



Group

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

Participation

- Cement plant
- △ Grinding plant/Cement terminal
- Aggregates

! Expansion

High capacity utilization boosts operating efficiency

Economic upturn in Latin America

Over the past year, Latin America has seen a steady acceleration in economic activity, with another sharp rise in output. Business benefited from the strengthening of the domestic economic situation and a continuing favorable export environment. In particular, significant inflows of funds were generated by high world market prices for oil, key commodities and agricultural products.

All countries in which Holcim has a presence recorded gratifying economic growth, with Argentina and Venezuela once again achieving the highest percentage GDP growth, followed by Panama, Costa Rica and Chile. Mexico and Brazil also saw economic conditions improve in comparison with last year. In many places, the construction sector in particular was the primary driver of this increase.

Housebuilding and infrastructure projects as the main sources of support for the construction sector

As 2006 was a presidential election year in Mexico, there was significantly higher public sector investment in road building and in the energy sector. The government also provided additional funds for social development programs, with the main focus on building homes for lower income groups. At the same time, private housebuilding benefited from favorable mortgage interest rates and the high level of remittances sent home by Mexicans living abroad.

In Central America and the Caribbean, the expansion of transport and utility infrastructure and the continuing recovery of the tourist sector favored a higher-than-average rise in the volume of demand for building materials.

Cement consumption was at a high level in Colombia and economic upturns in Venezuela, Ecuador and Brazil also led to rising demand for cement. While growth in Argentina's construction industry was mainly driven by the private sector, more public funds were made available to finance infrastructure pro-

jects. Chile's construction industry also made positive progress, although in the final quarter 2006 the expansion was somewhat more moderate than in neighboring countries.

Robust volumes at Holcim

Cement deliveries increased in all the markets served by Holcim – markedly so in some cases. On a consolidated basis, deliveries increased by 9.3 percent to 25.9 million tonnes. Shipments of aggregates increased by 8.5 percent to 12.7 million tonnes and sales of ready-mix concrete rose by 16.1 percent to 10.1 million cubic meters.

Holcim Apasco in Mexico increased its sales in all segments, and growth in sales of aggregates and ready-mix concrete was in the double-digit range. Our Group company benefited from brisk domestic demand, as well as selling slightly more cement abroad. The marked increase in deliveries of ready-mix concrete is attributable to large-scale projects such as the expansion of Mexico City's airport or the construction of a new oil refinery on the Gulf of Mexico. Tourist projects in Yucatan also generated additional demand.

Consolidated key figures Latin America	2006	2005	±%
Production capacity cement in million t	35.3	34.9	+1.1
Cement and grinding plants	27	28	
Aggregates plants	27	28	
Ready-mix concrete plants	229	228	
Sales of cement in million t	25.9	23.7	+9.3
Sales of aggregates in million t	12.7	11.7	+8.5
Sales of ready-mix concrete in million m ³	10.1	8.7	+16.1
Net sales in million CHF	3,675	3,158	+16.4
Operating EBITDA in million CHF	1,244	1,126	+10.5
Operating EBITDA margin in %	33.9	35.7	
Personnel	12,234	10,904	+12.2

Domestic shipments of Cemento de El Salvador increased thanks to a rise in the number of road building projects and a nationwide campaign for the use of concrete elements as breakwaters along the coast. Integrating Cemento de El Salvador into the regional Holcim network also meant that crossborder sales could be streamlined. As a result, the El Salvador Group company was able to step up deliveries to the growing building material markets of Belize, Guatemala and Nicaragua. In Costa Rica, growth rates were in the double-digit range in all segments. The Caribbean companies in which Holcim holds stakes also reported impressive sales levels in the order of 3 million tonnes of cement.

In Venezuela, our Group company benefited from large bridge building projects on the Orinoco and from the expansion of the rail network in the north of the country. To optimize supplies to the booming domestic market, the company restricted exports of cement. This led to a slight net decline in shipments. Holcim Colombia made good progress on the back of a further improvement in prices and Holcim Ecuador recorded new record volumes of cement sales. Holcim Brazil also sold more cement and ready-mix concrete in 2006, although price levels remained unsatisfactory. Healthy order books in the residential building sector led to higher volumes, as did shopping center construction work in the Greater São Paulo area and expansion projects for the steel industry in the south of the country. At Minetti in Argentina the generally robust level of construction activity led to higher sales, and Cemento Polpaico in Chile posted rising sales figures in all segments.

Better operating results

Operating EBITDA for Group region Latin America increased by 10.5 percent to CHF 1,244 million, posting a 10.4 percent internal operating EBITDA growth.

Virtually all Group companies contributed to this higher result. The improved results were mainly attributable to a predominantly good price environment and an increase in delivery volumes of cement and ready-mix concrete.

In the case of Holcim Brazil, cost-cutting programs implemented at all service levels and an increase in sales were not sufficient to compensate for the price erosion in the market. A massive rise in natural gas prices meant that Minetti was unable to match the sound result achieved in 2005, whereas Holcim Colombia and Cemento de El Salvador once again significantly exceeded their previous-year results. The Group company in Costa Rica also made a higher contribution to the improvement in the Group region's result.

Selective capacity expansion in growth markets

Expansion projects are in preparation at several plant sites in Group region Latin America.

In Ecuador, the environmental compatibility study for the construction of a third kiln line at the Guayaquil plant was successfully completed. In Argentina, Minetti launched an extensive program for the modernization and expansion of its industrial base, which will include recommissioning a kiln line at the Malagueño plant in 2008 that was closed down during the economic crisis. To increase cost efficiency, Minetti is also building a new grinding station for petroleum coke.

Our strategic partner in Guatemala, Cementos Progreso, in which Holcim holds a 20 percent equity stake, has completed planning work for the construction of a cement factory to the north of the capital. The plant is expected to come on stream at the end of 2009 and will have an annual capacity of 2 million tonnes.

Growing use of alternative fuels and raw materials

As part of the drive to increase plant efficiency and optimize cost structures, all Group companies have made further progress in the use of alternative fuels and raw materials.

At several of its production sites, Holcim Apasco has modernized its kiln feeding facilities to increasingly allow drilling cores produced by the oil industry to be put to environmentally friendly use as fuel. There has also been an increase in the burning of petroleum coke. In Ecuador, there has been a substantial increase in the use of waste oil in plants, and Cemento de El Salvador has commissioned a new processing platform for solid recyclable materials. Holcim Costa Rica has set up its own waste disposal company.

At the Guayaquil plant in Ecuador, the replacement of bauxite led to a reduction in the cost of raw materials. In Mexico, Nicaragua, Venezuela and Chile pozzolan was increasingly used in the production of composite cement. The proportion of this type of lower clinker content cement also continued to increase in Brazil and Argentina. With a view to increasing capacity, we have successfully tested industrial scale use of mineral components in the manufacture of cement at the El Ronco and Maya plants in El Salvador.

Committed to environmental protection

In 2006, all Group companies implemented projects designed to curb emissions. Dust filtration systems were replaced by state-of-the-art units as planned. Holcim Nicaragua introduced integrated water recycling at its plant, bringing about a sustainable reduction in fresh water consumption. All our Ecuadorian facilities for the production of cement, aggregates and ready-mix concrete have received environmental certification according to ISO 14001.

Latin America will once again make a significant contribution to the Group result

In 2007, domestic demand is expected to continue to follow a robust trend in most of the Latin American markets we serve. The construction sector should be stimulated by both housebuilding and infrastructure expansion. In our view, Group region Latin America will again enjoy solid demand for our products, and we expect Group companies to post good operating results.