



Group

- Cement plant
- ▲ Grinding plant/Cement terminal
- Aggregates

Participation

- Cement plant
- △ Grinding plant/Cement terminal

- 1 Expansion
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# India strengthens Group region Asia Pacific

## Positive economic trend

The economies of most countries in Asia Pacific gained strength in 2006. While growth was particularly pronounced in India, economic performance also picked up in Sri Lanka, Bangladesh and Vietnam. However, in some countries economic activity was temporarily depressed by higher energy prices, rising interest rates and local factors. Political uncertainties affected Thailand and in Indonesia, the trend was also more moderate than expected. The economic recovery in the Philippines continued. In Australia and New Zealand, stable domestic demand and high levels of foreign trade provided a positive environment.

## Robust demand for building materials

Cement consumption rose in virtually all regional Holcim markets. An upturn in public and private housebuilding activity and the expansion of transport and utility infrastructure had a very stimulating effect.

There is a considerable need to modernize in India and meet pent-up demand there. As a result, the Indian subcontinent, in common with China and Vietnam, recorded impressive rates of growth in demand for cement. By contrast, Thailand saw a slight decrease in demand, and infrastructure construction was sluggish in the Philippines despite an improvement in the budget situation. However, orders did at least improve in the private housebuilding and commercial construction sectors. In Indonesia, demand for cement was stagnant despite rising construction volumes in the second half of the year. In Australia and New Zealand, the markets for building materials were stable at a high level.

## India underpinning volume growth

Cement sales in Group region Asia Pacific rose by 90.3 percent to 55 million tonnes. This was mainly due to the first-time consolidation of the new Group companies in India – ACC from February and Gujarat Ambuja Cements from May.

The Indian companies reported excellent business performance thanks to booming demand for building materials. Several other Group companies in the region also increased their cement sales, including Holcim Lanka and Holcim Bangladesh, which sold significantly larger volumes. In the cement segment, Holcim Vietnam focused on high-margin products, while consciously accepting a decline in other categories. As 2006 was the first full year of operation for the ready-mix concrete plant in Cat Lai, the company made gratifying progress in this segment.

The political situation in Thailand led to a decline in investment activity on the part of companies and private households alike, and there were also delays in starting new public-sector projects. However, Siam City Cement compensated for weaker domestic sales by increasing exports of cement and clinker, resulting in a slight net increase in deliveries. By contrast, shipments of ready-mix concrete increased significantly thanks to the excellent market positioning of Siam City Cement in Bangkok and in the industrial areas in the east of the country. At Holcim Philippines, domestic sales were supported by a shipyard expansion project at Hanjin and a new toll road from Subic Bay to the Clark airfield, but export activity was limited by

Consolidated key figures Asia Pacific	2006	2005	±%
Production capacity cement in million t	75.8	40.7	+86.2
Cement and grinding plants	48	28	
Aggregates plants	5	5	
Ready-mix concrete plants	101	81	
Sales of cement in million t	55.0	28.9	+90.3
Sales of mineral components in million t	0.6	0.5	+20.0
Sales of aggregates in million t	3.2	3.2	–
Sales of ready-mix concrete in million m <sup>3</sup>	4.6	3.5	+31.4
Net sales in million CHF	4,745	2,288	+107.4
Operating EBITDA in million CHF	1,366	570	+139.6
Operating EBITDA margin in %	28.8	24.9	
Personnel	37,212	12,045	+208.9

the loss of production at the Davao plant. A sluggish domestic market and diminishing export volumes led to a fall in sales for our Indonesian Group company. Cement Australia's volumes were influenced by commercial and infrastructure construction projects. The construction of large-scale wind power plants brought Holcim New Zealand additional orders, enabling the company to match prior-year levels.

In this Group region, shipments of aggregates achieved 3.2 million tonnes. Deliveries of ready-mix concrete increased by 31.4 percent to 4.6 million cubic meters. This marked increase was primarily attributable to the first-time inclusion of our excellently positioned concrete plants located in some of India's key urban centers and to progress in vertical integration in the metropolises of Bangkok, Jakarta and Ho Chi Minh City.

#### **Expansion of our investments in India**

We continued to pursue our growth strategy in Group region Asia Pacific and achieved some notable expansion in India.

Thanks to our outstanding partnership, in January we were able to acquire a substantial stake in Gujarat Ambuja Cements from the founding families. This company operates mainly in the north and west of the country and currently owns four cement plants and two grinding stations. The largest cement plant in Kodinar also exports cement through its own deep-sea port. With the integration of Ambuja Cement Eastern into Gujarat Ambuja Cements, Holcim's stake in this Group company increased to around 26 percent. As a result of buying additional shares on the stock market, its interest in ACC has since increased to 35 percent.

Under the strategic expansion program, both Group companies have initiated or continued with extensive investment programs aimed at increasing production capacity. This will enable us to satisfy market growth.

At ACC's Bargarh site in the Indian federal state of Orissa, work designed to bring about a substantial increase in production capacity proceeded according to plan. ACC is also expanding clinker production at the Wadi plant in the state of Karnataka and is building two new grinding stations in Bangalore and Bellary. In the states of Himachal Pradesh and Chhattisgarh, Gujarat Ambuja Cements continued as planned with the construction of two new kiln lines and associated clinker grinding stations. Construction project work on three new grinding stations – one near Surat in the state of Gujarat, one near Farakka in West Bengal and the other in Roorkie near Delhi – is at an advanced stage.

As of the end of 2006, Holcim shared in cement capacity totaling 38.2 million tonnes in India. By 2010, this figure will reach over 50 million tonnes.

In China, Huaxin Cement's proposed capital increase through a private placement has not yet received all the necessary approvals. With a stake of 26.1 percent, Holcim remains Huaxin's leading shareholder and shares in a current annual capacity of around 28.5 million tonnes of cement. Holcim still intends to strengthen and further expand its presence in the world's largest cement market.

#### **Indian Group companies making substantial contribution to results**

Group region Asia Pacific's consolidated operating EBITDA increased by 139.6 percent to CHF 1,366 million, while internal operating EBITDA growth was 5.3 percent. Several Group companies reported improvements in their performance, but the marked rise in operating results was mainly attributable to the first-time consolidation of the Indian companies.

Holcim Lanka and Holcim Bangladesh also made substantially greater contributions to the result of Group region Asia Pacific. Our Group companies in Malaysia, Singapore and the Philippines also improved their financial results compared with the previous year.

Extensive improvements in efficiency and moderate price increases enabled Siam City Cement to compensate for higher energy costs and match the previous year's result in local currency terms. Exchange rate factors produced a slightly higher result in Swiss francs. In Vietnam, lower sales volumes and higher costs coupled with an increase in competitive pressure led to a decline in profits, while in Indonesia the result was depressed by the generally sluggish state of the economy.

In Swiss franc terms, Holcim New Zealand was down on the previous year, while Cement Australia once again exceeded its prior-year operating result.

#### **Progressing with vertical integration**

Group region Asia Pacific continued its growth strategy along the entire value added chain, specifically expanding the product range in conurbations experiencing rapid urbanization.

Siam City Cement invested in quarry reserves near Bangkok and substantially expanded its ready-mix concrete network. The purchase of additional concrete mixers at Holcim Indonesia helped strengthen relations with customers on East Java.

In India, ACC commissioned new ready-mix concrete plants in Mumbai, Bangalore, Delhi, Pune and Kolkata. Market orientation was also improved with new sales forms, as borne out by the example of Holcim Lanka, which through franchising significantly improved sales in the do-it-yourself construction and small trade segments.

#### **More alternative energy**

With the approval of the local licensing authorities, our Group companies in India put the technical framework in place for the deployment of alternative fuels and successfully ran tests, in particular at the plant sites in Kymore, Madukkarai, Wadi and Kodinar. Holcim Lanka has commissioned new kiln feeding facilities to incorporate biomass and installed additional shredder capacity. At the Saraburi plant in Thailand, a modular processing platform is under construction which will set new standards in the safe and efficient recycling of waste materials.

All Group companies have also made rapid progress in the use of alternative raw materials. Holcim Philippines now has production capacity for the manufacture of composite cements on stream at all three plants. In addition, synthetic fiber bags used at the packing station in Northern Mindanao have been replaced by paper sacks. Among other raw materials, Siam City Cement uses high-grade limestone and fly ash in its cement grinding operations. The use of bauxite by Garadagh Cement marks a further step towards optimizing the application of raw materials in the production of clinker.

#### **Growth opportunities intact**

2007 can be expected to see further solid growth in Group region Asia Pacific. With the exception of Thailand, where the construction sector is unlikely to pick up much speed in the first half of the year, demand for building materials should develop positively in all other Group markets. We are expecting strong growth rates in India, and demand for our products should remain robust in Sri Lanka and Vietnam. We are expecting the economic recovery to continue in Indonesia and the Philippines. Taking into account the first full-year consolidation of our Group companies in India, Group region Asia Pacific is expected to generate higher sales volumes and an improvement in operating results.