

# Exane BNP Paribas – Basic Materials Seminar

Markus Akermann – CEO

March 18, 2009



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# Agenda

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1 An attractive industry

2 Our priorities in the difficult environment

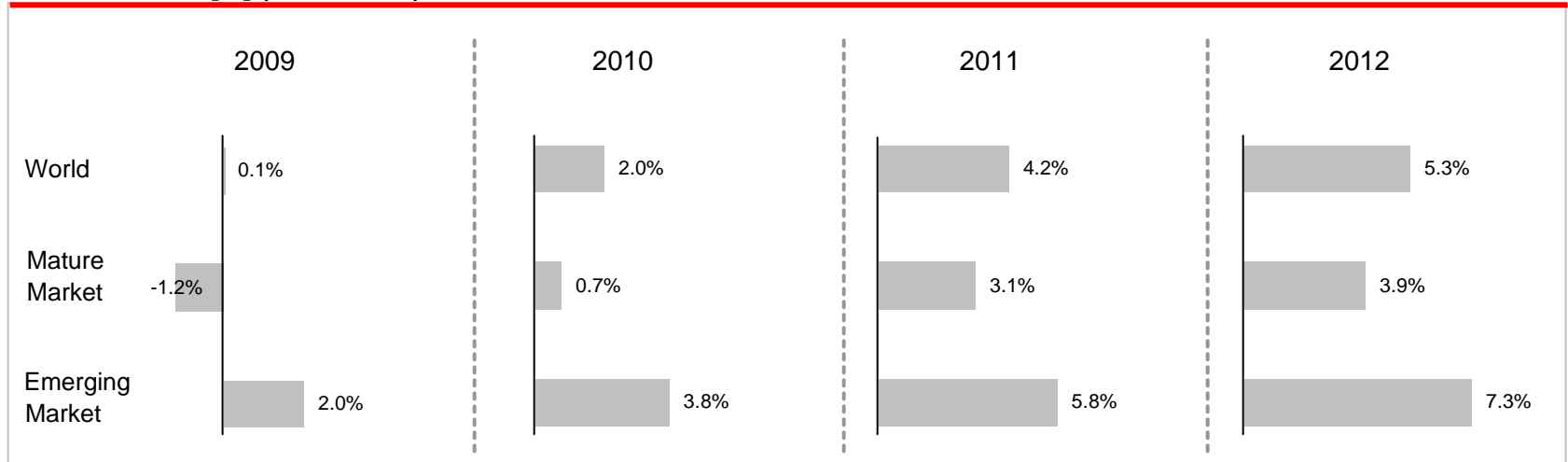
3 Conclusion

# Attractiveness of the heavy-side building materials

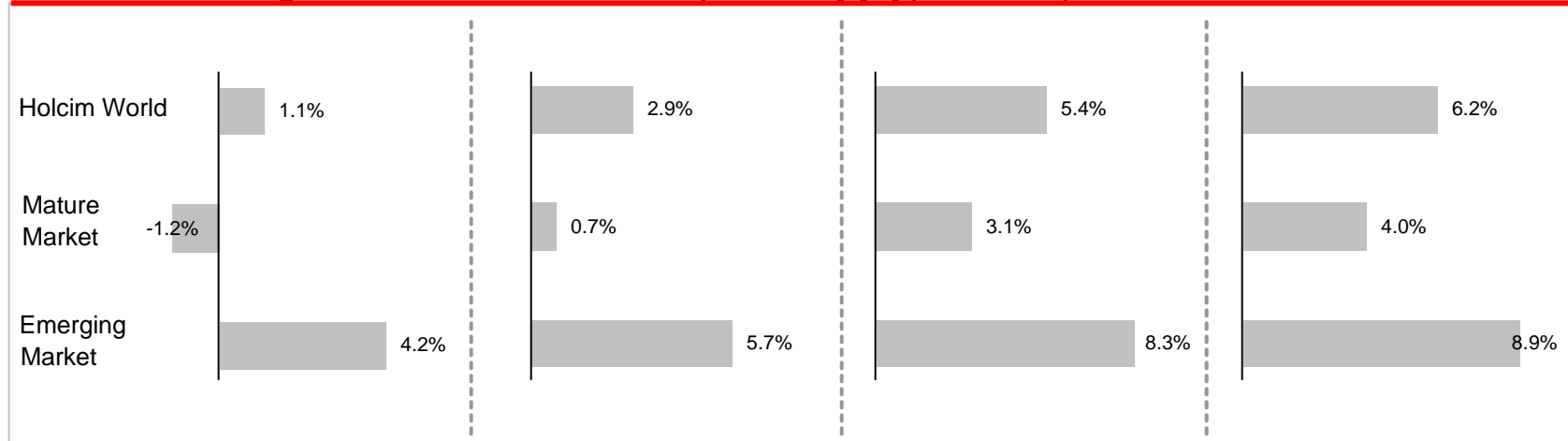
- The basis of cement and aggregates investments are large scale
  - ▶ Hedge against inflation (real value)
  - ▶ No technical or obsolescence risk
  - ▶ No “fashion” sensitivity
- Raw material reserves for decades
- Distribution, logistics and transportation network requirements
- Limited substitution potential
- Relative demand inelasticity
- Housing and infrastructure are basic needs
- Concrete is the second most used commodity after water and is an eco-friendly building material

# Holcim generates its EBITDA in countries with GDP growth above average

**GDP Growth [%] (excl. China)**



**GDP Growth weighted with Holcim EBITDA 2008 per country [%] (excl. China)**



Holcim EBITDA split 2008:

Mature: 32%

Emerging: 68%



Source: Nominal GDP per Capita (at PPP) in US\$ Economist Intelligence Unit EIU (Datastream) March 2009

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# Rural markets offer significant growth potential – Example India

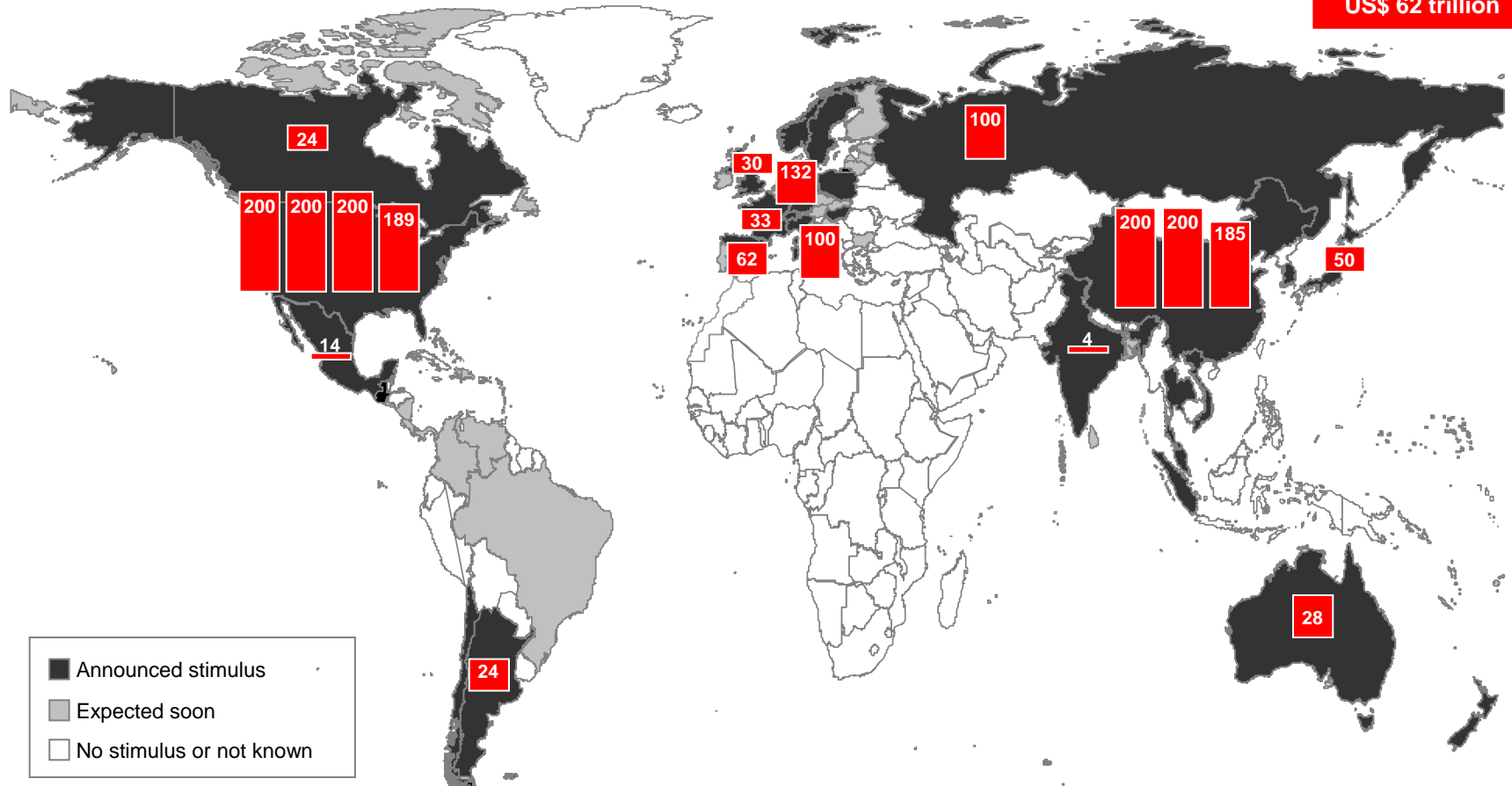
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- Rural market demand is not as dependent on financial markets or monetary policy
  - ▶ Agricultural productivity gains and crop yields are drivers
- More than 72% of population is rural
  - ▶ Projected housing creation estimated at 40 million units growing at 3% per annum
- Product and marketing focus is on meeting the high demand for low-cost housing
  - ▶ Innovative thin-shell material with a long life for less than US\$ 10 /sq. ft.
- Brand recognition is an important factor as product is predominantly sold in bags
  - ▶ ACC means cement in India

# Massive fiscal stimulus initiatives have been announced, and more are potentially in the making

US\$ billions, known status, as of March 3rd, 2009

World GDP 2008  
US\$ 62 trillion



- Announced stimulus
- Expected soon
- No stimulus or not known

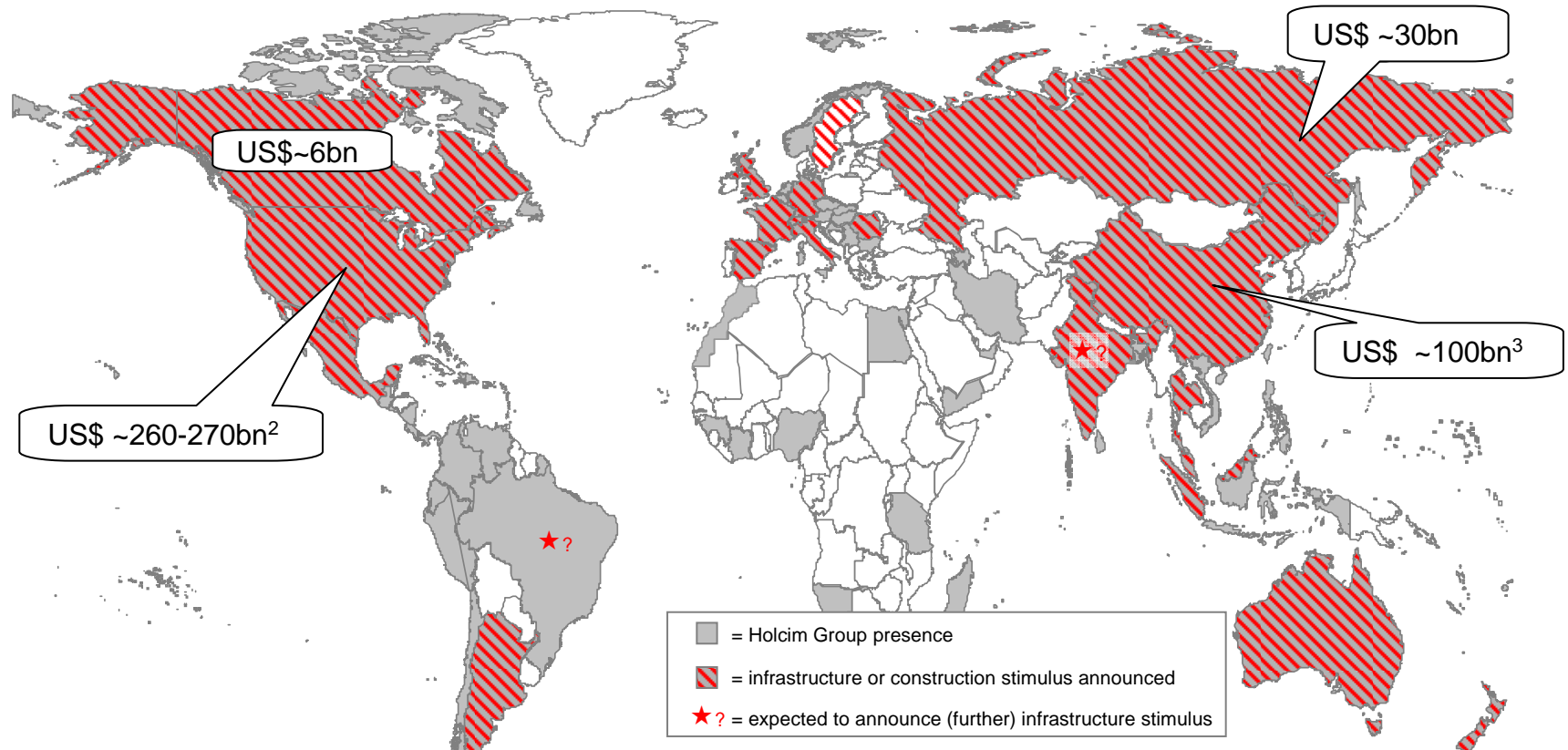
**\$2.3 trillion announced (or 3.7% of world GDP) by 34 nations**

Note: Includes only major countries and excludes EU package (additional announced packages account for up to 8.2% of world GDP)  
Source: Reuters, Bloomberg, Economist, plus miscellaneous other media sources, GDP data IMF October 2008 and January 2009



# Construction: stimulus projects add up to ~US\$ 550-650bn, mainly focused on infrastructure

US\$ billions, known status, as of March 3rd, 2009



**Projects equal approx. 12%-18%<sup>1</sup> of world construction market**

<sup>1</sup> Construction market in OECD countries is between 4% and 7% of GDP. Assumed to be an average of 6% of world GDP equaling US\$ 3.7trillions

<sup>2</sup> Range of construction stimulus projects in the US; as of Feb. 17, 2009 (Goldman Sachs and others)

<sup>3</sup> Mostly consumed nationally, therefore impacting export

Source: Reuters, Bloomberg, Economist, plus other sources, IMF Jan. 2009 (GDP data), OECD Dec. 2008 (Construction % share)

# Infrastructure spending translates into demand for cement, aggregates and concrete



- One km of concrete pavement highway (2x2 lane) requires:
  - ▶ 7,200 m<sup>3</sup> of concrete
  - ▶ 3,300 tonnes cement
  - ▶ 85,000 tonnes aggregates

Project example from Germany



- One km of concrete tunnel (2x2 lane) requires:
  - ▶ 18,000 m<sup>3</sup> of concrete
  - ▶ 8,000 tonnes cement
  - ▶ 48,000 tonnes aggregates

Project example from Croatia



- 100 meter concrete bridge (2x2 lane) requires:
  - ▶ 2,400 m<sup>3</sup> of concrete
  - ▶ 900 tonnes cement
  - ▶ 4,300 tonnes aggregates

Project example from Croatia



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# Management has reacted quickly to a changed environment

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- Minimize maintenance investment – net CHF 400 million in 2009 compared to CHF 1.1 billion in 2008
  - ▶ Only investments with short term payback periods
- Commission the majority of the expansion project pipeline – CHF 2.5 billion in 2009 compared to 3.3bn in 2008
  - ▶ No new expansion capital expenditures and focus on free cash flow and debt reduction in 2010
- Strict management of net working capital (5.4% as a percentage of net sales 2008)
- Maintain a high level of liquidity (CHF 5.6 billion 31.12.08)
- Crisis-proven management at corporate and regional level:
  - ▶ Learning from previous crises → Mexico, Latin America, Asia, Russia
  - ▶ Leveraging current know-how from operations in more than 70 countries

# Responding to the crisis is a continuous management task

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- Close, mothball and idle production in relation to demand
  - ▶ Reduce capacity and optimize logistics network to continue to serve market positions profitably
- Spend only on core capital expenditure
  - ▶ Continue with investment in cost efficient, environmentally friendly capacity while closing old capacity
- Right sizing of fixed cost to align costs in relation to revenue
  - ▶ Not only reducing operational costs but also reducing costs in support functions on corporate and operating company level to mitigate margin pressure from lower volumes – CHF 200 million savings impact in 2009
- Leverage scale and spread fixed costs
  - ▶ Utilize shared service centers and create synergistic opportunities between companies / regions

# Cost reduction initiatives to offset the declining EBITDA – Example US, UK and Spain

- 5 cement plants representing 3.8 million tonnes closed or mothballed
- 18 aggregates quarries closed or mothballed
- 87 ready-mix and asphalt plants closed or mothballed
- 3,200 personnel reductions

Cost reduction initiatives are expected to result in

- Annual savings of CHF 230 million, of which 75% will be realized in 2009
- Immediate reduction of maintenance capital expenditure of CHF 40 million per annum

Depending on the world economy, further closures or mothballing will be executed

## Holcim has a solid balance sheet and adequate liquidity (prerequisites in dysfunctional credit markets)

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- Strong liquidity
- Very limited short-term refinancing needs
- Low leverage
- Well diversified financings
- No financial covenants at corporate level
- A strong bank relationship management (no large exposure to any single bank)

Holcim is well positioned to manage through the downturn

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# Conclusions

- The heavyside building materials industry remains attractive
  - ▶ Large-scale, real value investments
  - ▶ Basic needs with limited substitution
- Not all of Holcim's countries are affected equally by the economic crisis
  - ▶ Two-thirds of earnings are generated in emerging markets
  - ▶ One-third of earnings are generated in industrialized countries where stimulus packages will create demand
- Crisis-proven management at corporate and regional level is key in uncertain times – anticipating the crisis development is a continuous management task
- Balance sheet strength continues to be an enabling factor

Holcim has the market positions, management and balance sheet to emerge from the crisis as a stronger company

# Disclaimer

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# Contact information and event calendar

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## Event calendar

|                   |   |
|-------------------|---|
| May 6, 2009       | Results for the first quarter of 2009                           |
| May 7, 2009       | General Meeting of shareholders                                 |
| May 12, 2009      | Dividend payment (ex date)                                      |
| August 20, 2009   | Half-year results for 2009                                      |
| November 11, 2009 | Press and analyst conference for the third quarter results 2009 |
| March 3, 2010     | Press and analyst conference on annual results for 2009         |