LAFARGE CEMENT ZIMBABWE LIMITED
UNAUDITED FINANCIAL RESULTS
For the half year ended 30 June 2019

INTRODUCTION

On behalf of the Board of Directors, I hereby present the abridged, unaudited financial results for the half year ended 30 June 2019.

OPERATING ENVIRONMENT
The first half of 2019 was characterised by a number of significant macro-economic changes that redefined the operating environment for the business. These included the introduction of the local currency (denoted ZWL) as the sole functional currency in place of the multi-currency regime that had subsisted prior to June. The United States Dollar had been the functional and reporting currency for Zimbabwe since 2009. This change in currency affected the cement retail channel, in particular the smaller retailers. Retail volumes only began to recover when the exchange rate moved up, facilitating a more profitable disposal of the stocks they were holding.

The liberalisation of the foreign exchange markets, through the introduction of the interbank market, has provided a viable means for payments to foreign suppliers. However, there is still a significant backlog of foreign payments that are due. The current mechanism is yet to yield adequate forex for the company's requirements as the foreign currency availability through formal channels remains grim. This has resulted in key plant maintenance and capex projects being delayed.

Meanwhile, the rapid escalation of the exchange rate has significantly impacted business performance in terms of cost structure and revenue. The inter-bank market opened at ZWL2.5:USD1 and closed June at ZWL6.6:USD1, representing a 164% change in four months. This trend has reflected on the inflation rate with the year on year inflation rate closing at 175.7% in June, up from 42.1% at the beginning of the year. This has resulted in increased operating costs resulting from US dollar bench-marked pricing,while customer buying power has significantly been subdued as incomes and salaries have been adjusted below inflation rate. The low disposable incomes impact the individual home builder (IHB) customer segment, which has been the largest performance driver for the business and, as a result, volumes for the first six months landed 3.4% below prior year.

According to the Reserve Bank of Zimbabwe and Zimstats, Zimbabwe's economy is projected to contract by 3.2% in 2019. This is due to the aftermath of the El Nino induced drought which resulted in lower agricultural production from the late rainfall. Furthermore, the first half of the year was marred by the devastating effects of the Cyclone Idai which left an unimaginable trail of destruction in the eastern part of the country. Output from crops such as maize and tobacco is expected to decline by 10.19% and 26.6% respectively. The contraction of the economy has consequently affected cement sales and the construction sector is estimated to have declined by 15% according to ZIMSTATS. This contraction is evident in the slow down in sales volumes compared to last year.

Unreliability of electrical power significantly compromised industrial performance as a result of increased downtime due to over and under voltages experienced. This resulted in refractory failure and a decline in the kiln's operating efficiency. The shortage of fuel also affected production as diesel to fire the kiln as well as to run various mobile equipment, was not readily available, thereby resulting in lost productive time. The business has had to invest in alternative power supply, including a power generating unit to ensure that the kiln is protected from power outtages .Solar energy has also been rolled out in some sections of the business unit to reduce dependency on the national grid and ensure business continuity given the extensive power cuts that the country is experiencing.

The increase in lending rates to 50% and an upward review in minimum lending rates , the tight liquidity across the market has affected contractors who are facing funding challenges. This has resulted in a slow down in projects.

CORPORATE SOCIAL RESPONSIBILITY
In response to the devastation left behind by Cyclone Idai in March this year, Lafarge went beyond rendering relief assistance to the victims and rolled out a livelihoods recovery programme to affected communities through a masons training for young people. 110 young men and women were empowered with basic brick laying and plastering skills. These skills are critical in efforts to rebuild the affected communities. The company is now working with other partners in reconstruction projects targeting the affected communities.

HEALTH AND SAFETY
Lafarge continues to drive health and safety thought leadership as it is a core value and an integral part of the organisational culture. During the period under review the Lafarge Health and Safety Academy was launched. This is a safety training school that offers practical simulation environments for most safety hazards found in industry today. The first of its kind in Zimbabwe, this safety school will train employees from other organisations on world class health and safety standards. Lafarge also successfully underwent recertification for ISO 140001:2015 (Environmental Management Systems) and OHSAS 18001:2007 (Occupational Health and Safety Assessment Series) through the Standards Association of Zimbabwe.

FINANCIAL PERFORMANCE
Following the change in currency, the business is reporting its financial performance in ZWL and in line with S.I. 33/2019, the prior period comparative numbers have been converted from USD to ZWL at a rate of 1:1.The business managed to achieve relatively good volumes in the first half of the year despite all the uncertainties and prevailing macroeconomic challenges. Cement sales volumes of 162,000 tons were achieved, which were 3.4% below prior year compared to overall 18% drop in the cement market. Revenue of ZWL 87m was achieved compared to ZWL 33m achieved in the first half of 2018.

Whilst a gross profit of ZWL 36.5m was achieved, which represents 42% of sales against the prior comparative period's 33%, the business was hampered by an increase in operating costs resulting in a modest profit of ZWL 2.9m being recorded compared to a loss of ZWL 1.8m in the prior year. The business incurs a significant quantum of foreign denominated expenses and these have increased significantly following the liberalisation of the exchange rate. Adjustments made to employment costs also affected administration expenses. Financing costs of ZWL 3.9m were incurred and the increase was driven by interest on the intercompany loan of ZWL 2.7m and financial transaction costs of ZWL 0.9m relating to the 2% intermediated money transfer tax (IMTT) which was not there in the prior comparable period.

Property,plant and equipment was revalued at a rate of ZWL 2.5 to the USD on the date of change in functional currency and is therefore grossly undervalued, as the closing rate at June 2019 was ZWL 6.6 per USD. The directors have maintained the conservative asset valuations for the half year reporting and expect to engage a professional valuer to revalue specialised property, plant and equipment before the end of the year.

BORROWINGS
The company has a USD denominated intercompany borrowing which had a balance of USD 28.5m as at 30 June 2019. The loan is repayable at the option of the borrower within the remaining four years of its tenure.The company applied for this loan to be included in the blocked funds/legacy debt by the Reserve Bank of Zimbabwe and is awaiting for the approval to enable it to cash cover the loan. Of the cash and cash equivalents held, ZWL 28.5m has been lodged with our bankers to cash cover the legacy loan. The Reserve Bank of Zimbabwe approval will enable the company to lock the debt repayment rate at 1:1. For the purposes of half year reporting, the company has assumed that the legacy loan will be repaid at 1:1 and has not taken the forex impact into consideration. The treatment of this transaction has a material impact on the financials of the business and therefore management is actively working to conclude the legacy debt registration with the Reserve Bank of Zimbabwe.

CAPITAL EXPENDITURE
The business has invested ZWL 2.7m in new plant and machinery upgrades, compared to ZWL 1.6m in the prior comparable period. The business is working on a project to upgrade its cement milling and Dry Mortar Mix (DMX) manufacturing platforms. This will significantly improve production capacity and efficiency, particularly for high strength cement. Both projects are scheduled to kick off in in the third quarter and will be completed over the next twenty-four months. The cement manufacturing expansion project has been awarded National Project status and the business is working closely with the Reserve Bank of Zimbabwe to secure adequate forex for the procurement of the imported components of the project.

OUTLOOK
Although full year volumes are expected to remain behind prior year due to the liquidity challenges prevailing in the market, demand for cement should remain stable for the rest of the year. Following the currency reforms, the exchange rate has been depreciating steadily and this negatively impacts the operating costs of the business as significant components of the plant spares and raw materials such as packaging are imported. The deteriorating exchange rate will result in increased costs for the business. The business is working on installing independent power generating capacity to augment ZESA supplies. The business will continue to focus on improving plant reliability and has scheduled major shutdowns in order to fully renew its plants and ensure that cement demand can be adequately serviced.

BOARD AND MANAGEMENT
Fungai Kovhiwa joined the business on the 15th of August 2019 as the company's Chief Finance Officer and as an Executive Director of the Board. On behalf of the Board, Management and Staff at Lafarge Cement Zimbabwe, I warmly welcome Fungai and wish him success during his tenure. I would also like to take this opportunity to thank Michel Nayah, the outgoing Interim Chief Finance Officer, for his wise counsel and guidance to the business over the past year. Michel returns to France following his stint as Interim CFO for Lafarge Cement Zimbabwe. I wish him all the best in his future endeavours.

DIVIDEND
No interim dividend has been declared as the business continues to preserve funding for working capital.

APPRECIATION
I would like to extend my sincere appreciation to our customers, suppliers and other stakeholders for their continued support and look forward to a successful completion of 2019.

K. C. Katsande
Chairman
24 September 2019

Abridged statement of profit or loss and other comprehensive income
for the 6 month period ended 30 June 2019

	Unaudited June 2019 ZWL	Unaudited June 2018 ZWL
Revenue	87 458 838	32 544 432
Operating profit before other income, finance costs and tax	**13 293 186**	**914 453**
Other income	464 486	202 041
Profit before finance costs and tax	**13 757 672**	**1 116 494**
Finance costs	(3 861 909)	(172 562)
Profit before tax	**9 895 763**	**943 932**
Income tax	(6 986 398)	(2 718 325)
Profit / (loss) for the year	**2 909 365**	**(1 774 393)**
Other comprehensive income, net of tax	**-**	**-**
Total comprehensive income / (loss) for the period	**2 909 365**	**(1 774 393)**
Earnings per share		
Number of shares in issue	80 000 000	80 000 000
Basic / Diluted earnings / (loss) per share based on 80,000,000 shares in issue ($ per share)	0.036	(0.022)

Abridged Statement of Financial Position
as at 30 June 2019

	Unaudited June 2019 ZWL	Audited December 2018 ZWL
ASSETS		
Non-current assets		
Property, plant and equipment, intangibles and other non-current receivables	**107 919 075**	**40 061 008**
Current assets		
Current assets other than cash and cash equivalents	72 478 715	36 860 784
Cash and cash equivalents	45 513 121	14 090 648
Assets held for sale	1 486 321	189 000
Total current assets	**119 478 157**	**51 140 432**
Total assets	**227 397 232**	**91 201 440**
EQUITY AND LIABILTIES		
Capital and reserves		
Issued capital	800 000	800 000
Revaluation reserve	12 508 225	12 508 225
Translation reserve	53 637 723	-
Retained earnings	28 878 073	25 968 708
Total equity	**95 824 021**	**39 276 933**
Non-current liabilities		
Long term borrowings	28 479 648	24 000 000
Lease liability	858 169	-
Deferred tax	9 239 835	2 839 835
Provision for quarry rehabilitation	2 786 972	1 303 998
Total non-current liabilities	**41 364 623**	**28 143 833**
Current liabilities		
Trade and other payables	47 653 474	16 541 883
Related party payables	38 061 763	6 438 137
Bank overdraft	-	348
Borrowings	2 027 909	800 306
Current tax payable	2 465 443	-
Provisions	2 218 288	1 112 285
Total current liabilities	**90 208 588**	**23 780 674**
Total equity and liabilities	**227 397 232**	**91 201 440**

Abridged statement of changes in equity
for the 6 month period ended 30 June 2019

	Issued capital ZWL	Revaluation reserve ZWL	Translation Reserve ZWL	Retained earnings ZWL	Total ZWL
Balance at 31 December 2017	800 000	12 508 225	-	24 638 486	37 946 711
Total comprehensive income for the year	-	-	-	1 330 222	1 330 222
Balance at 31 December 2018	**800 000**	**12 508 225**	**-**	**25 968 708**	**39 276 933**
Total comprehensive income for the period	-	-	-	2 909 365	2 909 365
Translation reserve	-	-	53 637 723	-	53 637 723
Balance at 30 June 2019	**800 000**	**12 508 225**	**53 637 723**	**28 878 073**	**95 824 021**

Abridged statement of cash flows
for the 6 month period ended 30 June 2019

	Unaudited June 2019 $	Unaudited June 2018 $
Profit / (loss) for the period	**2 909 365**	**(1 774 393)**
Net cash generated from operations before working capital changes	**7 099 091**	**3 106 316**
Cash generated from operations	**42 840 255**	**8 833 723**
Net cash generated from operating activities	**33 567 106**	**4 922 745**
Net cash used in investing activities	**(7 851 535)**	**(175 002)**
Net cash generated from / (used in) financing activities	**5 706 902**	**(933 330)**
Net increase in cash and cash equivalents	**31 422 473**	**3 814 413**
Cash and cash equivalents at the beginning of the year	14 090 648	2 346 712
Cash and cash equivalents at the end of the period	45 513 121	6 161 125

Supplementary information

1. **General Information**
Lafarge Cement Zimbabwe Limited is incorporated in Zimbabwe. Its ultimate parent company is LafargeHolcim, a Swiss company which is listed on the Euronext and Swiss Stock Exchanges.

2. **Statement of Compliance**
Due to the timing of the implementation of S.I 134 of 2019, the company received a waiver from the Zimbabwe Stock Exchange with respect to the preparation of reviewed half year interim results that comply with the new listing requirements that are applicable to half year reporting for the period ended 30 June 2019.

The abridged unaudited interim financial results of the company are based on statutory records and have been prepared on the historical cost basis with the exception of property, land and buildings which is at revalued amounts.

3. **Directors Responsibility Statement**
The Directors of the company are responsible for the maintenance of adequate accounting records and the preparation of the financial statements and are also responsible for the systems of internal controls. The results were approved by the Board of Directors on 15 August 2019.

4. **Accounting Policies and Reporting Currency**
There have been no material changes in the company's accounting policies since the date of the last audited financial statements, except as amended for new financial reporting standards that became effective on 1 January 2019. On 22 February 2019, the company determined that the functional currency had changed from USD to RTGS dollars (now ZWL) as a result of the issuance of statutory instruments 33 of 2019 'Presidential Powers Temporary Measures Amendment of Reserve Bank of Zimbabwe Act and Issue of Real Time Gross Settlement Electronic Dollars RTGS dollars Regulations of 2019.The abridged unaudited results have therefore been presented in Zimbabwe dollars, ZWL. Comparatives have been translated from USD to ZWL using the legally prescribed rate of 1:1 that applied to transactions and balances for the period prior to 22 February 2019.

The directors conducted a director's revaluation of the property land and buildings at 1 March 2019 following a change in functional currency at a rate of ZWL2.5 USD1.

The company adopted IFRS16 Leases on 1 January 2019 and now has lease assets and lease liabilities on its statement of financial position in respect of operating leases

5. **Contingent liabilities**
The company has a contingent liability of ZWL 2.2m relating to the tax authorities. Although the business submitted an application for tax amnesty legislated in Finance Act 1 of 2018 that was published on 15 March 2018, no response has yet been received from the tax authorities at the time of publishing these financials.

6. **Borrowings**
The company obtained a long-term unsecured loan facility from Lafarge Holcim of USD 30 million to finance forex denominated long outstanding payables and working capital requirements and it has utilized USD 28.5m of the facility. The interest on the loan is at a rate of 6 months Libor plus a spread of 5%. The loan is repayable at the option of the borrower but must be settled in full by at least 1 August 2023. The company has lodged ZWL28.5m of the cash and cash equivalents held with its bankers to cash cover the debt.The company also has a short-term foreign currency loan from a local financial institution with an interest rate of 7.5% per annum and it has utilised the equivalent of ZWL 2m of this facility .

7. **Supplementary Information**

	Unaudited June 2019 ZWL	Unaudited June 2018 ZWL
Capital expenditure	2 759 477	1 565 869
Depreciation expense	6 595 790	1 615 541
Contingent Liability	2 200 000	4 900 000

Directors: K. C. Katsande (Chairman); D. L. Cruttenden; P. M. S. Deleplanque, D. G. F. Drouet; M. A. Masunda; S.M. Mutangadura; F. Kovhiwa*; K. S. Kaulule* (Chief Executive Officer) *Executive

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