LAFARGE AFRICA PLC.

2017 Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

Lafarge Africa Plc.

Entity Rating Assigned:

A

This is a company with good financial condition and strong capacity to repay obligations on a timely basis.

Outlook: Stable
Issue Date: 06 October 2017
Expiry Date: 30 June 2018

Industry: Building Materials Cement, Aggregate and Concrete Products

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Rating Rationale

Lafarge Africa Plc. ("**Lafarge**", "**LAP**" or "**the Company**") is a member of the LafargeHolcim Group ('LHG' or 'LafargeHolcim') – the world's leading cement, concrete and aggregate producers, with an installed capacity of 353.3 million metric tons operating over 2,300 plants in more than 80 countries worldwide. LHG's total assets stood at CHF69.6 billion ($72.4 billion) as at 31 December 2016 and recorded revenue of CHF26.9 billion ($27.9 billion) in the same period. LHG has a Bbb (FCY) rating from two foreign rating agencies[1], on the back of its improved operating performance in 2016. LafargeHolcim has continued to provide strong parental support (both technical and financial support) to the Company in a bid to sustain LAP's market share in the Nigerian Cement Industry as well as LHG's dominance in the global market.

The Company is a leading building materials solutions provider in sub-Saharan Africa, with strong presence in Nigeria and South Africa. LAP is the second largest cement producer in Nigeria, based on capacity and sales volumes. Lafarge has an installed cement production capacity of 14.1 million metric tonnes per annum (mmtpa), aggregates capacity in excess of 5 mmtpa and ready-mix concrete capacity of over 3.5 million cubic meters. The Company has a wide distribution network, with over 133 key distributors and excess of 400 trade partners spread across sub-Saharan Africa.

The Cement Industry's performance in Nigeria was weakened by the negative macroeconomic headwinds, currency devaluation and heightened inflation which adversely affected consumer purchasing power, thus lowering national cement demand in 2016. In the financial year ended 31 December 2016, Lafarge's financial condition was characterized by low profitability, negative operating cash flow and inadequate working capital. Notwithstanding, we recognize LAP's strong parental support, experienced management team, strong brand, extensive distribution network and good market position as

[1] S&P Global and Moody's Investors Service

strong business fundamentals for continued growth and financial performance.

During the year ended 31 December 2016, revenue trended downwards to ₦87.2 billion (2015: ₦114.6 billion), due to gas shortage which adversely impacted production output as well as the late increase in cement prices – only adjusted in September 2016. During the year ended 31 December 2016, pre-tax profit dipped significantly by 36% to ₦19.9 billion from ₦30.9 billion the prior year, due to the high financing costs recorded. Consequently, profitability ratios trended downwards, with pre-tax return on average assets (ROA) of 4.3% and pre-tax return on average equity (ROE) of 6.5%. Subsequent to 2016 year end (H1 2017), the Company reported pre-tax profits of ₦16.9 billion, translating to an annualized ROE of 10%.

Price increases in H2 2016 of about 40% has somewhat moderated the overall macroeconomic shocks to the industry, with operating profit margin trending up to 29% by close of H1 2017. Thus, we expect the trend to persist in H2 2017 financial year. We expect profitability by FYE 2017 to trend upwards, upheld by the increase in prices and improved operational efficiencies.

Lafarge reported a negative operating cash flow (OCF) in 2016, following the decline in net income and large amount due from a particular related party in the cement industry. This is the first time in the last decade the Company reported a negative OCF. As a result, Lafarge resorted to short term borrowings to meet returns to providers of financing. Subsequent to the year end, the Company reported a positive OCF of ₦12.8 billion in H1 2017, following the growth in net income largely driven by the gains from increase in product prices during the period. As a result, OCF to sales ratio stood at 58%, well above our benchmark.

Similar to Industry norm, the Company recorded a short term financing surplus (excess of spontaneous financing over working assets) of ₦7.1 billion. However, LAP's long term funds were insufficient to cover the long term assets leaving a long term financing need of ₦57.3 billion. As a result, Lafarge posted an overall working capital deficiency of ₦50.1 billion as at 2016 FYE, thus, evidencing the need for injection of long term funds. Management has disclosed plans to raise ₦131 billion rights issue to address the working capital. The success of the rights issue will support the LAP's long term financing needs.

As at 31 December 2016, the Company's total interest bearing liabilities (IBL) stood at ₦197.5 billion, up by 151% from the prior year, following the ₦60 billion bond issuance and related party loans. Furthermore, devaluation of the domestic currency enlarged the portfolio of related party loans and increase the debt to equity ratio to 34% (2015: 4%). Net debt as a percentage of average total assets (less cash) stood at 42% (2015:20%). Overall, we consider the Company's leverage to be moderate.

Prior to the year end, LAP began the implementation of a restructuring plan across the entire business in a bid to improve profitability and generate positive operating cash flow. Thus, the Company has improved its route-to-market strategy, with the optimization of its distribution channels and marketing focus. The restructuring plan is expected to strengthen Lafarge's market position and overall financial condition.

Based on the foregoing and the strong parental support demonstrated over the years, we have assigned Lafarge Africa Plc. an **'A'** rating.

Figure 1: Strengths, Weaknesses, Challenges and Threats

Strengths

- Strong parental support from LafargeHolcim Group
- Good market position
- Experienced management team
- Wide distribution network

Weaknesses

- Inadequate working capital
- High financing costs

Challenges

- Volatility in gas supply
- Sustaining market share and position in the face of growing competition.

Threats

- Vulnerability to persistent devaluation of domestic currency
- Low consumer purchasing power

Table 1: Rating Triggers

Less than 10% growth in top line
Recording a negative operating cash flow
Financing costs remaining above 5% of turnover
Inability to raise additional long term funds

PROFILE OF LAFARGE AFRICA PLC.

Lafarge Africa Plc. is a leading building materials company, specialising in the provision of diversified building material solutions in Africa. The Company is a member of the LafargeHolcim Group, a world leader in the manufacture of cement, aggregates and concretes.

Lafarge Africa Plc. (formerly Lafarge Cement Wapco Nigeria Plc.) was incorporated in Nigeria on 24 February, 1959 and commenced operations on 10 January, 1961 with its plant in Ewekoro, Ogun State. The second factory was established in Sagamu, also in Ogun State in 1978. In 1979, the Company was listed on the Nigerian Stock Exchange and is the second largest cement manufacturing company in Nigeria by cement production.

LAP commenced production, with an initial installed capacity of 200,000 tons per annum (TPA), which has grown over the past decades to 14.1 million TPA, through organic and inorganic growth. Lafarge S.A. France became the majority shareholder of WAPCO, following the take-over of Blue Circle Industries Plc. in 2001, The Company's name was changed to Lafarge Cement WAPCO Nigeria Plc. in 2008 and in 2011 Lafarge Readymix Nigeria Limited (Readymix) commenced operations as a wholly owned subsidiary of the Company. In September 2014, Lafarge Cement Wapco Nigeria Plc. was renamed Lafarge Africa Plc., as a vehicle for the acquisition of Lafarge Group's equity holding in AshakaCem, Lafarge South Africa Holdings (Pty) Limited (LSAH), Atlas Cement Company Nigeria Limited and its indirect holding in United Cement Company of Nigeria Limited (Unicem).

In July 2015, Lafarge S.A. France merged with Holcim Group of Switzerland to become *"LafargeHolcim"* the world leading company in cement, concretes, aggregates and asphalt. LafargeHolcim has an installed cement production capacity of 353.3 metric tons, with 2,300 operating plants in more than 80 countries globally.

Figure 2: Holding Structure

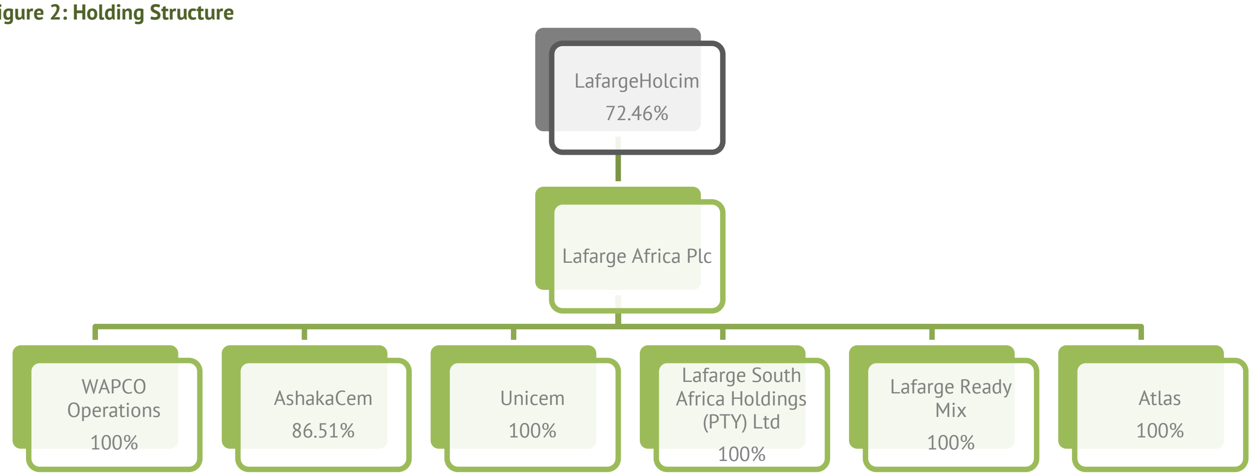
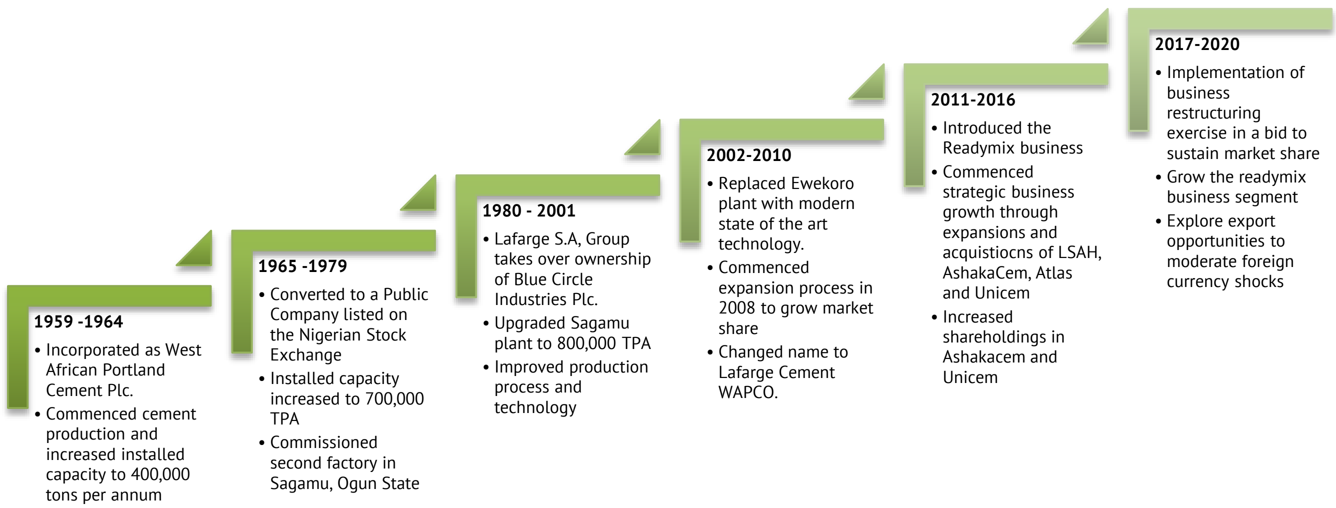


Figure 3: History of Lafarge Africa Plc.



Lafarge Africa Plc. primarily engages in the manufacturing and marketing of cement and other cementitious products such as Ready-Mix concrete, Aggregates and Fly-Ash. The Company offers a wide range of products primarily under the brand names of Ashaka, Elephant, UniCem, Readymix Concrete, and Aggregates, as well as Buildcrete, DuraBuild, DuraPozz, FastCast, PozzFill, Powercrete Plus and SuperPozz. The Company's offerings are channelled through trade customers and contractors. Lafarge Africa Plc. operates mainly in Nigeria and South Africa through six affiliated companies, with an installed cement capacity of 14.1 million metric tonnes per annum (mmtpa), aggregates capacity of more than 5 mmtpa, ready-mix concrete capacity of 3.5 million cubic meter. Cement is of critical importance in closing Nigeria's infrastructure gap estimated at $100 billion[2] given its application in the construction of roads, bridges, houses and other infrastructural activities.

LafargeHolcim's equity stake (72.46%) in LAP is held through its subsidiaries namely; Associated International Cement Limited (21.98%), Financiere Lafarge SAS (14.52%), Lafarge Associated Nigeria Limited (14.14%), Holcibel S.A. (8.28%), Lafarge Nigeria (UK) Limited (7.79%) and Lafarge Cement International BV (5.79%).

As at 31 December 2016, LAP had by a seventeen-man Board of Directors, comprising three Executives and 14 Non-Executive Directors (NED). Mr. Mobolaji Balogun is the Chairman of the Board, while Mr. Michel Puchercos (French) is the Group Chief Executive Officer. In September 2016, Mr. Anders Kristiansson resigned from the Board as an Executive Director. Subsequent to year end, Mrs. Adepeju Adebajo (formerly Managing Director of Geocycle and Project Management) resigned from the Board, following her appointment as Commissioner in the Ogun State Government in March 2017.

In 2017, the Board size was restructured to 11 from17, reducing the number of Non-Executive Directors. As a result, four NED including Mr. Jean-Christophe Barbant, Mr. Joe Hudson, Mrs. Oludewa Edodo and Mr. Thierry Metro all resigned from the Board in June 2017. LAP's Board has four sub-committees to assist with its governance and oversight roles namely Finance & Strategic Planning Committee, Nomination & Remuneration Committee, Risk Management & Ethics Committee and Property Optimisation Committee.

[2] Infrastructure Concession Regulatory Commission

Table 2: List of Directors

Directors	Position
Mr Mobolaji Balogun	Chairman
Mr. Guillaume Roux	Vice Chairman
Michel Pucheros	Group Managing Director
Dr Adebayo Jimoh	Non-Executive Director
Mr. Jean-Carlos Angulo	Non-Executive Director
Ms. Sylvie Rochier	Non-Executive Director
Mr. Adebode Adefioye	Non-Executive Director
Dr Shamsudeen Usman	Non-Executive Director
Mrs. Adenike Ogunlesi	Non-Executive Director
Mrs. Elenda Giwa-Amu	Non-Executive Director
Alhaji Kwairanga Umaru	Non-Executive Director

The Company has five subsidiaries including AshakaCem Plc., Atlas Cement Company Limited, Lafarge Ready Mix Nigeria Limited, Lafarge South Africa Holdings and United Cement Company of Nigeria.

AshakaCem Plc. (AshakaCem) was incorporated in Nigeria on 7 August, 1974 as a private limited company. The company commenced production in 1979 as a cement manufacturing and marketing company under the name Ashaka Cement Company Limited. The company was formed by Nigerian Industrial Development Bank Limited (defunct), the Nigerian Bank for Commerce and Industry (defunct), Northern Nigeria Investment Limited and the Government of the then North- Eastern State (now Adamawa, Bauchi, Borno, Gombe, Taraba and Yobe States). AshakaCem currently has an installed production capacity of 1 million metric tons per annum and has plans to expand its capacity for growth and value creation. The company has 11 depots and three liaison offices in Nigeria spread across the North. Following a series of acquisition, Lafarge Africa Plc. now holds 86.51% equity stake in AshakaCem Plc. to 86.51% through its voluntary tender offer undertaken on the same terms as the offer accepted in 2015.

Atlas Cement Company Limited (Atlas) was incorporated on 24 September, 1999 and was a wholly owned subsidiary of Lafarge Nigeria (UK) Limited. The company commenced operations as a bulk cement packing terminal in 2001 in Rivers State, within the federal ocean terminal, Onne. The plant was operated on a floating vessel, which had a nominal capacity to pack 500,000 metric tons of cement per annum, following the ban on importation of bulk cement. The Atlas terminal serves as a hub for distribution of cement and readymix in the South East and South South regions of the country.

Lafarge Ready-mix Nigeria Limited (Ready-mix) is a 100% owned subsidiary of Lafarge Africa Plc. Ready-mix was established in 2010 to meet the demand for already prepared concrete mix in large construction sites. The company commenced operation in September 2011 as the first commercial ready-mix concrete business in Nigeria. Leveraging the Group's 50 years of experience in concrete and aggregates business, Lafarge Africa Plc. through its Ready-mix business produces quality and innovative concrete and aggregates solutions. Ready-mix operates currently in Lagos, Abuja, Port-Harcourt and Ewekoro and plans are underway to spread to other states of Nigeria in the near future.

Lafarge South Africa Holdings (Pty) Limited (LSAH) is 100% owned by Lafarge Africa Plc and has three subsidiaries – Lafarge Industries South Africa, Lafarge Mining South Africa and Ash Resources. Through the three subsidiaries, LSAH serves the South African building materials market and its environs with a total cement installed capacity of 3.6 mmtpa in a single location, operating about 21 aggregates quarries, 53 ready-mix concrete plants and 6 mobile ready-mix plants with a combined capacity in excess of 3 million cubic meters.

United Cement Company of Nigeria Limited (Unicem) located in Calabar, Cross River State was incorporated as a private limited liability company in September, 2002 by Nigerian Cement Holdings B.V (NCH B.V.) after acquiring the assets of moribund Calabar Cement Company (CalCemCo). Unicem has an installed cement capacity of 5 million metric tons per annum, following the commissioning of a new line in 2017. Nigerian Cement Holdings B.V (NCH B.V.) held 70% equity stake and the balance held by Flour Mills of Nigeria Plc.

In September, 2014, Lafarge Africa acquired a 50% shareholding in Egyptian Cement Holding B.V., (ECH) a cement company which owns 100% equity investment in NCH, which gave LAP a 35% indirect ownership of Unicem. In November, 2014, Lafarge Africa Plc. and ECH, through NCH concluded an arrangement to acquire 30% equity in two tranches previously held by Flour Mills of Nigeria (FMN) Plc. in NCH which increased its indirect equity in Unicem to 50%. ECH is jointly owned with Holcibel S.A, a subsidiary of Holcim Group. Following the merger of Lafarge Group and Holcim Group in 2015, Lafarge Africa acquired Holcibel's 50% equity in ECH, thus increasing its indirect ownership of Unicem to 100%

Table 3: List of Subsidiaries

	Business Focus	Ownership Stake
Atlas Cement Company	Import terminal and distribution hub	100%
Lafarge South Africa Holding Ltd	Cement Production, Ready-mix concrete and aggregates	100%
Lafarge Ready Mix Nigeria Ltd	Ready-mix concrete and aggregates	100%
Ashaka Cement Plc.	Cement Production	86.51%
United Cement Company	Cement Production	100%

As at 31 December 2016, Lafarge's total assets stood at ₦537.6 billion and the Company's total revenue amounted to ₦87 billion while profit for the period was ₦20.7 billion.

Table 4: Background Information as at 31 December 2016

Authorized Share Capital:	₦5 billion
Paid-up Capital:	₦2.7 billion
Shareholders' Funds:	₦ 249 billion
Registered Office:	27B Gerrard Road, Ikoyi, Lagos State, Nigeria
Principal Business:	Manufacturing and marketing of cement products
Auditors:	Ernst & Young

FINANCIAL CONDITION

ANALYSTS' COMMENTS

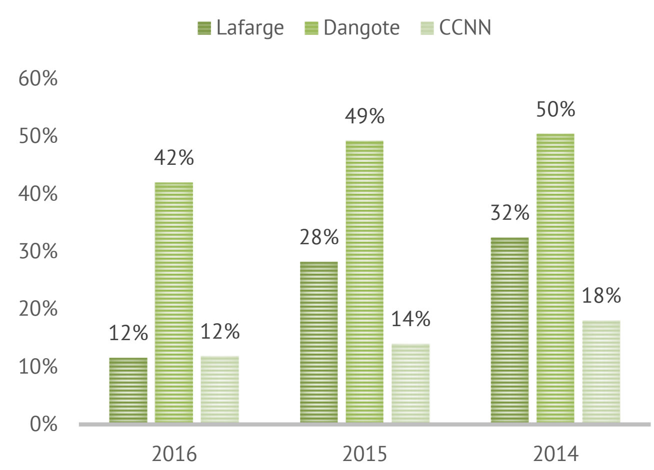
The analysis on financial condition reviews the financial statements of the Company.

PROFITABILITY

The weakened macroeconomic climate, exacerbated by the devaluation of the domestic currency and continued inflationary pressures negatively influenced consumer spending in the 2016 financial year. As a result, national demand for cement dipped. However, cement producers increased prices in H2 2016 in a bid to moderate the impact of the macroeconomic headwinds. During the year ended 31 December 2016, Lafarge's topline performance dipped by 24% to ₦87.2 billion, on the back of gas shortage which adversely affected production output and low demand due to lower consumer purchasing power.

In the same period, Cost of sales as a percentage of revenue increased to 73.8% (2015: 61.2%), due to increase in cost of input and the dip in revenue. Subsequent to 2016 year end, cost of sales to revenue ratio improved to c. 56% in H1 2017, following the increasing use of alternative cheaper energy which enhanced fuel flexibility across its plants as well as increase in cement price. In line with the inflationary pressures that persisted during the year, operating expenses to revenue weakened to 14.6% from 10.5% in 2015. Going forward, Management expects operating expenses to moderate, due to the optimization and increased efficiency in LAP's distribution strategy as well as fuel flexibility.

Figure 4: Operating Profit Margin



Lafarge's operating profit margin (OPM) trended downwards to 11.6% - lowest recorded in the last five years, on account of the significant dip in revenue and increase in input costs during the year. Similarly, OPM of other industry players dipped with - Dangote Cement Plc (Dangote) OPM of 42% (2015: 49%) and Cement Company of Northern Nigeria (CCNN) OPM of 12% (2015:14%). However, over the last three years (2014-2016), the Company's operating profit margin averaged 24.1%. Subsequent to 2016 year end, operating profit margin trended up to 29.4%, bolstered by the increase in cement prices which began in Q4 2016 up until Q1 2017. Management is optimistic that the Company's operating profit margin will close the 2017 year around 30%, due to improvement in operational strategies as well as the renewed marketing drive. In the year ended 31 December 2016, Lafarge's other income which consists mainly of foreign exchange gains and interest receivable from loan to a subsidiary company increased significantly to ₦16.5 billion (2015: ₦0.8 billion). As a result, profit before interest and taxation rose marginally to 30.5% (2015: 29%).

LAP's interest expense more than doubled to ₦6.7 billion, due to high foreign exchange (FX) translation losses. As a result, the ratio of interest expense to sales stood at 7.7% - highest recorded in the last decade. We believe the FX loans to the subsidiary will continue to be a drag on the performance of LAP especially given the recent volatility in the domestic currency. During the year ended 31 December 2016, pre-tax profit dipped significantly by 36% to ₦19.9 billion from ₦30.9 billion the prior year. Similarly, profitability ratios trended downwards, with pre-tax return on average assets of 4.3% and pre-tax return on average equity of 6.5%. Lafarge's profitability ratios are lower than peers – Dangote (ROA: 28.5% and ROE: 43.3%) and CCNN (ROA: 9.4% and ROE: 16.1%). In our opinion, Lafarge Africa Plc.'s overall profitability is requires improvement.

Figure 5: Pre-Tax Return on Average Assets

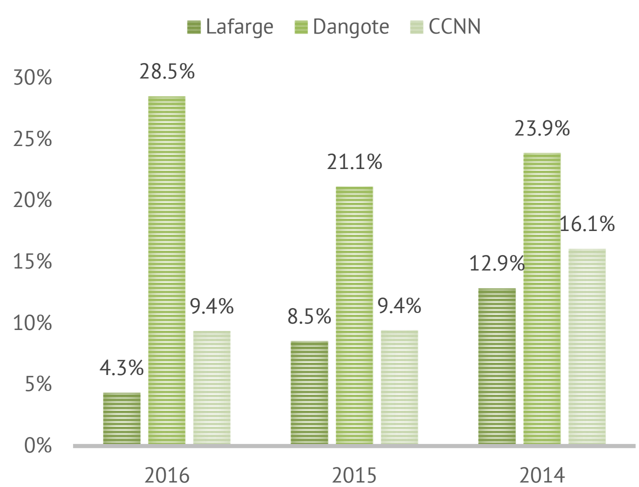
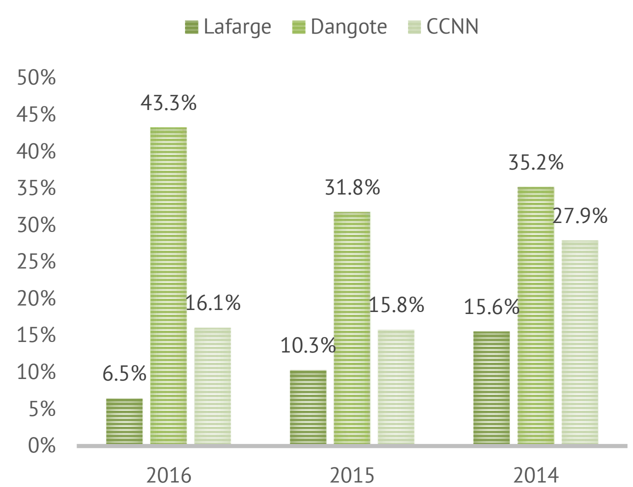


Figure 6: Pre-Tax Return on Average Equity



In Q4 2016, LAP commenced a business restructuring exercise focused on marketing, logistics and distribution aspects of the Company in a bid to increase sales and lower costs. Management has disclosed that the restructuring exercise has begun yielding positive results, with a pre-tax profits of ₦16.9 billion and annualised pre-tax ROE of 10% in the six-month ended 30 June 2017. We expect profitability by FYE 2017 to trend upwards, as the Company continues to moderate operating expenses.

CASH FLOW

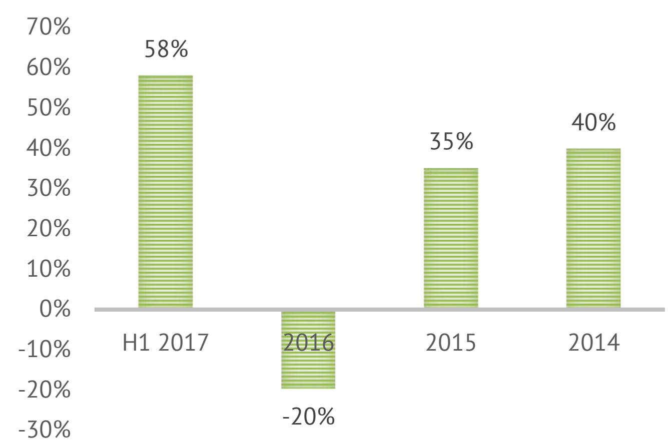
Though Lafarge Africa Plc.'s trade terms are largely on cash basis, the Company also offers credit sales not exceeding 30 days to well-established customers who meet its credit policy. Lafarge also enjoys favourable terms of trade with its suppliers, with average trade creditors' period between 30 and 60 days.

The weakened macroeconomic environment coupled with the low consumer spending and decline in government revenue adversely affected the performance of the domestic Cement market. LAP recorded a negative operating cash flow (OCF) in the year ended 31 December 2016, following the decline in trade creditors and the significant increase in amounts due from related parties (₦44.3 billion). As a result, OCF to sales was negative 20%. LAP resorted to short term borrowings to meet returns to providers of financing comprising interest payment (₦6.74 billion) and dividend (₦4.85 billion).

However, over the last three years, the Company's cumulative OCF of ₦65.5 billion was adequate to cover returns to providers of financing amounting to ₦39.5 billion and estimated mandatory capital expenditure of ₦21.2 billion. Over the same period, OCF as a percentage of sales averaged 19% (2014-2016), which is within our expectation.

In H1 2017, the Company reported a positive OCF of ₦12.8 billion, following the growth in net income, largely driven by the uptick in product prices during the period. As a result, OCF to sales ratio stood at 58%, well above our benchmark. Going forward, management expects to maintain this trend, with a number of initiatives undertaken to improve its route-to-market strategies while optimizing its distribution channels. In our opinion, the Company has a good cash generating capacity, however, the overall cash flow position in 2016 was weak, impaired by the large amounts due from related parties.

Figure 7: Operating Cash Flow to Sales

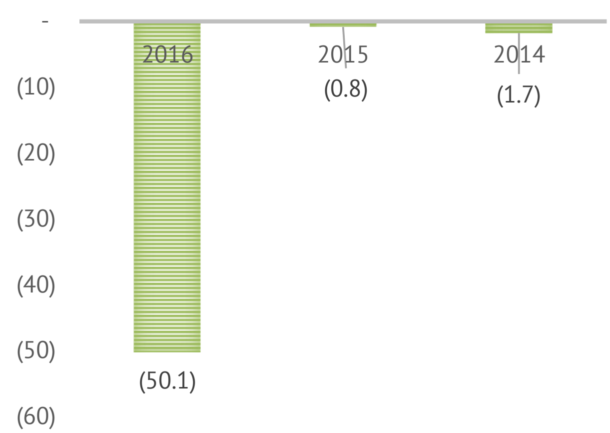


Financing Structure and Adequacy of Working Capital

As at 31 December 2016, Lafarge's working assets stood at ₦68.6 billion, representing a significant 263% growth from the previous year, largely due to the spike in amounts due from related parties and inventory. Amounts due from related parties increased significantly to ₦50.7 billion (2015: ₦6.4 billion), largely comprising receivables from related parties (₦16.2 billion) and the proceeds of the unsecured intercompany loan obtained by LAP from Holderfin[3] given to Unicem for the repayment of its foreign loans amounting to ₦30.4 billion as at year end. Over the last three years, amounts due to related parties have trended upwards, following the Company's strategic objective to consolidate its positioning in the cement industry through a number of acquisitions and capacity expansion.

Lafarge's spontaneous financing inched up by 15% to ₦75.7 billion, due to the 105% increase in dividend payables and other creditors & accruals. In the review period, spontaneous financing was sufficient to cover working assets, resulting in a short term financing surplus of ₦7.1 billion. This is consistent with Industry practice, as advance payments for products are received before goods are delivered by most operators.

Figure 8: Working Capital Surplus / (Deficiency) ₦' billion



As at 31 December 2016, long term assets stood at ₦461.4 billion, representing a 30% growth from the prior year. The increase in long term assets is primarily attributable to a loan receivable (₦16.9 billion) and the proceeds of the ₦60 billion Bond[4] given to its subsidiary – United Cement Company of Nigeria Limited during the period under review. As at year end, Lafarge's long term assets comprised investments in subsidiary (53%), PP&E (25%), other long term assets (20%) and spares (2%). As at 31 December 2016, the Company's long term funds of ₦404.1 billion which comprised equity (84%) and long term borrowings (16%) were insufficient to finance the Company's long term assets, leaving a long term financing need of ₦57.3 billion. Lafarge's short term financing surplus was inadequate to cover the long term financing need, thus resulting in a working capital deficiency of ₦50.1 billion, which was finance with short term borrowings as at year end.

Going forward, Management has disclosed plans to raise ₦131 billion rights issue to address the Company's working capital and financing needs. Agusto & Co. is of the view that except Lafarge injects additional long term funds either by way of equity or debt, LAP's working capital deficiency may persist. In our opinion, Lafarge's overall working capital is inadequate.

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[3] Holderfin B.V. is a subsidiary of Holcim Limited, operating in the cement production industry, and is based in Amsterdam, The Netherlands.
[4] The Bond was issued in two tranches of ₦26.4 billion at 14.25% and ₦33.6 billion at 14.75% with maturities in 2019 and 2021 respectively.

Leverage

As at 31 December 2016, Lafarge Africa Plc.'s total liabilities stood at ₦197.5 billion, representing a significant 151% growth from the prior year. This growth is primarily due to the increase in total borrowings. As at 31 December 2016, interest bearing liabilities (IBL) accounted for 62% of total liabilities, while non-interest bearing liabilities (NIBL) represented the balance of 38%.

As at 31 December 2016, NIBL stood at ₦75.7 billion, representing a 15% growth from the prior year, due to the increase in other creditors and accruals and dividend payable. As at 2016 year end, non-interest bearing liabilities consisted largely of other creditors & accruals (27%), deferred taxation (24%), trade creditors (19%) and dividend payable (18%).

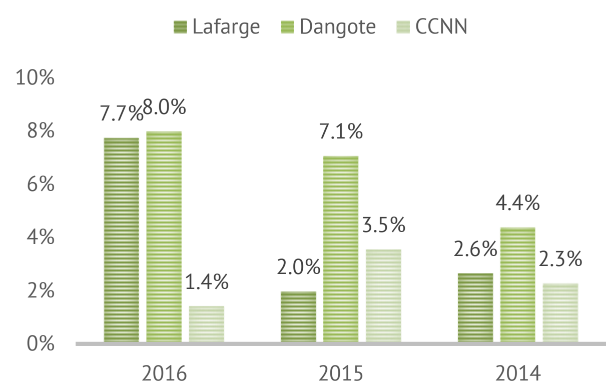
As at year end, interest bearing liabilities (IBL) stood at ₦121.8 billion, representing 8 times the previous year's level. This is due to the ₦60 billion bond issued in the year to refinance the borrowings of its subsidiary – United Cement Company of Nigeria Limited (Unicem). The Company's borrowings also includes a related party loan of $88.4 million obtained from Holderfin B.V. (member of the LafargeHolcim Group) utilised to repay its dollar syndicated bank loans in Unicem and was hedged with a 1-year foreign exchange forward.

Management has disclosed that the FX denominated facilities are legacy loans obtained by Unicem from its previous parent companies (ECH and NCH) during the plant expansion phase. Total foreign exchange indebtedness amounted to $595 million, comprising shareholder loans ($88.4 million) and quasi-equity ($506.7 million). FCY exposure in quasi-equity amounted to $506.7 million, of which $305.2 million was used to fund Unicem expansion program and the balance of $201.4 million was used for the acquisition of Flour Mills of Nigeria Plc.'s equity interest in Unicem. Following the devaluation of the domestic currency and the foreign exchange translation losses of ₦38 billion as at year end, Lafarge restructured its FCY-denominated shareholders loans to quasi-equity to limit the impact of FX volatility on the Company's earnings.

In April 2017, LAP refinanced part ($220 million) of the quasi-equity with a new shareholder loan at favourable terms, thus reducing the quasi-equity amount to $286.7 million. As a result, total shareholder loans amounted to $308.4 million as at April 2017. The Company has hedged the shareholder loans in order to reduce future FX losses. Management has disclosed plans to convert the legacy debts to equity, with the aim of simplifying the capital structure of the Company.

During the FYE 2016, LAP's interest expense to sales ratio inched up significantly to 7.7% (2015: 2%), on account of increased borrowings. Notwithstanding, Lafarge's ratio of interest expense to sales was comparable with Dangote of 8% but higher than CCNN of 1.4%. Over the last three years (2014-2016), net debt as a percentage of average total assets (less cash) averaged 30% and was within our expectation. As at year end, total IBL to equity of 36% is within our expectation. Overall, we consider the Company's leverage to be moderate.

Figure 9: Interest Expense to Sales Ratio



OWNERSHIP, MANAGEMENT & STAFF

As at 31 December 2016, Lafarge Africa Plc.'s authorised share capital stood at ₦5 billion, of which ₦2.74 billion are issued and fully paid up. The Company is a publicly traded entity listed on the Nigerian Stock Exchange and has over 65,000 shareholders. LafargeHolcim is the largest institutional shareholder accounting for 72.59% equity stake in the Company. As at year end, domestic institutional investors accounted for 16.02%, other foreign institutional investors represented 5.41% while retail investors accounted for the balance of 5.99%.

Table 5: Significant Shareholders

	Equity Holdings
Associated International Cement Ltd	21.98%
Financiere Lafarge SAS	14.55%
Lafarge Associated Nigeria Limited	14.17%
Holcibel S.A	8.29%
Lafarge Nigeria (UK) Limited	7.80%
Lafarge Cement International BV	5.80%
LafargeHolcim	**72.59%**
Other Shareholders	27.41%

As at 31 December 2016, Lafarge Africa Plc. had a 17 member Board of Directors, which is led by the Chairman, Mr. Mobolaji Balogun, while the Managing Director/Chief Executive Officer is Mr. Michel Puchercos. The Board which comprises three executive and 14 non-executive directors. Subsequent to year end, the Board composition changed, comprising two executive directors and nine non-executive directors as at 30 June 2017.

Lafarge's management team comprises 11 members, each reporting directly to the MD/CEO. Over 50% of the management team have worked within the Lafarge Group in various roles before their current positions in Lafarge Africa Plc. In addition, the other members of the management team have relevant working experience with some large reputable manufacturing companies. In our opinion, LAP's management is qualified and experienced.

As at 31 December 2016, Lafarge Africa Plc. had 899 employees compared to 764 employees in the prior year. In the year under review, the Company's average cost per employee amounted to ₦7.7 million, while the net earnings contribution per staff stood at ₦22.1 million. Net earnings contribution per staff covered the average cost per employee 2.87 times, which in our opinion indicates satisfactory staff productivity.

Management Team

Mr. Michel Puchercos is the Group Managing Director / Chief Executive Officer. He took over from Mr. Peter Hoddinott, as GMD/CEO in March 2016. Mr. Puchercos started his career in 1982 at the French Ministry of Agriculture and served as a Director of Orsan, a subsidiary of Lafarge from 1989. He worked in senior executive positions in a number of Agro- Food and Chemical Industries in Europe- Jungbunzlauer SA as Executive President from 1992-1994, General Manager of the Cana Group from 1994-1996 and Executive Vice President of Doux, a leading European Group specializing in poultry from 1996 -1998. Mr. Puchercos returned to Lafarge in 1998 when he was appointed as Director of Strategy and Information Systems of the Gypsum division. In 2003, he moved to the Cement Division as Director of Cement strategy, until his reassignment to Bamburi Cement as Managing Director in September 2005. In 2009 he was appointed the President and CEO of Lafarge South Korea Japan Operations. Mr. Puchercos is a graduate of the Ecole Polytechnique (1976) and the Ecole Nationale du Génie Rural, des Eaux et des Forêts (1981).

Mr. Bruno Bayet is the Chief Financial Officer (CFO) of Lafarge Africa Plc. He succeeded Mr. Anders Kristiansson, as CFO in October 2016. Mr. Bayet has over 15 years work experience in the materials and construction industry. Prior to his appointment, he was Manager, Corporate Finance, with PwC from 1998 to 2005, and Senior Analyst in the Investment team of Groupe Bruxelles Lambert from 2005 to 2011. Mr. Bayet was an executive committee member of Enterprise Generale Malta Forrest (RDC) from 2011 to 2013, specializing in mining and construction. He joined Lafarge in 2013 as a Director in AshakaCem Plc. and was appointed Chief Financial Officer in September 2014. He holds a Business Engineering degree from Universite Catholique de Louvain-la-Neuve in Belgium, and completed his Master’s degree in Business Administration at Georgetown University, specialising in Financial Risks Management.

Other members of the Lafarge Africa Management team include:

Abdel-Ileh Chouar	Industrial Director
Fidelia Osime	Country Organization & Human Resources Director
Folashade Ambrose Medebem	Communications, Public Affairs & Sustainable Development Director
Graeme Bride	Health & Safety Director
Marlene Kiniffo-Zounon	Sales Director
Vipul Agrawal	Marketing Director
Bruno S. Hounkpati	Logistics Director
Lolu Alade-Akinyemi	Procurement Director
Edith Onwuchekwa	Legal Director
Rabiu Abdullahi Umar	Managing Director, AshakaCem Plc.
Raymond Chambers	Head of Aggregates & Concrete

OUTLOOK

The 2016 financial year was marked with several macroeconomic challenges which adversely affected the financial performance of cement companies in Nigeria. Lafarge Africa Plc.'s 2016 financial performance was constrained by production and operational challenges, owing to gas shortages, resulting in a dip in production volumes and revenue. Notwithstanding, the Company maintained its 2nd position in the Nigerian cement industry, supported by the strategic acquisitions and organic growth over the years. The Lafarge brand continues to thrive on the strong financial and technical support from the parent company – LafargeHolcim as well as its diversified building material solutions.

In the period under review, LAP consolidated the operations of its cement subsidiaries including AshakaCem and Unicem to maintain its position as one of the leading cement companies in the country, with production facilities in three geo-political regions of Nigeria. In Q4 2016, the Company began the implementation of a restructuring plan across the entire business covering marketing, logistics, distribution and energy optimization, in a bid to restore profitability and generate positive operating cash flow. Lafarge is improving its procurement and logistics processes to increase local sourcing and reduce reliance on FX. The Company has also enhanced its route-to-market strategy by improving the distribution and marketing drive to sustain its market share.

Unaudited accounts for the six months ended 30 June 2017 show positive trend in topline, driven by the restructuring exercise and the renewed marketing focus. Profitability ratios also trended upwards, as pre-tax profit margin stood at 32.4% and annualized pre-tax ROE stood at 10%. We note that the strength of the gains recorded in H1 2017 is predicated on improved operational efficiency, increasing use of alternative cheaper energy sources, easier access to FX, cost efficiencies and innovative building material solutions.

Going forward, we expect profitability to be sustained by the restructuring initiatives which has led to improved operational efficiency, lowered costs and enhanced route-to-market strategy. We expect cash flow to be positive, provided the growth in H1 2017 revenue is sustained and terms of trade remains favourable. In our view, we expect leverage to taper moderately, while working capital deficiency should dip, premised on the success of the proposed ₦131 billion equity raising exercise in the near term. Therefore, Agusto & Co. expects the Company's financial condition to improve by FYE 2017. Based on the aforementioned we have assigned a **stable** outlook to Lafarge Africa Plc.

Financial Summary

STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-16		31-Dec-15		31-Dec-14	
	₦'000		₦'000		₦'000	
ASSETS						
IDLE CASH	7,653,851	1.4%	6,476,368	1.7%	2,360,238	0.7%
MARKETABLE SECURITIES & TIME DEPOSITS	-		-		-	
CASH & EQUIVALENTS	7,653,851	1.4%	6,476,368	1.7%	2,360,238	0.7%
FX PURCHASED FOR IMPORTS						
ADVANCE PAYMENTS AND DEPOSITS TO SUPPLIERS	2,756,486	0.5%	1,371,083	0.4%	491,731	0.1%
STOCK	11,498,146	2.1%	8,143,267	2.1%	7,577,975	2.2%
TRADE DEBTORS	1,848,128	0.3%	1,928,773	0.5%	1,614,151	0.5%
DUE FROM RELATED PARTIES	50,728,218	9.4%	6,443,308	1.7%	3,754,039	1.1%
OTHER DEBTORS & PREPAYMENTS	1,732,431	0.3%	1,016,067	0.3%	1,854,363	0.5%
TOTAL TRADING ASSETS	68,563,409	12.8%	18,902,498	5.0%	15,292,259	4.5%
INVESTMENT PROPERTIES						
OTHER NON-CURRENT INVESTMENTS	243,964,396	45.4%	211,903,225	55.6%	198,173,967	57.7%
PROPERTY, PLANT & EQUIPMENT	114,617,300	21.3%	118,251,256	31.0%	120,154,329	35.0%
SPARE PARTS, RETURNABLE CONTAINERS, ETC	11,066,682	2.1%	7,599,635	2.0%	7,646,765	2.2%
GOODWILL, INTANGIBLES & OTHER L T ASSETS	91,732,574	17.1%	18,139,971	4.8%	-	
TOTAL LONG TERM ASSETS	461,380,952	85.8%	355,894,087	93.3%	325,975,061	94.9%
TOTAL ASSETS	**537,598,212**	**100.0%**	**381,272,953**	**100.0%**	**343,627,558**	**100.0%**
Growth	*41.0%*		*11.0%*		*114.9%*	
LIABILITIES & EQUITY						
SHORT TERM BORROWINGS	15,436,877	2.9%	2,434,475	0.6%	717,382	0.2%
CURRENT PORTION OF LONG TERM BORROWINGS	42,366,463	7.9%	4,884,444	1.3%	3,384,444	1.0%
LONG-TERM BORROWINGS	64,014,218	11.9%	5,672,992	1.5%	7,057,436	2.1%
TOTAL INTEREST BEARING LIABILITIES (TIBL)	121,817,558	22.7%	12,991,911	3.4%	11,159,262	3.2%
TRADE CREDITORS	14,225,759	2.6%	21,075,395	5.5%	20,142,471	5.9%
DUE TO RELATED PARTIES	1,827,377	0.3%	488,084	0.1%	585,322	0.2%
ADVANCE PAYMENTS AND DEPOSITS FROM CUSTOMERS	6,041,157	1.1%	6,386,585	1.7%	8,509,356	2.5%
OTHER CREDITORS AND ACCRUALS	20,157,541	3.7%	9,820,632	2.6%	3,969,789	1.2%
TAXATION PAYABLE	363,625	0.1%	606,850	0.2%	742,539	0.2%
DIVIDEND PAYABLE	13,459,412	2.5%	3,406,120	0.9%		
DEFERRED TAXATION	18,031,333	3.4%	18,900,873	5.0%	18,021,055	5.2%
OBLIGATIONS UNDER UNFUNDED PENSION SCHEMES	1,580,307	0.3%	4,994,634	1.3%	3,833,426	1.1%
MINORITY INTEREST	-		-		-	
REDEEMABLE PREFERENCE SHARES						
TOTAL NON-INTEREST BEARING LIABILITIES	75,686,511	14.1%	65,679,173	17.2%	55,803,958	16.2%
TOTAL LIABILITIES	197,504,069	36.7%	78,671,084	20.6%	66,963,220	19.5%
SHARE CAPITAL	2,740,367	0.5%	2,277,451	0.6%	2,202,088	0.6%
SHARE PREMIUM	217,528,456	40.5%	186,419,988	48.9%	173,997,568	50.6%
IRREDEEMABLE DEBENTURES	-		-		-	
REVALUATION SURPLUS						
OTHER NON-DISTRIBUTABLE RESERVES	-		-		-	
REVENUE RESERVE	119,825,320	22.3%	113,904,430	29.9%	100,464,682	29.2%
SHAREHOLDERS' EQUITY	340,094,143	63.3%	302,601,869	79.4%	276,664,338	80.5%
TOTAL LIABILITIES & EQUITY	**537,598,212**	**100.0%**	**381,272,953**	**100.0%**	**343,627,558**	**100.0%**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	31-Dec-16		31-Dec-15		31-Dec-14	
	₦'000		₦'000		₦'000	
TURNOVER	87,198,416	100.0%	114,558,245	100.0%	105,848,657	100.0%
COST OF SALES	(64,326,776)	-73.8%	(70,116,635)	-61.2%	(61,862,716)	-58.4%
GROSS PROFIT	22,871,640	26.2%	44,441,610	38.8%	43,985,941	41.6%
OTHER OPERATING EXPENSES	(12,764,710)	-14.6%	(12,068,835)	-10.5%	(9,625,019)	-9.1%
OPERATING PROFIT	10,106,930	11.6%	32,372,775	28.3%	34,360,922	32.5%
OTHER INCOME/(EXPENSES)	16,524,008	18.9%	795,068	0.7%	796,602	0.8%
PROFIT BEFORE INTEREST & TAXATION	26,630,938	30.5%	33,167,843	29.0%	35,157,524	33.2%
INTEREST EXPENSE	(6,742,176)	-7.7%	(2,249,070)	-2.0%	(2,804,528)	-2.6%
PROFIT BEFORE TAXATION	19,888,762	22.8%	30,918,773	27.0%	32,352,996	30.6%
TAX (EXPENSE) BENEFIT	889,586	1.0%	(1,081,378)	-0.9%	(3,992,850)	-3.8%
PROFIT AFTER TAXATION	20,778,348	23.8%	29,837,395	26.0%	28,360,146	26.8%
NON-RECURRING ITEMS (NET OF TAX)	46,775	0.1%	-		357,698	0.3%
MINORITY INTERESTS IN GROUP PAT						
PROFIT AFTER TAX & MINORITY INTERESTS	20,825,123	23.9%	29,837,395	26.0%	28,717,844	27.1%
DIVIDEND	(14,904,233)	-17.1%	(16,397,647)	-14.3%	(9,905,280)	-9.4%
PROFIT RETAINED FOR THE YEAR	5,920,890	6.8%	13,439,748	11.7%	18,812,564	17.8%
SCRIP ISSUES						
OTHER APPROPRIATIONS/ ADJUSTMENTS						
PROFIT RETAINED B/FWD	113,904,430		100,464,682		81,652,118	
PROFIT RETAINED C/FWD	119,825,320		113,904,430		100,464,682	
ADDITIONAL INFORMATION	**31-Dec-16**		**31-Dec-15**		**31-Dec-14**	
Staff costs (₦'000)	6,914,903		10,903,227		8,193,329	
Average number of staff	899		764		876	
Staff costs per employee (₦'000)	7,692		14,271		9,353	
Staff costs/Turnover	7.9%		9.5%		7.7%	
Capital expenditure (₦'000)	2,562,936		3,517,347		2,172,458	
Depreciation expense - current year (₦'000	5,170,285		5,298,867		5,145,482	
(Profit)/Loss on sale of assets (₦'000)	-		-		-	
Number of 50 kobo shares in issue at year end ('000)	5,480,734		4,554,902		4,404,176	
Market value per share of 50 kobo (year- end)	4,095		9,680		8,050	
Market capitalisation (₦'000)	224,436,057		440,914,514		354,536,168	
Market/Book value multiple	1		1		1	
Non-operating assets at balance sheet date (₦'000)	243,964,396		211,903,225		198,173,967	
Market value of tradeable assets (₦'000)						
Revaluation date - Investment properties						
Revaluation date - Other properties						
Average age of depreciable assets (years)	7		6		5	
Sales at constant prices - base year 1985 (₦'000)	343,731		535,431		542,119	
Auditors	**ERNST & YOUNG**		**AWDT**		**AWDT**	
Opinion	CLEAN		CLEAN		CLEAN	

CASH FLOW STATEMENT FOR THE YEAR ENDED			
	Dec-16	**Dec-15**	**Dec-14**
	₦'000	₦'000	₦'000
Operating cash flow (OCF)	(17,016,056)	40,244,188	42,269,669
Less: Returns to providers of finance	(11,593,117)	(15,240,597)	(12,709,808)
OCF after returns to providers of finance	(28,609,173)	25,003,591	29,559,861
Non-recurring items	47	-	358
Free cash flow	(28,609,126)	25,003,591	29,560,219
Investing activities	(110,657,150)	(35,217,893)	(202,620,777)
Financing activities	140,397,031	14,330,432	154,858,079
Change in cash	1,130,755	4,116,130	(18,202,479)
PROFITABILITY	**Dec-16**	**Dec-15**	**Dec-14**
PBT as % of Turnover	23%	27%	31%
Return on equity	6%	11%	18%
Real sales growth	-35.8%	-1.2%	0.9%
CASH FLOW			
Interest cover (times)	(2.5)	17.9	15.1
Principal payback (years)	-	0.7	0.5
WORKING CAPITAL			
Working capital need (days)	77	-	-
Working capital deficiency (days)	210	3	6
LEVERAGE			
Interest bearing debt to Equity	34%	2%	3%
Total debt to Equity	56%	24%	23%
IBD net of cash and Equiv. as a % of Equity without rev.	34%	2%	3%
Net Debt/Avg Total Assets Exc. Cash and Rev. Surplus	42%	20%	27%

RATING DEFINITIONS

Aaa	This is the highest rating category. It indicates a company with impeccable financial condition and overwhelming ability to meet obligations as and when they fall due.
Aa	This is a company that possesses very strong financial condition and very strong capacity to meet obligations as and when they fall due. However, the risk factors are somewhat higher than for Aaa obligors.
A	This is a company with good financial condition and strong capacity to repay obligations on a timely basis.
Bbb	This refers to companies with satisfactory financial condition and adequate capacity to meet obligations as and when they fall due.
Bb	This refers to companies with satisfactory financial condition but capacity to meet obligations as and when they fall due may be contingent upon refinancing. The company may have one or more major weakness (es).
B	This refers to a company that has weak financial condition and capacity to meet obligations in a timely manner is contingent on refinancing.
C	This refers to an obligor with very weak financial condition and weak capacity to meet obligations in a timely manner.
D	In default.

Rating Category Modifiers

A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

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