (CCM) was launched with the aim to ensure effective control on the most critical risks. The program addresses the following 8 Priority Unwanted Events (PUEs) which are the main causes for 85% of fatalities in the Group: contact moving machinery, mobile equipment incident, material engulfment, fall from height, structural collapse, coal mill explosion, liquid fuel fire and contact with hot meal. The program covered 56 critical controls and contributed to the implementation of 871 corrective actions.

Both the BoG and the CCM programs are integral elements of the Holcim HSE operating model and push for achieving excellence in health and safety.

Environment and Quarry status

Business interruptions

In 2021, our quarrying operations were temporarily resumed in Chekka for a total of four months; in March and the period between June and September, based on government decisions. In February 2022, a Ministerial Decision granted approval to cement plants to resume mining activities for a period of one year, based on comprehensive extraction and rehabilitation master plans covering exploited areas. Approval was granted for 1 month (April 2022) and an additional one month in May/June. Mining activities are allowed under specific restrictions in terms of locations, volumes and working conditions.

Ecological and Landscape Quarry Rehabilitation in Chekka and Green Screen around the quarry

In the meantime, the rehabilitation project in the exhausted quarry is ongoing in partnership with experts in the field of ecosystem management and restoration. The creation of a Green Screen is underway and will serve as a buffer zone between the quarry areas and the surroundings, as requested by the Ministries of Environment and Industry

Dust Emissions

Dust at stack was reduced by 60% following the upgrade of the main process filter.

	2021	2020
Fugitive dust (µg/m3)	36	37
Dust at stack (mg/Nm3)	12.6	30.6

Lebanese legal requirements for fugitive dust and dust at stack: 120 µg/m3 and 150 mg/Nm3 respectively.

The 7^h of July 2022

For the Board of Directors
Grant Earnshaw
Chairman

Analysis

Volumes

The cement sales volume in 2021 increased by 26% over the previous year, reaching 0.856 million tons:

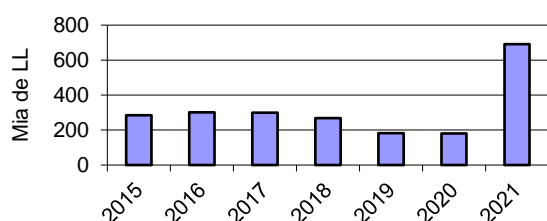
Local grey cement, white cement and Cyprus volumes have increased by 21%, 35% and 40% consecutively, following lack of quarry permit impacting mainly 2020 for grey cement sales volumes.

Consolidated Net sales

The consolidated net sales show an increase of 284% reaching a level of 691.8 bn LL: In addition to higher grey cement sales volume, the currency devaluation has inflated the price which was increased twice by the government in 2021 (averaging 722,000LBP/t in 2021 vs 184,000LBP/t in 2020).

Moreover, year 2021 witnessed a positive contribution from BEM's selling price which was increased by 13.5% in 2021 (averaging 68\$/t converted at average parallel market rate of 14 498.4LBP/USD at end of 2021).

Net Sales

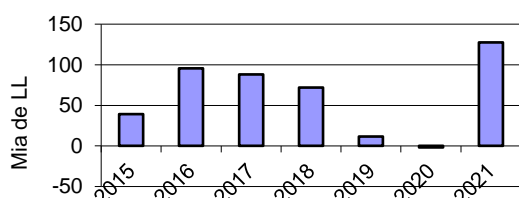


Consolidated operating profit

Consolidated Operating Profit increased by 101.4% in 2021 to LBP 127.591 Bio due to higher sales revenue, along with cost reduction efforts.

The operating profit margin increased to 18.4% compared to -1% in 2020.

Operating Profit

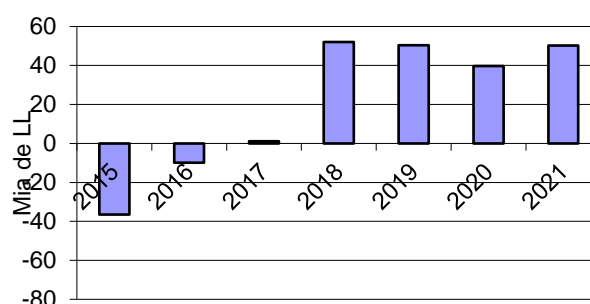


Financial expenses

Net debt increased in 2021 and reached a level of 50.2 bn L. L.

The financial expenses have increased substantially by 94% in 2021 compared to the previous year, knowing that the credit facilities in hard currency have correspondingly impacted the interest dues, which were converted to LBP at market exchange rate.

Net Debt



Taxes

The Company's tax returns and VAT declarations for the years 2016 to 2021 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 2021. The result of this examination cannot be determined at the present.

Consolidated Cash-Flow

Operating cash flow for 2021 stands at 21.328 bn LL, an increase of 11.163 bn LL compared to 2020. The higher op. cash flow is due to higher income but partially absorbed by higher inventories (in volume and LBP values), impacting the Net Working Capital changes.

Capital expenditure spending reached 32.190 bn LL in 2021, whereas no spending occurred in 2020.

Cash flow from financing activities has increased by 27.442 bn LL. due to capitalized interest on related party borrowing. The company did not pay any dividend in 2021. Total cash and cash equivalents increased by 51.047 bn LL.

Equity

Holcim Liban recorded a profit of 12.919bn L.L in 2021 and a loss of -7.573bn LL in 2020. Hence, the total equity of Holcim (Liban) increased from 209.3 bn LL in 2020 to 210.37 bn LL in 2021, after adding the re-measurements of post-employment benefit obligations.

**Financial and legal activities
Dividend Distribution**

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

The Board proposes to pay no dividends in 2022.

Therefore, the profit of in Holcim Liban of 12.919 bn LL (twelve billion nine hundred nineteen million) is added to the retained earnings amounting to 39.098bn LL at end of 2021.

Board of Directors

The Mandate of Mrs Raya Raphael and Mr Grant Earnshaw will expire at the GA that will look into 2021 accounts.

The Board of Directors decides at unanimity to suggest renewing the mandate of Mrs Raya Raphael and Mr Grant Earnshaw as members of the Board for 3 years at the next

General Assembly meeting.that will look into the accounts of the year 2024.

Auditors

The Board of Directors proposes to nominate Ernst & Young as auditors for the accounts of the company for the year ending 31.12.2022.

Outlook 2022

As of January 2022, the cement price was increased and linked it to a weekly review mechanism set by the Ministry of Industry.

As of February 2022, a ministerial decision granted approval to cement plants to resume mining activities for a period of one year. But the continuous domestic political tensions, economic difficulties and monetary instability, in addition to the Russia-Ukraine war that is heavily impacting the fuel and petcoke prices; is leading to constant margin for Holcim (Liban).

Amid the overall worldwide and country challenges, we are focusing our work on maintaining market share, improving our costs while keeping the efficiency of our operations and securing the cash needs to run our plant.

FINANCIAL STATEMENT

FOR THE YEAR END

31 DECEMBER 2021

Balance sheet
As at 31 December 2021

	2021 LL (000)	2020 LL (000)
ASSETS		
Non – current assets		
Property, plant and equipment	152,815,908	145,238,324
Investment properties	12,077,167	12,077,167
Intangible assets	16,265,291	17,293,147
Investments in subsidiaries	29,249,163	29,249,163
Trade and other receivables	5,179,585	6,705,047
	215,587,114	210,562,848
Current assets		
Inventories	144,651,340	50,623,946
Trade and other receivables	174,559,643	76,407,347
Cash and cash equivalents	66,984,975	66,750,556
	386,195,958	193,781,849
TOTAL ASSETS	601,783,072	404,344,697
EQUITY AND LIABILITIES		
Equity		
Share capital	97,580,200	97,580,200
Legal reserve	32,527,000	32,527,000
Other reserve	50,613,023	50,613,023
Re-measurement of defined benefit obligations	(9,448,613)	2,403,665
Retained earnings	39,098,962	26,179,520
Total equity	210,370,572	209,303,408
Liabilities		
Non – current liabilities		
Loan from a related party	198,010,538	136,101,631
Retirement benefit obligations	14,430,661	2,760,644
Notes payable	1,050,884	1,501,264
Provision for risks and charges	36,350,875	12,429,644
Deferred tax liabilities	2,679,160	4,798,506
	252,522,118	157,591,689
Current liabilities		
Trade and other payables	138,440,002	36,999,220
Notes payable	450,380	450,380
	138,890,382	37,449,600
Total liabilities	391,412,500	195,041,289
TOTAL EQUITY AND LIABILITIES	601,783,072	404,344,697

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2021

	2021 LL (000)	2020 LL (000)
Revenue	435,298,142	98,117,689
Cost of sales	(263,680,702)	(75,901,726)
GROSS PROFIT	171,617,440	22,215,963
Distribution costs	(42,982,433)	(13,608,982)
Administrative expenses	(34,893,700)	(12,344,572)
Dividend income	16,432,500	42,101,764
Other expenses - Net	(27,319,482)	(13,077,534)
Operating profit	82,854,325	25,286,639
Finance costs - Net	(65,480,229)	(32,859,743)
Profit before income tax	17,374,096	(7,573,104)
Income tax expenses	(6,574,000)	-
Deferred tax asset	2,119,346	-
PROFIT FOR THE YEAR	12,919,442	(7,573,104)
Other comprehensive income (items that will not be reclassified to profit or loss)		
Re measurements of post-employment benefit obligations	(11,852,278)	1,797,756
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,067,164	(5,775,348)
Earnings per share from profit attributable to the equity holders of the company during the year (expressed in LL per share)	662	(388)

	<i>Share capital</i>	<i>Legal reserve</i>	<i>Other reserve</i>	<i>Re- measurement Of Defined Benefit Obligations</i>	<i>Retained earnings</i>	<i>Total</i>
	LL (000)	LL (000)	LL (000)	LL (000)	LL (000)	LL (000)
Balance at 1 January 2020	97,580,200	32,527,000	50,613,023	605,909	33,752,624	215,078,756
Total comprehensive loss				1,797,756	(7,573,104)	(5,775,348)
Dividends paid	-	-	-			
Balance as at 31 December 2020	97,580,200	32,527,000	50,613,023	2,403,665	26,179,520	209,303,408
Total comprehensive income of the year	-	-	-	(11,852,278)	12,919,442	1,067,164
Balance as at 31 December 2021	97,580,200	32,527,000	50,613,023	(9,448,613)	39,098,962	210,370,572

STATEMENT OF CASH FLOWS
For the year ended 31 December 2021

	2021 LL (000)	2020 LL (000)
OPERATING ACTIVITIES		
Profit for the year	12,919,442	(7,573,104)
Adjustment for:		
Depreciation and amortization	16,017,076	16,771,999
Dividend income	(16,432,500)	(42,101,764)
Net movement in provision for employees' end of service benefits	(182,261)	(482,729)
Provision (write back of provision) for doubtful debts	301,500	428,915
Provision for risks and charges - Net	24,724,797	8,286,330
Provision for slow moving and obsolete inventory, net	322,382	1,088,182
Inventories	(94,349,776)	(2,861,408)
Accounts receivable and prepayments and other financial assets	(63,808,649)	24,750,520
Accounts payable and accruals	68,001,550	(7,529,171)
Provision for income tax expenses	6,574,000	-
Net cash from operating activities	(45,912,439)	(9,222,230)
	-	-
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(22,566,804)	(65,909)
Proceeds from sale of investment properties	-	-
Dividends and interest received	6,804,665	9,235,890
Net cash used in investing activities	(15,762,139)	9,169,981
	-	-
FINANCE ACTIVITIES		
Increase in Bank Overdrafts	-	(6,507,728)
Increase in loans from related parties	61,908,907	44,973,913
Net cash used in financing activities	61,908,907	38,466,185
	-	-
NET INCREASE/ DECREASE IN CASH AND CASH EQUIVALENTS	234,419	38,413,936
Cash and cash equivalents at 1 January	66,750,556	28,336,620
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	66,984,975	66,750,556
	-	-

CONSOLIDATED FINANCIAL STATEMENT FOR THE YEAR END 31 DECEMBER 2021

	2021 LL'000	2020 LL'000
Assets		
Non-current assets		
Property, plant and equipment	181,056,007	165,641,521
Investment properties	12,077,167	12,077,167
Intangible assets	34,880,523	35,908,379
Other Financial assets	1,280,389	4,016,024
Total non-current assets	229,294,086	217,643,091
Current assets		
Inventories	176,452,958	62,286,241
Accounts receivable and prepayments	166,377,559	67,088,006
Bank Balances and cash	137,232,464	86,185,399
Total current assets	480,062,981	215,559,646
TOTAL ASSETS	709,357,067	433,202,737
EQUITY AND LIABILITIES		
Equity		
Issued capital	97,580,200	97,580,200
Statutory reserve	36,877,015	36,877,015
Revaluation reserve	56,085,156	56,085,156
Retained earnings	83,245,559	43,593,648
Non-controlling interests	14,247,754	10,237,651
Total equity	288,035,684	244,373,670
Non-current liabilities		
Loans from related parties	185,950,538	124,041,631
Employees' end of service benefits	16,268,040	3,441,944
Notes Payable	1,050,884	1,501,264
Provision for risks and charges	25,834,603	(2,358,090)
Deferred tax	3,124,792	5,244,138
Total non-current liabilities	232,228,857	131,870,887
Current liabilities		
Accounts payable and accruals	166,628,086	52,970,578
Income Tax payable	22,014,060	3,537,222
Notes payable	450,380	450,380
Total current liabilities	189,092,526	56,958,180
Total liabilities	421,321,383	188,829,067
TOTAL EQUITY AND LIABILITIES	709,357,067	433,202,737

CONSOLIDATED STATEMENT OF FINANCIAL POSITION **For the year ended 31 December 2021**

	2021 LL'000	2020 LL'000
Revenue		
Net sales	691,843,021	179,944,911
Production cost of goods sold	(437,821,147)	(136,328,154)
GROSS PROFIT	254,021,874	43,616,757
Distribution and selling expenses	(54,766,278)	(18,305,551)
Administration expenses	(46,939,347)	(23,217,074)
Provision for risks and charges	(24,724,799)	(3,960,780)
Other income, expenses	(1,566,982)	(2,951,343)
Financial cost-Net	(66,789,356)	(33,743,880)
PROFIT BEFORE INCOME TAX	59,235,112	(38,561,871)
Income tax expense	(17,319,428)	(3,248,680)
PROFIT FOR THE YEAR	41,915,684	(41,810,551)
Other comprehensive income	(2,263,967)	(2,460,987)
TOTAL COPMREHENSIVE INCOME FOR THE YEAR	39,651,717	(44,271,538)
Attributable to:		
Equity holders of the parent	37,905,580	(42,463,828)
Minority interest	4,010,104	653,277
	41,915,684	(41,810,551)
Earnings per share	2,125	(2,120)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2021

	2021 LL'000	2020 LL'000
OPERATING ACTIVITIES		
Profit (loss) before tax	41,915,684	(38,561,871)
Adjustments for:		
Depreciation and amortization	17,803,901	17,804,467
Provision income tax expense	9,004,000	400,000
Net movement in employees' end of service benefits	227,818	394,158
Provision for risks and charges	24,724,799	3,531,863
Provision for doubtful debts	301,500	3,252,243
Provision for slow moving and obsolete inventory net	831,558	1,388,161
Working capital changes :		
Inventories	(109,100,891)	(8,119,562)
Accounts receivable and prepayments	(51,153,069)	31,994,297
Accounts payable and accruals	91,387,110	2,267,004
Cash Generated from operations	25,942,410	14,350,760
Income tax paid	(4,613,720)	(4,185,013)
Net cash from operating activities	21,328,690	10,165,747
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(32,190,531)	(65,909)
Net cash used in investing activities	(32,190,531)	(65,909)
FINANCING ACTIVITIES		
Borrowings/ Repayment of borrowings	-	(6,507,728)
Proceeds from related party borrowings	61,908,907	44,973,914
Net cash from financing activities	61,908,907	38,466,186
INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	51,047,065	48,566,025
Cash and cash equivalents at 1 January	86,185,399	37,619,375
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	137,232,464	86,185,400

	Share Capital LL'000	Legal Reserve LL'000	Other reserve LL'000	Retained earnings LL'000	Total LL'000	Non- controlling Interests LL'000	Total Equity LL'000
Balance as at 01 January 2020	97,580,200	36,877,015	56,085,156	45,763,616	236,305,987	9,584,373	245,890,360
Profit / Loss for the year	-	-	-	(41,810,551)	(41,810,551)	653,277	(41,157,274)
Other comprehensive income for the year	-	-	-	(2,460,987)	(2,460,987)	-	(2,460,987)
Dividends declared	-	-	-	42,101,764	42,101,764	-	42,101,764
Balance as at 31 December 2020	97,580,200	36,877,015	56,085,156	43,593,842	234,136,213	10,237,650	244,373,863
Profit/ Loss for the year	-	-	-	41,915,684	41,915,684	4,010,104	45,925,788
Other comprehensive income for the year	-	-	-	(2,263,967)	(2,263,967)	-	(2,263,967)
Balance as at 31 December 2021	97,580,200	36,877,015	56,085,156	83,245,559	273,787,930	14,247,754	288,035,684



Holcim (Liban) s.a.l.
P.O. Box: 11 – 396
Beirut, Lebanon
Tel: +961 6 546000 / 100
www.holcim.com.lb