

BOARD OF DIRECTORS' REPORT

Dear Shareholders,

The Directors of LafargeHolcim Bangladesh Limited (the "Company") are pleased to present the 23rd Annual Report of the Company.

The Directors' Report, along with the audited financial statements (Consolidated and Standalone) for the year ended on December 31, 2020, and the Auditors Report thereon have been prepared in compliance with the provisions of Section 184 of the Companies Act, 1994, the Corporate Governance Code issued by Bangladesh Securities and Exchange Commission's (BSEC) notification dated June 3, 2018 (the "Corporate Governance Code"), and the Listing Rules of the Dhaka Stock Exchange Limited and the Chittagong Stock Exchange Limited.

Your Company achieved a commendable performance in 2020. The accomplishments of your Company are laudable considering the challenges imposed by the pandemic. In response to the COVID 19 situation, your Company focused on the execution of the action plan engrossed on HEALTH, COST & CASH. Successful execution of this strategy with priority on the health of all our stakeholders has yielded encouraging financial results for the year with a 36% growth in Net Profit After Tax despite volume and revenue de-growth by 8% and 9% respectively.

1. OVERVIEW OF THE FINANCIAL PERFORMANCE:

The Company's consolidated operating and financial results as compared to previous year are as follows:

Particulars	2020 (Taka'000)	2019 (Taka'000)	Growth
Revenue	16,222,483	17,839,756	-9%
Cost of goods sold	11,616,410	13,307,859	
Gross Profit	4,606,073	4,531,897	2%
Net profit before tax	2,848,778	2,680,761	6%
Net profit after tax	2,361,385	1,737,454	36%
Total assets	26,218,984	26,924,292	
Net asset value	17,289,075	16,199,227	
Net operating cash flow	4,540,495	4,085,418	
Earnings per share	2.03	1.50	36%
NAV per share	14.89	13.95	
Net operating cash flow per share	3.91	3.52	
Return on equity	13.66%	10.73%	
Gross margin	28.39%	25.40%	
Net margin before tax	17.56%	15.03%	
Net margin after Tax	14.56%	9.74%	

The year has been unprecedented. While the impact was spread over the year, your Company's operations in the second quarter of 2020 was severely impacted, which resulted in a de-growth of sales volumes by 8%. Your Company's strength and resilience were demonstrated in the execution of the action plan focused on HEALTH, COST & CASH. The Company ensured protection of the health of its employees, customers, suppliers and other stakeholders by maintaining the lowest infection rates at its operating sites and delivering a strong performance during an exigent year. Priority on introduction of digital tools contributed to efficient sales and improved productivity during the pandemic.

Your Company followed the principle of price over volume leading to price de-growth of only 1%. A strong focus on collections resulted in a reduction of overdue amounts, adding 2,080 million Taka cash into the business. Third party account receivables have been reduced to Taka 847 million in December 2020 versus Taka 1,148 million in December 2019. Procurement savings of Taka 1,524 million through contract re-negotiations, scope reduction and alternate sourcing is one of the major and commendable achievements, resulting in reduction of both variable and fixed cost. These actions will continue to yield great benefits in 2021 and longer.

Fixed costs reduced by 15% (excluding Royalty and Technical Know How) while variable cost reduced by 5% respectively. While revenue de-grew by 9%, Profit before Tax (PBT) grew by 6% and EBITDA grew by 0.2%. Thanks to all the cost reduction and efficiency improvement initiatives which, profitability developed positively; PBT margin improved by 3% and EBITDA margin improved by 2%.

After amalgamation of your Company with Holcim Cement (Bangladesh) Limited, the year 2020 was the first full year of operations as a combined entity. The leverages and synergies planned during the integration process have been delivered and maximized value for the shareholders. For example, the effective tax rate stood at 17% versus 35% the prior year due to the realization of amalgamation benefits.

2. DIVIDEND AND RETAINED EARNINGS:

On March 2, 2021, the Board of Directors' of your Company recommended a final dividend of ten percent (10%), in cash, on the paid-up capital of the Company out of the profits of 2020. The total dividend of 10% of the paid-up capital amounting to BDT 1,161,373,500 which is BDT 1.00 per share of BDT 10.00 each for the year ended on December 31, 2020.

The above dividend recommendation of the Board of Directors' shall be forwarded to the Shareholders for their consideration and approval at the 23rd Annual General Meeting of the Company scheduled on April 22, 2021.

Pursuant to the Dividend Directive issued by BSEC on January 14, 2021, the Company has adopted the Dividend Distribution Policy (DPP). The DPP is annexed to the Annual Report 2020 as **Annex IX** and is also uploaded on the Company's website.

Retained Earnings

The total Retained Earnings of your Company as of December 31, 2020, stood at BDT 5,442,469,000 details of which are given in the Statement of Changes in Equity of the Consolidated Financial Statement.

3. BUSINESS TRANSFORMATION:

In 2020, your Company continued its focus on being the best in class and on maintaining its transformational journey from being a clinker and cement manufacturing company to becoming the most trusted building material solutions and service provider in the country. Against the backdrop of the pandemic, we continued with our Growth Plans to provide exclusive solutions for our Customers. Here are a few of our most recent and successful actions:

Holcim Water Protect:

Keeping our commitment to excel customer satisfaction we launched innovative and one-of-it's-kind water resistant cement in Bangladesh. 'Holcim Water Protect' is undoubtedly the most innovative and premium cement in Bangladesh. It has been developed through continuous consumer engagement, research and thorough understanding of the damaging impact of water on structure. Given the heavy rainfall in Bangladesh, your Company believes that 'Holcim Water Protect' shall help our customers build their dream homes that are free from dampness and seepages.

Clear Size Aggregates:

In line with our ambition, we continued to work to find business opportunities in the ever growing demand for aggregates in Bangladesh. Bangladesh does not have a commercially extractable sustainable aggregate quarry, and the demand of around 70 million tonnes of aggregates is to a large degree met by imports. To import every ton of aggregate, the country spends around twenty (20) US Dollars resulting high outflow of foreign exchanges. Your Company has set up a state-of-the-art cone shaped crushing unit with a capacity to produce 1.2 million tons of clear size aggregates (graded limestone chips having uniform size and shape conforming to international standards) per annum at the Company's Surma plant. The commercial production of clear size aggregates commenced in January 2021. Our primary customers for the clear size aggregates are large infrastructure projects which require constant and assured supply of premium quality graded aggregates. The aggregates business shall provide your Company with a competitive advantage, shall contribute to enhance our cement sales and shall pave our ways to enter into the businesses of other building materials, like ready mix etc. in the coming future. This is also in line with our ambition to transform the Company into a building materials solutions and service provider entity from a pure cement manufacturing entity.

Digital First:

As the world focused on resilience to survive, one trend that accelerated in 2020 was the rapid adoption of technology. Your Company is the pioneer in the building material sector to adopt digitalization, even before the outbreak of the pandemic. The COVID 19 crisis provided an opportunity to accelerate the transformation. We have been driving the digital initiatives in order to create new and renewed automation of our existing business processes, old technologies, culture, and customer experiences to meet changing business and market requirements. Technology has enabled us to operate with flexibility and agility, and work with our partners and customers who too have responded and adjusted quickly to the changing circumstances.

In 2020, as COVID 19 developed, our focus immediately shifted to ensuring the health and well-being of all employees and stakeholders, and on minimizing disruption to all facets of its operations. Implementing a "Digital First" approach has been one of the key attributes that distinguishes us from others. The Sponsors LafargeHolcim (LH) and Cementos Molins have been the driving force with access to industry best practice and solutions. →Your Company also has strong IT and digital teams who are capable of developing necessary digital solutions in cost effective manner.

Our teams have settled into the new ways of working with the implementation of seventeen (17) different digital initiatives. From tools that enable and manage logistics and supply chain planning, facilitate collaboration with our commitments, creating a digital customer experience, to holding efficient virtual Board of Directors' meetings and the Annual General Meeting with Shareholders - your Company has set the benchmark for other companies in Bangladesh.

Your Company continues to focus on opportunities where it can further develop and drive hyper efficiencies across its technology infrastructure, applications and core operations, in order to further leverage its intellectual capital.

Net Zero climate pledge:

Your Company believes that sustainability creates value for its business, shareholders and society. As part of the LafargeHolcim (LH) Group, we are determined to maximize this value, and are committed to living up to the responsibilities that come with it. We are therefore reinventing how we operate to make the world greener, smarter and healthier for all.

On our way to becoming a net zero company, we have set ambitious targets and are accelerating our efforts to bring in green construction by joining the net zero pledge with science-based targets to accelerate our efforts to substantially lower our carbon footprint.

Given the scale of today's climate challenge, no single organization can tackle it alone. A net zero world requires collaboration across the entire value chain from architects to policy makers. At LafargeHolcim Bangladesh Limited, we are playing our part to support the transition to low-carbon business in line with LH Group's 2030 climate targets.

4. PRODUCTION PERFORMANCE - YEAR 2020

Health & Safety:

Health and Safety is the core value of your Company. Health and Safety gets the highest priority in any business decision we undertake. Our goal is "ZERO Harm" to people, communities and environment. We continuously work to improve our safety culture and performance across our operations in Bangladesh and in Meghalaya, India. 2020 was another year without Lost Time Injury (LTI). Your Company achieved the "ZERO LTI" target for the last three consecutive years. We are making efforts to reduce Medical and First Aid injuries. We are working together on continual improvement through engaging all of our employees, contractors and stakeholders.

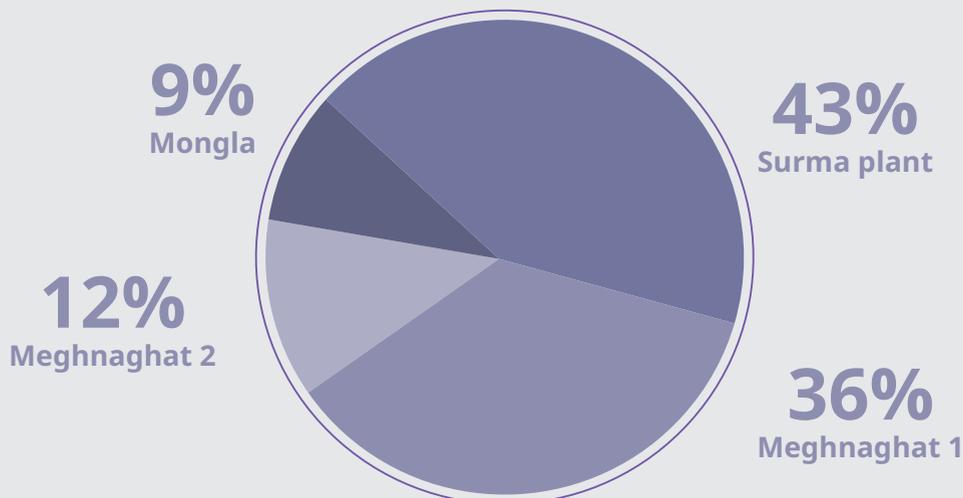
We continue on our Health & Safety transformational path which is designed to reduce incidents and move us toward the ambition of ZERO Harm.

Your Company faced tremendous challenges during its operation under this COVID 19. Our philosophy has always been to identify the risk proactively and take measures accordingly to minimize the risks in acceptable condition. COVID 19 has been a risk as long as business operations are concerned but it is not the only risk in our organisation. We have a good track record to manage operational risks and applied the same rule while managing the COVID 19 risk. The Country and Site Business Resilience Team managed the complete COVID 19 management. "Operating During COVID 19 - Health & Safety Minimum Requirement" were put in place for all the employees and Contractors covering a whole range of personal behaviours from employees (hand wash, use of mask, social distancing etc.), emergency response plan and process of physical monitoring to provide personal level support during COVID 19. We are continuing the same processes and procedures to manage COVID cases in 2021 as well.

Production Performance

Your Company has 4.2 million tons cement production capacity per annum, with a fully integrated cement and clinker plant in Chhatak, and three (3) grinding plants near Dhaka and Khulna. The limestone quarry in Meghalaya, India has permits to produce up to 5 million tonnes per annum.

Cement Production in 2020

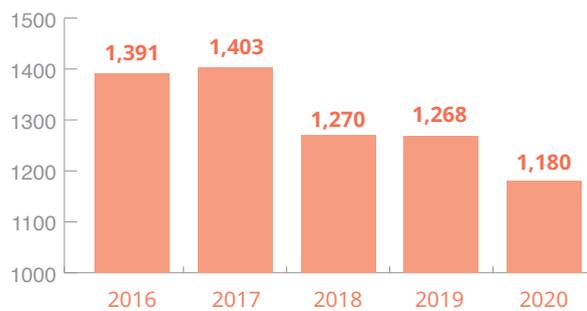


PERFORMANCE OF SURMA PLANT:

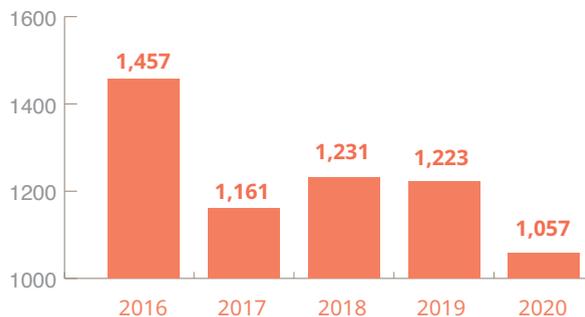
In 2020, despite the loss of forty (40) production days and restricted production hours due to the pandemic, your Company produced 1,180 kt of clinker and 1,057 kt of cement. The plant team worked consistently and several initiatives were implemented to improve the availability of the equipment, reduce energy consumption etc. The plant team undertook several initiatives to reduce fixed cost such as in house refurbishing instead of third party services, fabrication of spare parts, administrative cost optimization etc. Surma Plant achieved 100% laboratory accuracy index (LAI) in the LafargeHolcim Group in the "Round Robin Test" for the fifth consecutive years, conducted over 153 laboratories across the world and your Company's laboratory become one of the top six.

The plant team will continue to give more efforts in the coming years to achieve its targeted production performance while maintaining the superior product quality in the market.

Surma Plant Clinker Production (kt) (2016-2020)



Surma Plant Cement Production (kt) (2016-2020)



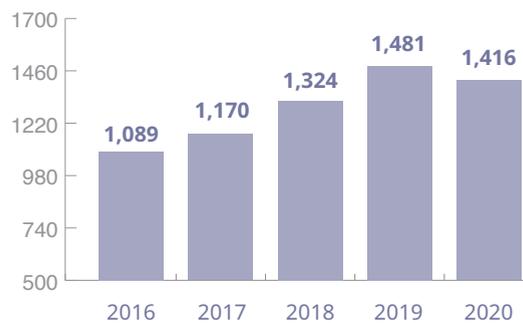
Reasons for declining trend of production of clinker and cement are attributed to: (i) no Excess Gas supplied by Jalalabad Gas Transmission and Distributions System Ltd. under the Gas Sales Agreement, and (ii) production of Supercrete cement in the Grinding units for more optimized and cost effective production, & (iii) pandemic situation in 2020.

MEGHNAGHAT 1, MEGHNAGHAT 2 AND MONGLA PLANTS PRODUCTION

While surmounting the production hours lost due to the restrictions of the pandemic, in 2020 Meghnaghat & Mongla Plants achieved the second highest cement production (1,416 kt) and dispatch volume (1,411 kt) in the history of your company. The plants accomplished improved performances in other areas such as Specific Electrical Energy Consumption, Clinker Factor and Net Availability Index.

Holcim Water Protect, the new smart blended cement was developed and is being produced in Meghnaghat.

Meghnaghat and Mongla Cement Production (kt) (2016-2020)

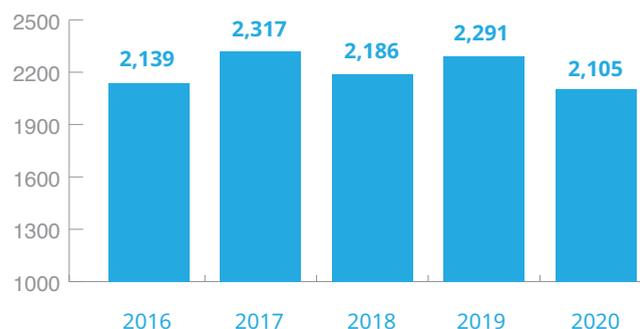


LIMESTONE QUARRY AT MEGHALAYA, INDIA

In 2020, Lafarge Umiam Mining Pvt. Ltd., the subsidiary of your Company, exported 2.10 million tonnes of limestone, marginally lower compared to the 2.29 million tonnes in 2019. The Quarry operations stopped from March 25, 2020 for 45 days due to COVID 19 lockdown imposed by Government of India and State Government of Meghalaya. In spite of the stoppages, the Quarry team demonstrated an exemplary performance in optimization of mining & crushing costs, thereby ensuring a reduction in operational costs.

In 2020, a 33 Kilovolt (kV) grid power line has been installed for operations of the Quarry. Availability of the grid power at Quarry shall eliminate the dependency on diesel and help to reduce the carbon footprint. We are expecting the grid power to be charged in April/May 2021, which shall reduce power consumption cost by Indian Rupees (INR) 28 per ton i.e. from INR 44/ton to INR 16/ton.

Quarry Production (kt) (2016-2020)



Geocycle:

Geocycle is your Company's contribution towards sustainable development and commitment for protection of environment and efficient waste disposals.

Your Company expanded its services to find a solution for managing industrial, agricultural and municipal wastes. Using the proven technology of 'co-processing' and our state-of-the-art integrated cement plant at Chhatak, Sunamganj, Geocycle has managed more than 8,000 tons of wastes which include sludge, bulky solids, plastic & packaging and various different types of liquids and chemicals. We are also working closely with the Government of Bangladesh. Projects of Ministry of Industries, Department of Environment, Shahjalal International Airport Customs House, Chattogram Customs House and ICD Kamalapur Customs House are getting the benefits of Geocycle project of your Company and disposing of its long laying and unclaimed liquids and chemicals.

All of the above projects were carried in house. Trucks managed by the Geocycle team were sent to each site to pick-up materials to ease the burden of the customers where previously the clients were managing the same.

Sales and Marketing:

We focused on cementing our relationship with key partners - our distributors, retailers and customers. We took initiatives to enhance our reach and assure our partners that we shall always be there to serve them. Launching the new product 'Holcim Water Protect' was one of the initiatives to drive customer satisfaction. Now we have four (4) distinguished products - Supercrete, Holcim Strong Structure, Holcim Red (OPC), and Holcim Water Protect available for the varied range of customers.

With a goal to upholding customer confidence, we adopted multiple digital and automation tools to connect our valued partners. Automation tools like RMS (Retail Management Software) and Customer Portal have been put in place to collect orders and payments over digital platform. "Telesales" has been initiated to reach out and serve the Retailers at distant locations and connect them through easy and simple means like SMS and WhatsApp. In 2020, our marketing activities shifted successfully to digital platforms, which increased our brand image reaching to more customers in a cost efficient manner. We enhanced our presence in the Social Media, Facebook and Online News Portal by introducing a range of new digital campaigns and posters. We also continued our engagements and programs over the digital platform with our influencers like engineers, architects, masons, individual home builders and industry experts.

The brand value that your Company has successfully created over tireless efforts through last two decades, are now paying its premiums! While the market scenario created huge pressure on price, our brands, Supercrete and Holcim, were successful in maintaining its price premium, which is yet again a testimony of the confidence our customers put in our brands as well as the outstanding product quality. While the demand of the product de-grew due to the unique market conditions, we shifted our focus on the mantra of the Company for 2020 - Health, Cash & Cost. Multiple initiatives were taken to improve the cash conversion and for collection of the overdue amounts from our distributors. With the outstanding efforts of our Sales team we ensured that outstanding dues were collected and there was a 25% reduction in the Days Sales Outstanding (DSO). We also focused to reduce our sales operating cost by bringing in efficiency and reducing the overhead cost.

2020 has moved us closer to the customers, moved towards cash business models and adopted new

ways of working. We tapped all the opportunities to expand in the given situation for smooth continuity and sustainability of the business. During the year we focused on consolidating our position with more than 7000 retailers, 500 dealers and 400 Business-to-Business customers.

Logistics & Procurement:

Procurement and Logistics Function steered the Company from the front to implement the mantra of the Company for 2020 - Health, Cost and Cash. The cost base was reset and the traditional ways of working changed. All the Purchase Orders and Contracts of the Company were reevaluated and renegotiated, either with reduced scope of work or with alternative sourcing. These measures resulted in commendable and praiseworthy cost reduction of Taka 1,525 million against the spent in 2019, which is 17% of total negotiable spend. Strong control over Cost has led to an overall 26% spend reduction over 2019. Business process simplifications were introduced for improved operational efficiency, transparency, and helped in prompt deliveries.

Your Company reduced the imported raw materials inventory significantly. This helped to reduce the exposure to Net Working Capital without disruptions in operations. As a result of continuous improvement of efficiency on inbound logistics, your Company recorded no demurrage for mother vessels, but gained financial credits by ensuring early discharge of mother vessels. Efficiency improvement projects for both inbound and outbound logistics and innovation delivered better discipline in logistic costs and reduced variable and fixed costs year on year basis while enhancing the margin. The Logistics Department underwent digitalization with the introduction of new digital tools and systems such as Network Optimization (NetOps) and Transport Analytic Centre (TAC). Many simplified initiatives have been taken to reduce distribution cost, such as changing the distribution model, shifting away from depots and opening up new Ghats (cross docking points) and reaching closer to market. With these well planned, innovative and bold initiatives, the Logistics fixed cost has been reduced by 34% compared to 2019 and overall distribution cost reduced by 19% compared to 2019. Your Company aims to increase network optimization and introduce further digital platforms in the coming years.

Human Resources:

Your Company envisages and proactively responds to the trends shaping the future of work and enables to create the best possible environment for the workforce. Diversity and inclusion are priorities forming an integral part in its people practices and culture.

Human Resource (HR) function has provided key support and catalyzed changes during the pandemic by delivering services and making "Work From Home" an engaging experience. Ensuring the effectiveness of the sales force during pandemic times through continual support has made the difference in the performance.

The Company ensures all its employees maintain a healthy work-life balance. The Company provides opportunities for flexible working hours which ensure a compelling working environment and experiences. As we embrace digitalization and new ways of working, HR also ensures that employees are equipped with right skills and obtain seamless learning via our e learning platform and work towards creating a learning organization.

Your Company peruses a holistic approach of performance management involving meaningful feedback and recognition, while holding people accountable and providing continuous development. HR incorporates touch points for regular dialogue between managers and team members and develops an engaging culture by aligning the ambitions and aspirations of the employees with the organization goals.

Governance, Ethics and Compliance:

Your Company is a law abiding corporate citizen committed to operate in strict adherence with the applicable laws. Compliance with the Code of Business Conduct, Anti-Bribery & Corruption Policy and Fair Trade Practices Directive are part and parcel of our daily business activities and mandatory to be followed by each and every employee of the Company.

For your Company, compliance is not an obligation, it is an inherent part of our way-of-doing-business. Adherence to applicable laws, policies and procedures are deeply embedded in our business culture and in the hearts & minds of every employee of the Company. We maintain a comprehensive risk-based compliance program which aligns with the legal requirements of Bangladesh and international standards. Our compliance program is structured to ensure adequate risk assessment of risk, implementation of controls, training and communication, monitoring and governance. It covers several risk areas including, Business Integrity and Compliance, Pricing Integrity and Anti-Trust Compliance, Sanctions & Trade Restrictions, Data Protection and Privacy.

The compliance program enables your Company to prevent, detect and deter fraud, and includes an Integrity Line, which enables employees to anonymously report any concerns regarding breach of rules laid down in the Code of Business Conduct.

The Audit Committee, a sub-committee of the Board of Directors', in every meeting, evaluates and scrutinizes the status of compliance and suggests the management of the Company as it deems necessary.

In terms of the Corporate Governance Code, the Company has formed a Nomination and Remuneration Committee (NRC), a sub-committee of the Board of Directors'. The NRC has formulated the policies for criterion for the Members of the Board of Directors' and Top Level Executives, criterion for evaluation of the performance of Independent Directors and the Board of Directors' and for remuneration of Top Level Executives.

Annual Evaluation of Board of Directors:

In 2020 the Company carried out the Evaluation of the Board of Directors' in which all the members of the Board participated. The NRC framed the necessary criterion for the Evaluation as per the guidelines provided by the Corporate Governance Code. The details of the Evaluation including the parameters and process have been provided in the Corporate Governance Statement of the Annual Report 2020. The Evaluation Report has identified improvement areas for the Board of Directors' to become more effective and coherent. The recommendations shall be implemented diligently.

5. CORPORATE SOCIAL RESPONSIBILITY (CSR) & SUSTAINABLE DEVELOPMENT:

In the year of 2020, your Company's Corporate Social Responsibility (CSR) activities were focused to support the communities to create awareness and mitigate the challenges faced by them by the pandemic. Regular CSR activities continued in the field of education, health care and women empowerment bringing in positive impacts and sustainable development for the communities around which the Company operates.

During the pandemic, a large number of people around the communities became vulnerable due to the loss of employment opportunities. As a socially responsible corporate citizen, we stood beside them and supported and implemented the mitigation measures. Employees of your Company contributed one day's salary to lend a hand and support the communities. The Company matched the amount to ensure an extended reach. The amount was used for the community people and the health professionals who were in the forefront during the pandemic.

One of our focus activities was distribution of food and milk to over ~4,000 families in Chhatak, Sonargaoan and Mongla in Bangladesh, and Shella and Nongtraï in Meghalaya. At the very beginning of the pandemic, there were shortages of Personal Protective Equipment (PPE), especially masks. Your Company distributed ~8000 masks amongst the local communities. ~60 hand washing units were also established in collaboration with the local municipalities in Bangladesh and NGO's in Meghalaya. We also ensured adequate hand washing materials while creating awareness on hand washing to fight the pandemic. The distribution program was conducted in coordination and collaboration with the local administration.

In collaboration with Foreign Investors' Chamber of Commerce & Industry your Company also distributed ~550 high quality PPE's amongst the health professionals of COVID 19 designated hospitals. Generous donations were made to various NGO's, including 'Friendship' – an international NGO who made praiseworthy contributions during the pandemic.

6. RISKS AND CONCERNS INCLUDING INTERNAL AND EXTERNAL RISK FACTORS, THREAT TO SUSTAINABILITY AND NEGATIVE IMPACT ON ENVIRONMENT:

The Auditors of the Company in their Report to the Shareholders have given "emphasis" relating to excess gas tariff invoiced by Jalalabad Gas Transmission and Distribution Systems Ltd. ("Jalalabad").

In this regard, the Board of Directors' would like to mention that the Gas Sales Agreement (GSA) between the Company and Jalalabad is valid until January 16, 2026. There have been disagreements between the Company and Jalalabad on the interpretation of the terms of GSA relating to price. Despite sincere efforts by the Company, the disagreement could not be resolved by mutual discussions. Accordingly, the Company issued a Notice of Arbitration to Jalalabad in terms of the GSA, to resolve the dispute.

The Company filed an Arbitration Application seeking interim relief in aid of the arbitration. On February 7, 2021, the Hon'ble High Court Division of the Supreme Court of Bangladesh passed an order issuing a Rule as prayed for, and pending hearing of the Rule, the Honourable Court directed Jalalabad to maintain status quo in respect of supply of gas at the Company's Surma plant and further restrained Jalalabad from terminating the GSA or stopping supply of gas to the Company's Surma plant. As directed by the Hon'ble Court the Company has furnished a Bank Guarantee for the differential amount accrued till February 07, 2021 from a scheduled bank in the name of the Registrar of the High Court Division of the Supreme Court of Bangladesh.

As per internal assessments, your Company has a strong case and is expecting the Arbitration Award in favour of the Company.

Another major risk lies in the Company's cross border operation. Any interruption of limestone supply from its Indian subsidiary company causes a business continuity issue. Strict compliance with applicable laws coupled with strong community development programs are key to minimize this risk.

Bangladesh is a cement capacity surplus market. Despite this fact, new capacity is being added at a higher rate than demand growth. This may further intensify competition in the market resulting in pressure on price. The availability of clinker in Asia impacts the price of clinker imports, which has a significant impact on the level of cement prices in the market and hence on your Company's profitability.

7. RISK MANAGEMENT:

The management of the Company has the overall responsibility for the establishment and oversight of the Company's risk management framework. Risk management policies require establishing standard procedures to identify and analyze the main risks to which the Company is exposed and continually deploying and managing risk management systems designed to eliminate or reduce the probability that risks will arise and to limit their impact. The Company is exposed to credit risk, liquidity risk and market risk.

A. Credit Risk

Credit risk is the risk of financial loss to the Company, if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and other current assets. The management has established a credit policy under which each new customer is analysed individually for creditworthiness. Credit limits are established for each customer and reviewed on a regular basis. Any sales exceeding those limits require approval from the Credit Committee. The Company obtains bank guarantee from all trade customers. A large part of non-trade customers are also under the coverage of bank guarantee and security cheques.

B. Liquidity Risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

C. Market Risk:

Market risk is the risk that changes in market prices, e.g. foreign exchange rates and interest rates that may impact the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company uses derivatives to manage market risks. Market risk comprises three types of risks: foreign currency risk, interest rate risk and commodity risk.

- i. Foreign Currency Risk** - The Company is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which purchases and borrowings are denominated. The currencies in which these transactions are primarily denominated are Euro, US Dollars, Swiss Franc and Indian Rupee.
- ii. Interest Rate Risk** - The risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its debts and short term deposits.
- iii. Commodity Risk** - Commodity risk arises from fluctuation of value of commodity in terms of price, quantity, and cost of the market from or to which the Company procure or sell product respectively. The Company does not have any significant exposure to commodity price risk.

8. RELATED PARTIES TRANSACTIONS:

All the transactions/contracts/arrangements of the nature as specified under the provisions of IAS 24 entered by the Company during the year under review with related party (ies) are in ordinary course of business. The details of the names of the related parties, nature of the transactions / contracts / arrangements and their total value are contained in Note No. 29 of the Financial Statements.

9. DIRECTORS' DECLARATION TO FINANCIAL STATEMENTS:

The Directors are of the opinion that the Company is a going concern. Accordingly, Financial Statements are prepared on a going concern basis.

The Directors are responsible for the governance of the Company, as part of preparation and presentation of the Financial Statements, the Directors confirm, to the best of their knowledge that:

- ▶ The financial statements prepared by the Management of the Company presents fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- ▶ Proper Books of Account of the Company have been maintained.
- ▶ Appropriate Accounting policies have been consistently applied in preparation of the Financial Statements and that the accounting estimates are based on reasonable and prudent judgment. The International Accounting Standards (IAS) or International Financial Reporting Standards (IFRS), as applicable in Bangladesh, have been followed in preparation of the financial statements and any departure there from has been adequately disclosed. The Company has initially applied IFRS 15 and IFRS 9 from 1 January 2018.
- ▶ A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Company's financial statements.
- ▶ The system of internal control is sound in design and has been effectively implemented and monitored.
- ▶ The minority shareholders have been protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly and have effective means of redress.

- ▶ The Board of Directors' have made appropriate examinations and analyzed the significant financial, operating as well as other indicators for enabling them to understand the ability of the Company to continue its operations for a foreseeable period.
- ▶ The Board of Directors' is satisfied and has a reasonable expectation that the Company has adequate resources to continue its operation consistently for the foreseeable future. Hence, the Company adopted the going concern basis in preparing of the Company's financial statements.
- ▶ No interim dividend has been declared by the Company.
- ▶ The key operating and financial data for the last five (5) years, discussion on cost of goods sold, gross profit margin and net profit margin and explanation on significant deviation from the last year's operating results are disclosed in **Annex I**.
- ▶ Details of the Board Meetings held and attendance, details of appointment and reappointment of Directors with a brief resume are disclosed in **Annex II**.
- ▶ The pattern of shareholding is disclosed in **Annex VI**.
- ▶ A declaration signed by the CEO and CFO to the Board as required under the Corporate Governance Code is disclosed in **Annex VII**.
- ▶ A Management's Discussion and Analysis signed by CEO presenting detailed analysis of the Company's position and operations along with a brief discussion of changes in the financial statements is disclosed in **Annex VIII**.

10. RESEARCH, DEVELOPMENT AND INNOVATION

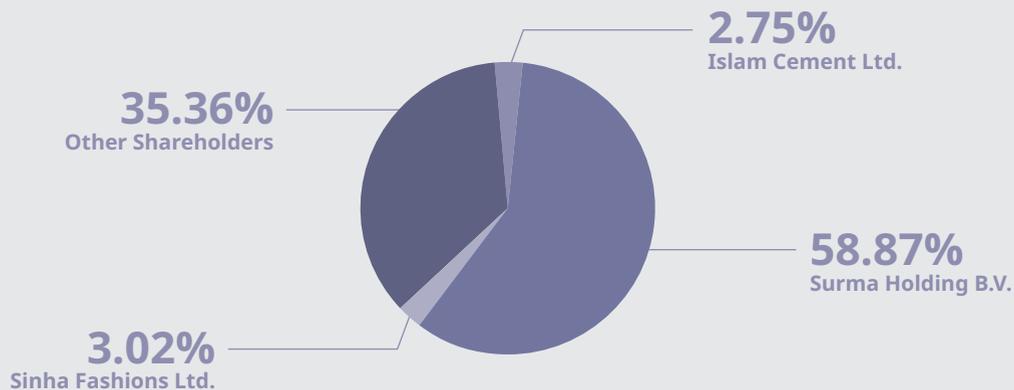
As part of the LafargeHolcim and Cementos Molins Research & Development (R&D) of your Company is driven by customer's needs, who face today's major challenges: achieving energy efficiency, lowering cost of construction, reducing our environmental footprint, and meeting high standards of aesthetics, health, comfort, and well-being. Together with our partners and customers, our best-in-class R&D teams develop the most innovative products, solutions, and services, as well as advanced manufacturing processes.

11. INTERNAL CONTROL SYSTEM:

The Company has well-documented Policies, Directives and Work Instructions which are periodically reviewed. Implementation and compliance with the Policies, Directives and Work Instructions are monitored and reported to the Audit Committee.

12. SHARE HOLDING PATTERN:

Your Company is listed at the Dhaka Stock Exchange and Chittagong Stock Exchange. The total Shareholdings of the Company are distributed as follows:



Further information on Shareholding pattern is annexed to this report as **Annexure VI**.

Surma Holding B.V.

Surma Holding B.V., incorporated in The Netherlands, owns 58.87% shares of your Company. Lafarge S.A. (a subsidiary of LafargeHolcim) owns 50% shares of Surma Holding B.V., and the other 50% are owned by Cemolins Internacional S.L.U. of Spain.

About the Sponsors

LafargeHolcim Switzerland operates four businesses segments: Cement, Aggregates, Ready-Mix Concrete and Solutions & Products, which includes precast concrete, asphalt, mortar and building solutions. As the world's global leader in building solutions, LafargeHolcim is reinventing how the world builds to make it greener, smarter and healthier for all. On its way to becoming a net zero company, LafargeHolcim offers global solutions enabling carbon-neutral construction. With its circular business model, the Company is a global leader in recycling waste as a source of energy and raw materials. Innovation and digitalization are at the core of the Company's strategy, with more than half of its R&D projects dedicated to greener solutions. More information is available on <https://www.lafargeholcim.com>.

Cementos Molins is one of the most important companies in the sector in Spain. Born as a family business, over the years, it has developed products of recognized prestige in the construction materials industry, keeping intact its traditional values of integrity, continuous improvement, efficiency, passion, sustainability and environmental protection. Cementos Molins operates in Spain, Argentina, Uruguay, Mexico, Bolivia, Colombia, Tunisia and Bangladesh. In addition to cement, it participates in the business of concrete, aggregates, prefabricated concrete, special mortars, adhesive cements and ecomaterials. More information is available on <https://www.cemolins.es>.

Besides Surma Holding B.V., other sponsors of this venture are Islam Cement Limited and Sinha Fashions Limited from Bangladesh.

13. BOARD OF DIRECTORS:

(a) Board composition

The Board of Directors' of the Company is having twelve (12) members. Three (3) of them are Independent Directors.

(b) Independent Directors

Mr. Monzurur Rahman, Independent Director, retired during the year after completing two (2) terms in office. The Board acknowledges the valuable contributions made by Mr. Rahman during his tenure in office and expresses their gratitude for his support given to the Company with great passion and insight.

Pursuant to the provisions of the Corporate Governance Code, the Board of Directors' appointed Mr. Rajiv Prasad Shaha, as Independent Director for one term of three (3) years, effective from January 26, 2021.

It is proposed that the Shareholders approve the appointment of Mr. Rajiv Prasad Shaha as an Independent Director of the Company, not liable to retire by rotation at the 23rd Annual General Meeting of the Company. The bio-data of Mr. Rajiv Prasad Shaha forms a part of this Annual Report.

(c) Resignation of Directors

Mr. Shivesh Kumar Sinha, Director of the Company, submitted his resignation as Director of the Company and member of the Audit Committee of the Company, effective from October 9, 2020. Mr. Sinha served as a member of the Company board for over 14 (fourteen) years.

The Board accepted the resignation tendered by Mr. Sinha, and acknowledged the valuable contributions made by him during his association with the Company, both in Bangladesh and India, and expresses their gratitude for his services, wise counsel, advice and strategic guidance.

(d) Appointment of Directors

In accordance with article 15.1.2 of Article of Association of the Company, Surma Holding B.V., the holding company of the Company, nominated Ms. Sonal Shrivastava, on October 7, 2020 as its nominee in the Board of Directors' of the Company.

Pursuant to Article 15.1.3 of the Article of Association of the Company, Ms. Sonal Shrivastava has been appointed as Director of the Company, effective from October 9, 2020.

(e) Recommendation for re-elections

Pursuant to Regulation 79 of Schedule I of the Companies Act, 1994, the following Directors of the Board shall retire at the 23rd Annual General Meeting. Being eligible they offer themselves for re-election:

- I. Mr. Christof Hässig
- II. Mr. Manzurul Islam
- III. Ms. Sonal Shrivastava

A brief profile of the above mentioned three Directors is disclosed in **Annex III** as a part of the Board of Directors' Report.

(f) Sub Committee of the Board

For ensuring good governance in the Company, the Board of Directors' formed two sub-committees of the Board.

(i) The Audit Committee of the Board:

The Audit Committee consists of three Directors including one Independent Director as Chairman of the Audit Committee. The Audit Committee ensures that adequate internal checks & balances supported by adequate Minimum Control Standards as defined by the Sponsor Groups are in place for detection of errors, frauds and other deficiencies. The Audit Committee also ensures compliance of requirements of BSEC. The Audit Committee reviews the Quarterly and Annual Financial Statements. The Audit Committee also reviews adequacy and effectiveness of financial reporting process, accounting policies, internal control and risk management process. The Audit Committee also oversee the compliance and provides necessary advices to the management and Board of Directors' to ensure running the business in 100% compliance of the applicable laws, policies and directives.

(ii) Nomination and Remuneration Committee:

The Nomination and Remuneration Committee (NRC) consists of three Directors including one Independent Director as Chairman of the NRC to set the principles, parameters and governance framework for the nomination and remuneration of the Directors, Key Managerial Personnel, Top-Level Executives and other employees comprising the senior management.

(g) Board and Sub Committee Meetings and Attendance

In 2020, the Board of Directors' of the Company and Audit Committee of the Company met on four (4) occasions respectively. The NRC of the Company met on one (1) occasion.

Due to the COVID 19 pandemic and the ensuing travel restrictions and social distancing requirements, three (3) of the four (4) Board of Directors', Audit Committee meetings and NRC meeting were held virtually in terms of the Bangladesh Securities and Exchange Commission's (BSEC) Order No. SEC/SRMIC/94-231/25 dated July 08, 2020.

The details including dates of the meetings and attendance records of the Directors are annexed to this Annual Report as **Annex II**. The Directors who could not attend the meetings were granted leave of absence.

14. CORPORATE GOVERNANCE COMPLIANCE STATEMENT:

The Company has complied with all the necessary guidelines under BSEC Notification No. BSEC/CMRRCD/2006-158/207/Admin/80 dated June 3, 2018. A separate section on Corporate Governance and the Compliance Report along with the necessary remarks and disclosures is appended in this Annual Report for the year 2020. A Certificate of Compliance required under the said Guidelines, as provided by M/s Al-Muqtadir Associates, Chartered Secretaries and Consultants, is annexed to this Annual Report as **Annex XI**.

15. AUDITORS:

(a) Auditors Report:

The Statutory Auditors of the Company in their Report to the Shareholders on the Standalone Financial Statements have drawn attention to the excess gas tariff raised by Jalalabad Gas Transmission and Distribution System Limited. The explanations or comments by the Board on "Emphasis of Matters" made by the Statutory Auditors in their Report are dealt in detail in point no. 6 of this Report.

(b) Statutory Auditors:

Pursuant to Section 210 of the Companies Act, 1994, the Company's Statutory Auditors; M/s. Hoda Vasi Chowdhury & Co., Chartered Accountants, retire at the 23rd Annual General Meeting. Being eligible, they express their willingness to be re-appointed.

(c) Corporate Governance Compliance Auditors:

Every year, the Company obtains a certificate of compliance from a Practicing Professional Accountant/Secretary (Chartered Accountant/Cost and Management Accountant/Chartered Secretary) regarding compliance of conditions of the Corporate Governance Code.

M/s. Al-Muqtadir Associates, Chartered Secretaries & Consultants, have expressed their interest to be re-appointed as Corporate Governance Compliance Auditors of the Company for the year 2021, which is being placed in the 23rd Annual General Meeting for approval.

16. INDUSTRY: OUTLOOK & POSSIBLE FUTURE DEVELOPMENTS:

For the last one decade Bangladesh's economy has consistently grown in excess of ~6% a year (~7.9% in 2019) irrespective of natural calamities and political uncertainties. Economy is projected to grow at CAGR ~9% to become a USD 700bn economy by 2030 from present ~USD 300bn.

In April 2020, IMF forecasted the GDP to fall to 2% for CY2020 due to the outbreak of COVID 19 and recover to 9.5% in 2021. Readymade garments (~13% of GDP) and remittances (~7% of GDP) - key contributors to economic growth were severely hit in April and May 2020 due to lockdown restrictions across Bangladesh and the Middle East (major source of remittance). Lockdown was eased in the first week of June and the economy bounced back strongly. Remittances have increased to pre-Covid levels (~USD 2.0bn every month since June 2020) due to additional 2% cash incentive offered on every remittance. Readymade garments exports have re-bounced, however it is yet to reach pre-Covid levels due to lockdown (second wave) and slowing retail sales in Europe and North America, the major markets for Bangladesh. Growth is expected to regain momentum this fiscal year (July 2020-June 2021) as the external sector strengthens, while supportive fiscal and monetary stimulus measures are expected to bolster domestic demand. Healthy foreign exchange (~USD 37bn) and regulated foreign exchange market ensures a relatively stable currency outlook. Fiscal deficit is a concern in the medium term, however low levels of government debt (~40% of GDP) protects it from distress.

Activity, Evolution of the market and the Company: Construction activity is normal across the country with most projects and individual house builders (IHB) segment picking up pace. Consumption of cement de-grew by ~1% in spite of the pandemic underpinned by rising demand in the rural sector. Annual consumption of cement stood at about 33.4 million tonnes in 2020 and is forecasted to increase in a higher single digit in 2021. Despite the growth of the industry, Bangladesh is still one of the lowest consumers of cement products in the world with per capita cement consumption ~200 kgs.

17. ACKNOWLEDGEMENTS:

Your Directors are thankful to the various departments and offices of the Government of Bangladesh, the Government of India and the State Government of Meghalaya for their continued guidance and co-operation. The Directors are grateful to all valuable stakeholders of the Company viz. customers, dealers, vendors, banks, suppliers, business partners for their support and services rendered during the year. The Directors are also grateful for the support received from the local communities around the Surma plant in Chhatak, Mongla Plant and the Quarry in Meghalaya. The Directors would like to recognize the management and all employees of the Company for their dedication and commitment. The results achieved are outstanding and were only possible thanks to their strong and continued believe in building a better company every day. Finally, the Directors are grateful to the Shareholders for their continued and valuable support to the Company.

For and on behalf of the Board of Directors



Christof Hässig
Chairman

Date: March 14, 2021