



Lafarge Cement Zimbabwe Limited

FIRST QUARTER 2020 TRADING UPDATE

TRADING ENVIRONMENT

The quarter commenced with relative stability in the currency exchange rate which remained flat in the first two months. This enabled a slowing down of price increases on most commodities. However, this did not last to the end of March as devaluation gained momentum. The USD/ZWL exchange rate closed the quarter at a fixed rate of ZWL25 from an opening exchange rate of ZWL16.77. The trading environment has therefore continued to present challenges attributed to hyper-inflation, policy uncertainty and exogenous shocks such as the drought impacting the business. Additionally, the COVID-19 pandemic ushered in a further slowing down of economic activity across industry and commerce globally as measures to manage the pandemic were implemented. The International Monetary Fund has since revised the GDP forecast for Zimbabwe for 2020 downwards to 0.8% from an initial forecast of 2.7%.

A marked improvement in electricity supply prevailed in the last month of the quarter, relatively easing out a number of efficiency issues obtaining in operations. In sales, the high cost of living affected the largest segment of our business, the Individual Home Builders (IHB), and disposable incomes. This resulted in a marked reduction in spending on personal construction projects.

In response to the COVID 19 outbreak, the Government issued Statutory Instrument No 85/2020 "Exchange Control (Exclusive Use of Zimbabwe Dollar for Domestic Transactions)". This was a mitigatory action to ease trade during the COVID-19 lockdown. The law allows any person in possession of free funds to use the free funds to settle local transactions at the prevailing interbank rate.

VOLUME & FINANCIAL PERFORMANCE

The business continued to be resilient and achieved solid volumes in spite of the economic challenges outlined above. Q1 2020 volumes were in line with prior year and 3% above budget. Although the average selling prices (ASP) achieved were below those of the prior year, the product mix was favourable against budget. The business has managed to maintain distribution costs at below both prior year and current year budget.

A ground breaking ceremony was conducted for the USD2million Dry Mortars Mix (DMX) expansion

project in February 2020, and installation work has begun. The new plant is expected to be commissioned in August 2020.

The Reserve Bank of Zimbabwe concluded the legacy debt verification exercise and the business successfully secured part of its legacy foreign creditor obligations.

KEY ISSUES AFFECTING THE BUSINESS

IMPACT OF COVID

Since the beginning of the COVID-19 pandemic, Lafarge Cement Zimbabwe has taken the necessary measures to ensure business resilience and continuity. This has included closely monitoring the evolving situation and proactively putting in place measures to minimise the impact on business performance.

The declaration of the COVID 19 outbreak as a pandemic and the national lockdown effected from the 30th of March has an inevitable impact on Q2 2020 volumes. It is projected that Q2 2020 volumes will decline by 30%, with the possibility of spill over risks impacting the second half of the year. In order to mitigate the financial impact of the situation, the company has launched the action plan "HEALTH, COST & CASH" for immediate execution. Under this initiative, the health of employees, their families and the company's stakeholders remains top priority. A number of systems have been set up to ensure sustained wellness for all during and beyond this period. Various actions to fight the potential spread of the virus among employees and contractors have been implemented, including a Work from Home (WFH) policy that has been rolled out for applicable roles. This has been achieved with the requisite support to ensure employee productivity and wellbeing while working remotely. Furthermore, we are focused on continued containment of our costs. This involves activities to bring costs down, improve efficiencies and innovations to optimise costs without compromising the quality of operations. The business is focused on advancing the use of digital customer interface platforms to drive sales and maintain customer engagement with the company's product offering. This puts the business in a relatively strong position during and beyond the COVID-19 pandemic.

As the business builds internal capacity to manage the pandemic, a firm commitment has also been made to build resilience within the neighbouring communities. To this end the company has been actively engaged in initiatives to empower communities with information and resources to ensure sustainable management of the pandemic.

OUTLOOK

The COVID-19 pandemic will affect Q2 2020 performance as many economic activities continue to be at a standstill. The ripple effects of the lockdown and border closures are still to be fully quantified, but the business expects to continue to feel the effects of the COVID-19 outbreak into the second half of the year. The net effect will be a slowdown in aggregate demand in the core individual home builder market with foreign funded projects becoming more and more essential in sustaining operations.

Overall, we remain focused on Health, Cash and Cost so as to close the year in a profitable position.

By order of the Board

Flora Chinhaire

F. Chinhaire
Company Secretary

Monday, 15 May 2020

