



TOKYO CEMENT COMPANY (LANKA) PLC

469 1/1, Galle Road, Colombo 03, Sri Lanka

T: (94 11) 2500466, 2587619, 2592308-9, 2508572

F: (94 11) 2500897, 2508582 E: ggm@tokyocement.lk

W: www.tokyocement.lk

4th May 2020

Mr. Renuke Wijayawardhane
Chief Regulatory Officer
Colombo Stock Exchange
04-01, West Block, World Trade Centre, Colombo 1

CORPORATE DISCLOSURE - REGARDING IMPACT OF COVID-19 ON TOKYO CEMENT COMPANY (LANKA) PLC AND ITS SUBSIDIARY COMPANIES

This disclosure is made in accordance with circular no. 06-04-2020 issued by the Colombo Stock Exchange on 20th April 2020 on the impact of the COVID-19 Pandemic on Tokyo Cement Company (Lanka) PLC and its subsidiaries.

Dear Shareholders,

We are doing everything in our power to best position the Company for long-term stability, while considering the COVID-19 impacts to all our key stakeholders. We have been forced to take proactive steps to reduce our expenditures and preserve our cash position. While this is requiring difficult short-term decisions, we are confident that our actions will lead us to a stronger future

THE IMPACT OF COVID – 19 PANDEMIC ON THE BUSINESS/ OPERATIONS OF THE COMPANY

1. The Company has been included in the list of essential services to operate, as a result we have been able to maintain production operations at our factory, save for a few days in March.
2. However, the lockdown and curfews, in addition to the closure of most construction sites, have restricted the distribution and retail of cement and dry mortar goods across the island. Consequently, the demand for the construction materials has declined from the fourth week of March to end April. However, April is seasonally the lowest performing month annually due to Sinhala Tamil New Year holidays. It is encouraging to note that we are seeing a resumption of construction activity, over the last few weeks, particularly outside of the Western Province, which in turn has increased cement and dry-mortar consumption.
3. The rapid currency depreciation is a source for concern as it will tighten margins, as our raw materials imports have considerable forex exposure against the Maximum Retail Price (MRP) of LKR 1,005/-.
4. Power generation and export to the national grid continued except for a short halt in operations at our Mahiyanganaya dendro plant.

THE COMPANY'S RESPONSE TO THE IMPACT OF THE COVID – 19 PANDEMIC

1. All on-site production, distribution and administrative operations are executed under the guidelines issued by the government, including but not limited to; sanitization and disinfection of

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Factory:

P.O.Box 2, Cod Bay, China Bay, Trincomalee, Sri Lanka

T: 026-2233291, 026-2233292, 026-2233165, 026-2233166

F: 026-2233293, 026-2233163

E: tokyofac@sltnet.lk

Company Registration No: PQ-115 PB/PQ



facilities, provision of PPE assets (safety gear) for employees, and stringent physical distancing to protect our people and customers. Numerous pre-emptive measures were taken in the lead up to lockdown, such as setting up the necessary facilities for employees to work from home.

2. The management has assessed the extent of the impact on performances and cashflows and taken several cost cutting measures with revisions to operations, selling and distribution, and administrative budgets. Whilst the Board of Directors will be foregoing their fees and the most senior executives will be taking temporary percentage cuts in remunerations, we have taken great care to protect our labour force and officers from any change in income. Further, we have a considerable component of our costs that are variable to actual production and distribution, that will adjust accordingly to the demand we cater. We intend to postpone nonessential capital expenditure, have negotiated deferment of some supplier settlements, implemented a recruitment freeze, and reduced certain overhead expenditure in a sustainable manner, i.e. temporary halt in overtime and contract labour.
3. We have made strides to increase our efficiencies to reduce our costs and forex exposure. These actions include the reduction in imports of bulk cement from the last quarter with the intention of increasing plant utilization, thereby redistributing our fixed costs over a larger volume of output. Further we have increased production of Blended Hydraulic Cement as a percentage of our product mix, thereby reducing some of our forex exposure in the import of clinker by substituting a portion of it with locally produced Fly Ash.
4. The Company has a long history of successfully navigating and managing economic cycles and turbulent uncertain times. We have taken additional steps to preserve liquidity and ensure the Company's financial flexibility. We are working with the banks to access the relief measures recommended by the Central Bank of Sri Lanka so that we might finance working capital expenditure with reduced financial cost.

EXPECTATION OF THE FUTURE IMPACT OF COVID – 19 ON FUTURE OPERATIONS AND FINANCIAL CONDITIONS

We expect a staggered return of workforce to construction sites as the curfews are eased and cross-district transportation guidelines are drawn. Ongoing projects that have secured financing are likely to continue and we are already seeing domestic retail consumption resume island wide. However, we expect a contraction in consumption across the industry due to cash flow and forex factors that might delay developers' ability to finance projects. Further, we do not expect to see a major resumption of government-funded infrastructure this year beyond general maintenance.

The local production capacity of the cement industry is 5.7Mn MT, about 90% of last year's national consumption of 6.3Mn Mt. However, local manufacturers only supplied 62% of the market's requirement due to saturation by importers. We recommend that the government remain steadfast in restricting cement imports that increase the nation's forex exposure, without necessarily adding value to the local economy. In the short run we are well placed and have targeted these markets catered to by importers. For every \$1 spent on import of raw materials for local production, \$2 is spent on cement imports, unnecessarily exasperating our national forex deficit. As the market will contract further due to the pandemic related economic impact, there is an opportunity for local manufacturers and job creators to service a larger slice of the market, whilst reducing our nation's outflow of forex that would go towards imports.

Due to the rapidly evolving environment and continued uncertainties from the impact of COVID-19, we are unable to provide an updated accurate outlook. Under Listing Rules and Regulations 7.4 of the Colombo Stock Exchange, Interim Unaudited Accounts for the 4th Quarter Ended 31st March 2020 has been extended and we expect to issue it before the due date.

However, by making timely announcements, the stakeholder will be kept informed of the additional actions the Company is taking to navigate the COVID-19 pandemic and its effects on its associates and the company's business and financial position.

Yours faithfully

TOKYO CEMENT COMPANY (LANKA) PLC

A handwritten signature in black ink, appearing to be 'S.R. Gnanam', written in a cursive style.

S.R. Gnanam
Managing Director