

Entry into Indian market bolsters Group region Asia Pacific

Economic progress continuing

The economy in Group region Asia Pacific has continued to make gratifying progress, although in the second half of the year higher energy prices and rising interest rates dampened the pace of growth in some countries.

This affected Thailand and Indonesia in particular, but the economic recovery in the Philippines was also slightly more muted than had been expected in the first half of the year. Growth was strong in India, where Holcim established a foothold during the period under review. Vietnam and the People's Republic of China also continued to enjoy dynamic growth. Macroeconomic conditions in Australia and New Zealand remained positive thanks to good domestic and export demand.

Brisk demand for construction materials

Demand for construction services, and with it cement consumption, revived in all Holcim markets in the region. The main stimuli came from private and public-sector residential construction and from the expansion of energy supplies and transport networks. This particularly applies to India, where population growth is showing no let-up. In some urban centers additional construction volume was generated by large-scale projects, including Bangkok's new international airport and the Subic-Clark expressway near Manila which is being constructed to develop the Zambales free port zone in the west of the main island of Luzon. In response to an increase in tourist numbers in Vietnam, medium-sized cities are now also building hotels and expanding infrastructure. Demand for commercial buildings in the urban areas around Ho Chi Minh City, Bangkok and Jakarta was as high as ever.

The top group in terms of growth in cement consumption included India, Thailand and Vietnam, followed by Sri Lanka, Bangladesh and Indonesia. A lack of public-sector contracts in the Philippines, Malaysia and Singapore led to a slight decline in demand for cement. Demand remained dynamic in Australia, and in New Zealand too, an already high demand in the prior year was once again exceeded.

India underpinning positive volume growth

Group region Asia Pacific saw cement sales increase by 12 percent to 28.9 million tonnes. With the exception of Holcim Malaysia and Holcim Singapore, all Group companies reported higher delivery volumes. Full consolidation of the sales generated by Ambuja Cement Eastern in India from April onwards also had a positive impact.

Consolidated key figures Asia Pacific	2005	2004	±%
Production capacity cement in million t	40.7	37.4	+8.8
Cement and grinding plants	28	26	–
Aggregates plants	5	6	–
Ready-mix concrete plants	81	73	–
Sales of cement in million t	28.9	25.8	+12.0
Sales of mineral components in million t	0.5	0.5	–
Sales of aggregates in million t	3.2	4.1	–22.0
Sales of ready-mix concrete in million m ³	3.5	2.9	+20.7
Net sales in million CHF	2,288	1,945	+17.6
Operating EBITDA ¹ in million CHF	570	465	+22.6
Operating EBITDA margin ¹ in %	24.9	23.9	–
Personnel	12,045	10,644	+13.2

¹ Prior-year figures adjusted to certain Group expenditures.

Siam City Cement in Thailand and Holcim Indonesia recorded the strongest increases in terms of volume. Both Group companies benefited from increases in domestic demand for cement and from rises in ready-mix concrete business. Both companies expanded exports on the back of brisk foreign demand.

Holcim Sri Lanka and Holcim Bangladesh posted significantly higher sales volumes, and Holcim Vietnam also saw a sharp rise in deliveries. With production capacity at the new grinding station in Thi Vai available in full over the whole year for the first time, deliveries were stepped up to customers in the south of the country and in Ho Chi Minh City's industrial belt in particular. The new concrete plant that came on stream at the Cat Lai grinding station has also enabled Holcim Vietnam to establish a foothold in the strategically important ready-mix concrete business.

At Holcim Philippines, domestic demand was supported by power plant projects on Mindanao, but the slight increase in sales was due to higher exports. Cement Australia benefited from an increase in demand for building materials in the commercial construction sector and also in connection with the expansion of transport and mining infrastructure. This more than compensated for the decline in consumption in the residential construction sector. In New Zealand, sales volumes were up on the previous year thanks to a higher investment activity in healthcare and education.

Following efforts to restructure our portfolio, delivery volumes in the aggregates segment decreased by 22 percent to 3.2 million tonnes. By contrast, shipments of ready-mix concrete increased by 20.7 percent to 3.5 million cubic meters. This marked growth reflects the greater vertical integration achieved in important conurbations in some ASEAN countries as well as generally robust demand in New Zealand.

Capacity expansion in growth markets

During the period under review, Group region Asia Pacific geared its industrial base to future growth, particularly in India, Vietnam, Indonesia and China. Capacity was expanded, in some cases on a substantial scale.

Newly consolidated Group company Ambuja Cement Eastern began construction of a new grinding station at Farakka in West Bengal and is set for a sizable increase in production capacity in this key market. In 2005, Holcim-controlled The Associated Cement Companies, India's second largest cement group, also pressed on with extensive programs to increase productivity.

In the period under review, Holcim Indonesia and Holcim Vietnam continued their preliminary investigations into the construction of new clinker kiln lines in Java and southern Vietnam.

By the end of 2005, Huaxin Cement, one of China's leading cement manufacturers, had extended its installed annual capacity to some 20 million tonnes under its strategic expansion program. Holcim marginally increased its substantial minority stake in the company.

Greater vertical integration

Group region Asia Pacific systematically widened its product range in rapidly urbanizing metropolitan areas and channeled investment into vertical integration. Siam City Cement acquired its first quarry reserves (near Bangkok) and substantially expanded its ready-mix concrete network. Holcim Indonesia also invested in new concrete plants and mixer trucks in Jakarta.

Marked improvement in results

Virtually all companies in Group region Asia Pacific improved their performance. India's first-time contribution to earnings came through Ambuja Cement Eastern. The Group region saw an increase in operating EBITDA of 22.6 percent to CHF 570 million. Internal operating EBITDA growth came to 15.7 percent.

Holcim Philippines made the most substantial contribution to this result, thanks to a stable price environment. Siam City Cement once again delivered a substantial result, eroded slightly by higher energy costs.

Holcim Sri Lanka and Holcim Bangladesh increased their financial performance significantly. Holcim Vietnam posted a balanced result despite higher costs and greater competitive pressure. Operating results achieved by Holcim Indonesia improved. The comprehensive restructuring measures of recent years are clearly having an impact.

Cement Australia clearly outperformed its prior-year result thanks to efficiency improvements and good market conditions, and the operating result posted in New Zealand saw a renewed increase.

More alternative energy and blended cements

Holcim Sri Lanka has pioneered a system for incinerating waste oil. The process allows the eco-friendly disposal of waste oil, marking a first in Sri Lanka and defining a new industry benchmark. New kiln feed facilities for old tires and biomass were commissioned at the Saraburi site in Thailand as part of a comprehensive investment program to increase the use of alternative fuels. A number of Group companies established their own waste recycling firms during the period under review.

The Group companies have taken a major step forward in the use of alternative raw materials. The Holcim Philippines Bulacan and Lugait plants stepped up production of blended cements. Among other alternative raw materials, Siam City Cement uses high-grade limestone and fly ash. Cement Australia has expanded its range of quick-setting fly ash cements.

All these measures have helped to significantly scale back the proportion of clinker per tonne of cement produced, thereby reducing CO₂ emissions.

Good growth opportunities

For 2006, Group region Asia Pacific can be expected to see further solid growth momentum, and demand for construction materials is also likely to be mainly positive. We expect the strongest impetus to come from India, while Sri Lanka, Vietnam and Indonesia should also continue to enjoy robust demand for construction services. Overall, we expect this Group region to generate markedly higher sales volumes and achieve better operating results, not least thanks to the progressive integration of our new Group companies in India.