

Product offering reaches new dimension in USA

Robust economic trend in North America

The US economy continued to expand markedly in 2005, growing by well over 3 percent. The Canadian economy also gained ground, albeit at a slightly more moderate rate.

Strong US demand boost demand for cement

In the US, the year under review saw demand for construction materials reach new record levels. The greatest impetus came from continuing robust residential construction activity, which only weakened slightly in the last quarter of the year. Positive economic conditions led to a significant increase in demand for industrial and commercial buildings. Thanks to an improvement in the financial position of public bodies in various federal states, investment in the expansion and modernization of infrastructure was also up significantly on the previous year. Overall, US cement consumption rose to more than 126 million tonnes. As domestic production capacity was fully utilized, clinker and cement imports rose more than average by 33.7 percent.

In Canada, the second half of the year saw a pause in the growth of construction activity, which on balance resulted in a slight decline in investment volume.

The residential construction sector in particular faced a falloff in demand for construction materials, but cement demand was supported by major contracts such as the expansion of the expressway and local transportation networks and the construction of schools and hospitals. In 2005, Canadian cement consumption persisted at previous-year level.

Sales volumes picking up

Although operating at full capacity and despite the limited availability of imports, Holcim US stepped up its cement deliveries to 14.2 million tonnes. Sales of GranCem® products, which are based on blast furnace slag, increased by 2 percent to 0.9 million tonnes. Higher selling prices (significantly so in some cases) were achieved in all market regions.

The Texas and Oklahoma regions and the markets in the southeastern US initially exhibited the greatest growth momentum. Later, delivery volumes in the Mid-West and along the Mississippi also increased significantly. The Great Lakes region and the north-eastern US saw demand slacken off slightly after an initially pleasing trend.

Holcim US did its utmost to meet the higher demand, steadily increasing cement imports as well as local cement production during the period under review. The expanded production capacity at the Portland plant in Colorado became fully available from May onwards, and production was also stepped up at the Midlothian plant in Texas, the Devil's Slide plant in Utah and the Holly Hill plant in South Carolina.

Nonetheless with building materials in short supply in some market areas, cement temporarily had to be allocated to customers. In the areas hit by Hurricane Katrina the situation deteriorated further in the fall. We are very pleased indeed to confirm that none of our employees was injured. Holcim US – supported by other Group companies – organized immediate aid for the employees affected. Repair work at the pro-

Consolidated key figures North America	2005	2004	±%
Production capacity cement in million t	22.3	22.0	+1.4
Cement and grinding plants	20	20	–
Aggregates plants	105	28	–
Ready-mix concrete plants	140	44	–
Asphalt plants	53	10	+430.0
Sales of cement in million t	18.2	17.5	+4.0
Sales of mineral components in million t	2.3	2.2	+4.5
Sales of aggregates in million t	65.0	21.2	+206.6
Sales of ready-mix concrete in million m ³	6.1	2.5	+144.0
Sales of asphalt in million t	8.6	0.2	+4,200.0
Net sales in million CHF	4,704	2,630	+78.9
Operating EBITDA ¹ in million CHF	928	551	+68.4
Operating EBITDA margin ¹ in %	19.7	21.0	–
Personnel	10,393	5,249	+98.0

¹ Prior-year figures adjusted to certain Group expenditures.

duction facilities and distribution network was on a very limited scale. Deliveries quickly normalized after a brief interruption.

In Canada, St. Lawrence Cement felt the impact of the slowdown in the construction sector in Ontario and Quebec in the second half of the year. However, cement deliveries declined less than the market as a whole. In the Greater Toronto area, demand was supported by continued robust housebuilding activity. In Quebec, the lower order volume for airport buildings was partly offset by new projects in the commercial and roadbuilding sectors. Demand for cement fell back slightly in the US east coast markets served by St. Lawrence Cement. Here, our Group company experienced additional falls in sales owing to production-related bottlenecks at the Catskill plant.

On balance, consolidated cement deliveries in North America increased by 4 percent to 18.2 million tonnes.

Broader product range thanks to Aggregate Industries

The consolidation of Aggregate Industries effective April 1 marks a major step forward for Holcim toward expanding its position both in aggregates as well as ready-mix concrete and asphalt on the North American continent. The Group region thus reached a new dimension above all in the aggregates sector and extended its product range enormously in key regional markets within the USA.

The new Group company is excellently positioned, with 77 aggregates plants and other operations in ready-mix concrete, concrete goods and asphalt. Volume growth was generated by transport infrastructure projects such as the T-Rex highway system in the Denver region (see picture section on pages 12 and 13) and the doubling of the lane capacity of the Woodrow Wilson Bridge over the Potomac in Washington, D.C. Aggregate Industries supplies aggregates and ready-mix concrete for both projects, as well as supplying large quantities of asphalt in Washington, D.C.

Since the first-time consolidation in April 2005, Aggregate Industries US has sold 44.2 million tonnes of aggregates, 3,8 million cubic meters of ready-mix concrete and 8,4 million tonnes of asphalt. Allowing for the moderate market-related decline in the Canadian sister company's sales, deliveries of consolidated aggregates climbed to 65 million tonnes (2004: 21.2) in North America, while deliveries of ready-mix concrete increased to 6.1 million cubic meters (2004: 2.5).

North America continuing to increase in importance

The takeover of Aggregate Industries had a positive impact on the operating result of Group region North America. However, the positive trend of business at Holcim US and efficiency gains at all three Group companies also played a part in the sharp 68.4 percent increase in operating EBITDA to CHF 928 million. Internal operating EBITDA growth came to 21.4 percent.

The improvement in the result of Holcim US is mainly attributable to better prices and rising sales volumes. Another factor which played a decisive part in the success was the extensive modernization of the production apparatus in previous years, which at least partially offset the significantly higher energy and commodity costs.

At an operational level, St. Lawrence Cement just managed to maintain the previous year's result, despite a changed market environment. Project planning work on a new cement plant north of New York was discontinued and the planning costs incurred were charged to provisions. Moreover, higher sales receipts plus efficiency gains compensated in full for the rising cost of electricity, thermal energy and cement imports.

As expected, the financial performance of Aggregate Industries was correspondingly robust. Worthy of particular mention are the higher sales achieved in downstream segments such as asphalt.

New cement plant on the Mississippi

Holcim US has begun constructing the new Ste. Genevieve cement plant on the Mississippi. It will have an annual capacity of 4 million tonnes. Work has started on the port facility and earth works. When the new plant comes on stream in 2009, Holcim US will be able to further expand its market leadership along the entire Mississippi and Missouri river systems as far as the Great Lakes.

Holcim US and St. Lawrence Cement inaugurated their joint "North America Business Services" center near Toronto in October. The aim is to simplify administrative processes and provide efficient support for both Group companies in implementing their growth strategies.

Stronger demand for blended cements

Our North American Group companies are consistently committed to promoting sustainable development, in particular by increasing the use of alternative fuels and raw materials.

The US plants Dundee, Midlothian, Holly Hill and Theodore expanded their capacity for liquid alternative fuels considerably and the authorities in Artesia approved the use of petroleum coke in the production process. Encouraged by the positive experience, additional sites in the US and Canada were given the go-ahead to expand their range of alternative energy sources.

During the period under review, Holcim US and St. Lawrence Cement further reduced the proportion of clinker in their cement. The use of fly ash and granulated blast furnace slag as a raw material in cement production was stepped up significantly. High-grade limestone was also increasingly used during the final cement grinding stage. To meet the growing demand for blended cements, we are currently building an additional slag grinding station at our Canadian plant in Mississauga. Existing production capacity is also being expanded in Camden. In addition, con-

struction of a new harbor mole has virtually eliminated road transport and related emissions.

In the second half of the year, Aggregate Industries certified a total of 69 production plants according to ISO 14001. This means that responsible handling of natural resources has been certified to international standards in virtually all quarries, ready-mix concrete facilities and asphalt plants. The remaining plants are to be certified over the coming months.

Trend set to remain positive

The US should once again enjoy brisk construction activity in 2006. Enactment of the US government's new multi-year SAFETEA infrastructure plan will stimulate all demand segments relevant to Holcim, thus countering the anticipated decline in residential construction activity. Economic conditions should bolster construction volumes in the commercial and industrial sectors. Construction orders in Canada should reach an attractive level. All North American Group companies will continue with their widescale cost-cutting and efficiency-enhancement programs. We therefore expect Group region North America to report a renewed improvement in operating results on stable volumes for 2006.