

# HEIDELBERGCEMENT

## **Analyst Day 2010:**

**How to manage balance sheet and cash-flow through the cycle –  
HeidelbergCement's approach to measure value creation**

Heidelberg, May 19, 2010

**Dr. Lorenz Näger**

Member of the Managing Board and Chief Financial Officer



**HEIDELBERGCEMENT**

# Introduction: Dr. Lorenz Näger



## Responsibilities

- Chief Financial Officer
- IT, Shared Service Center, Logistics

## Personal Data

- Date of birth: 22 May 1960
- Marital status: Married, two daughters

## Education

- Dr. Lorenz Näger studied Business Administration at the Universities of Regensburg, Swansea (Wales) and Mannheim, graduating in 1986 with a university diploma degree in Business Administration (University of Mannheim).
- He received his Doctorate and qualification as a Tax Advisor in 1991.

## Career

- Dr. Lorenz Näger started his career in 1986 as an Audit Assistant with Dr. Lipfert GmbH, audit and tax consulting company in Stuttgart, and was subsequently engaged at the University of Mannheim as assistant for the chair of Business Administration & Taxation.
- From 1991 up through the fusion of Ferd. Schulze GmbH & Co with PHOENIX Pharmahandel Aktiengesellschaft und Co KG, he directed the Tax Division of Ferd. Schulze GmbH in Mannheim.
- Since 1993, he has served as Director of Business Development with PHOENIX and in 1997, became Managing Director of PHOENIX International Beteiligungs GmbH.
- In 1999, he was appointed to the Managing Board of the PHOENIX group with responsibility for Controlling, International Finance, Accounting and Investments, and in 2000, to the Supervisory Board of the Tamro Group, Helsinki.
- Since 1 October 2004, Dr. Näger has been Chief Financial Officer of HeidelbergCement.

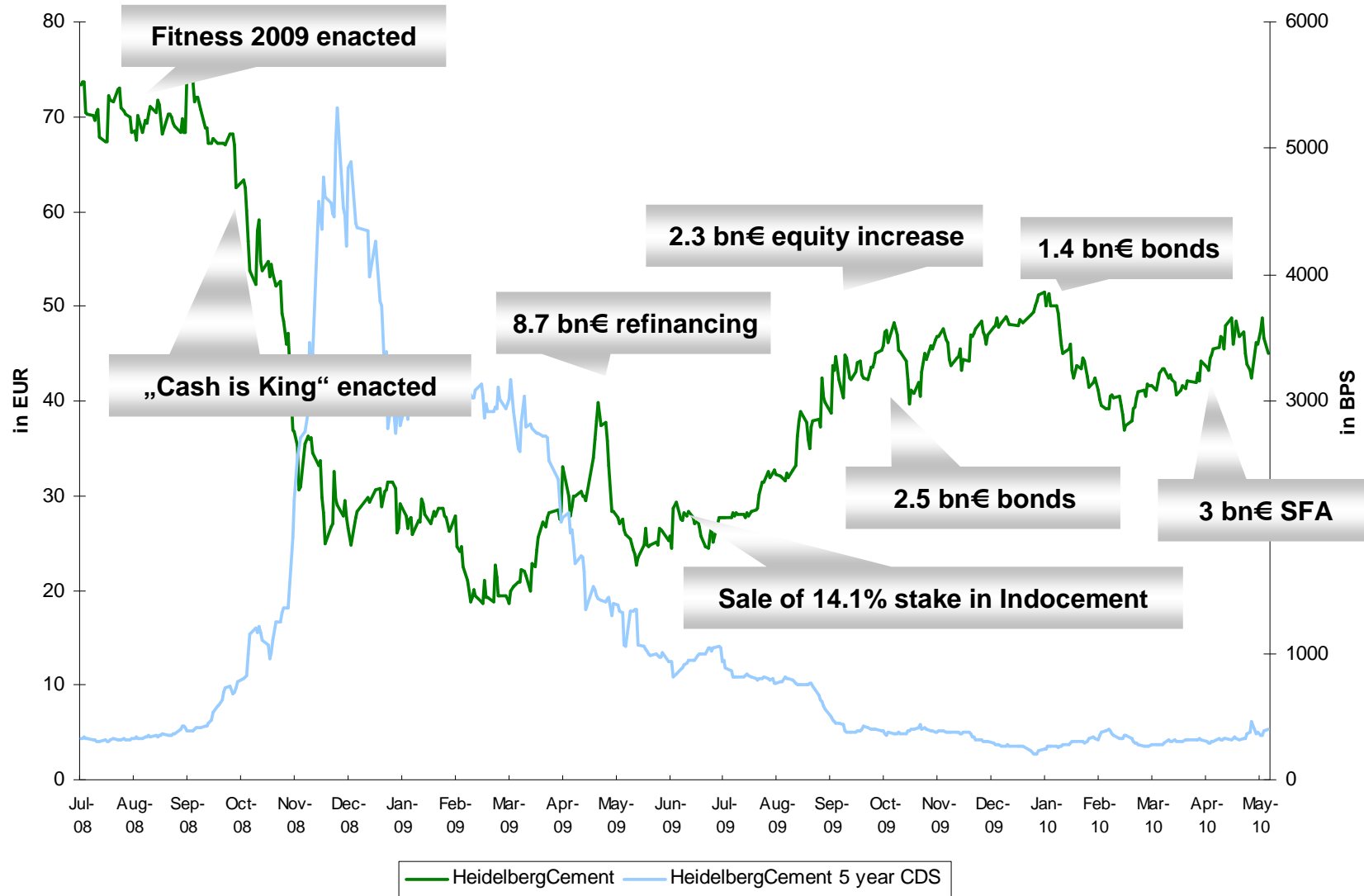
# ■ Agenda

- 1. Status and outlook financing structure**
- 2. How HC measures value creation**
- 3. Tax management at HeidelbergCement**
- 4. Status of and expectations from potential DAX-inclusion**

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# HeidelbergCement successful through the crisis



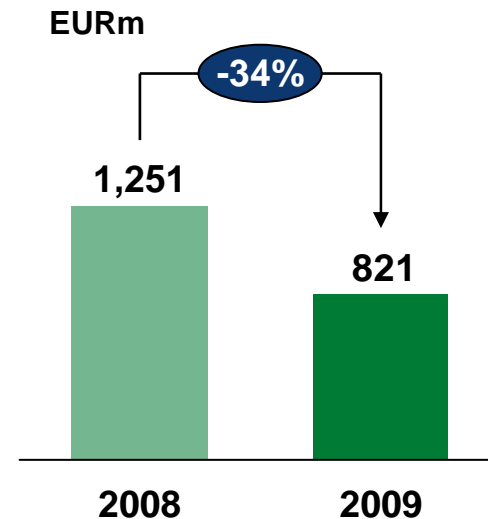
# ■ Liquidity in 2009 increased by EURbn 1.5 through „Cash is king“ initiative

## 1. Reduction in working capital

- Reduction in inventory especially in cement and aggregates
- Focus on cash collection from receivables
- Extension of payment terms (even at the expense of discounts)

EURm 557

## 2. Strict reduction in investments



EURm 430

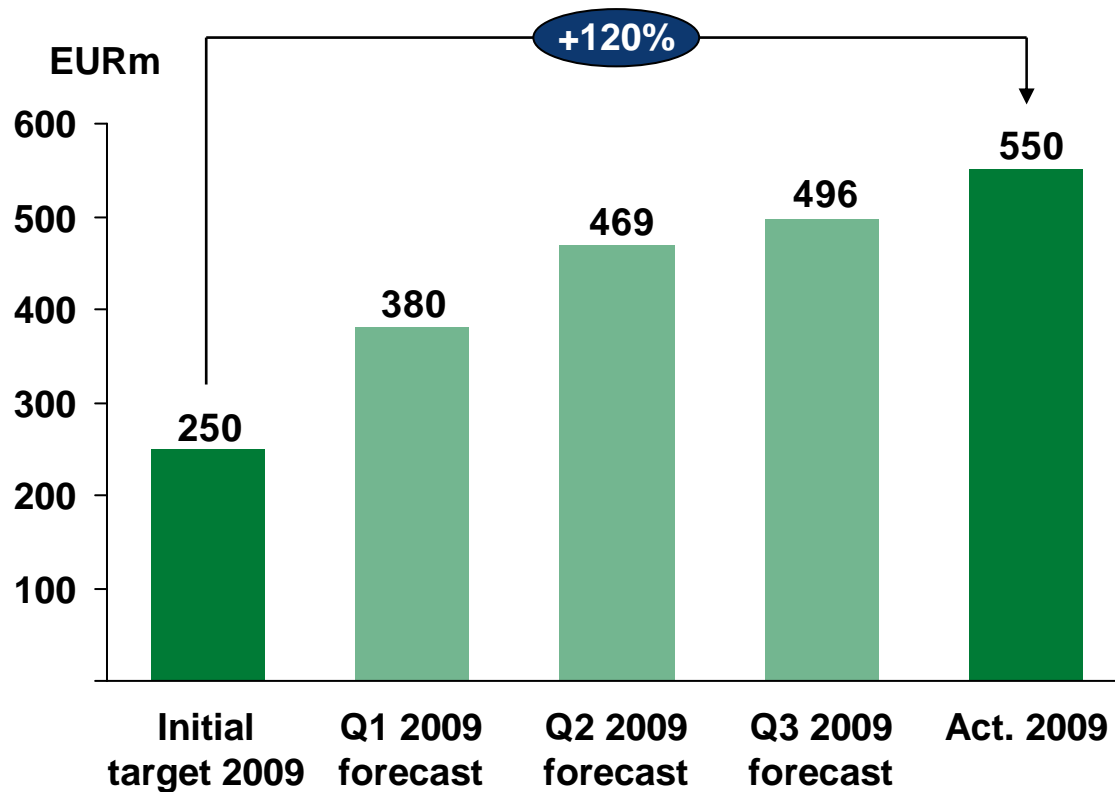
## 3. Sale of non-core activities

- Sale of non-core activities continued
- No fire sales
- Disposals in 2009
  - minority interest in Indocement
  - asphalt Australia
  - smaller participations

EURm 496

## „Fitness 2009“ program very successful

Initial cost savings target more than doubled to **EURm 550**



### Fixed costs:

- Staff cost savings: EURm 284

### Staff reduction:

- 7,500 employees in 2009
- 15,500 employees since 2007

- Maintenance & repair: EURm 150

### Variable costs:

- Alternative fuels: EURm 20

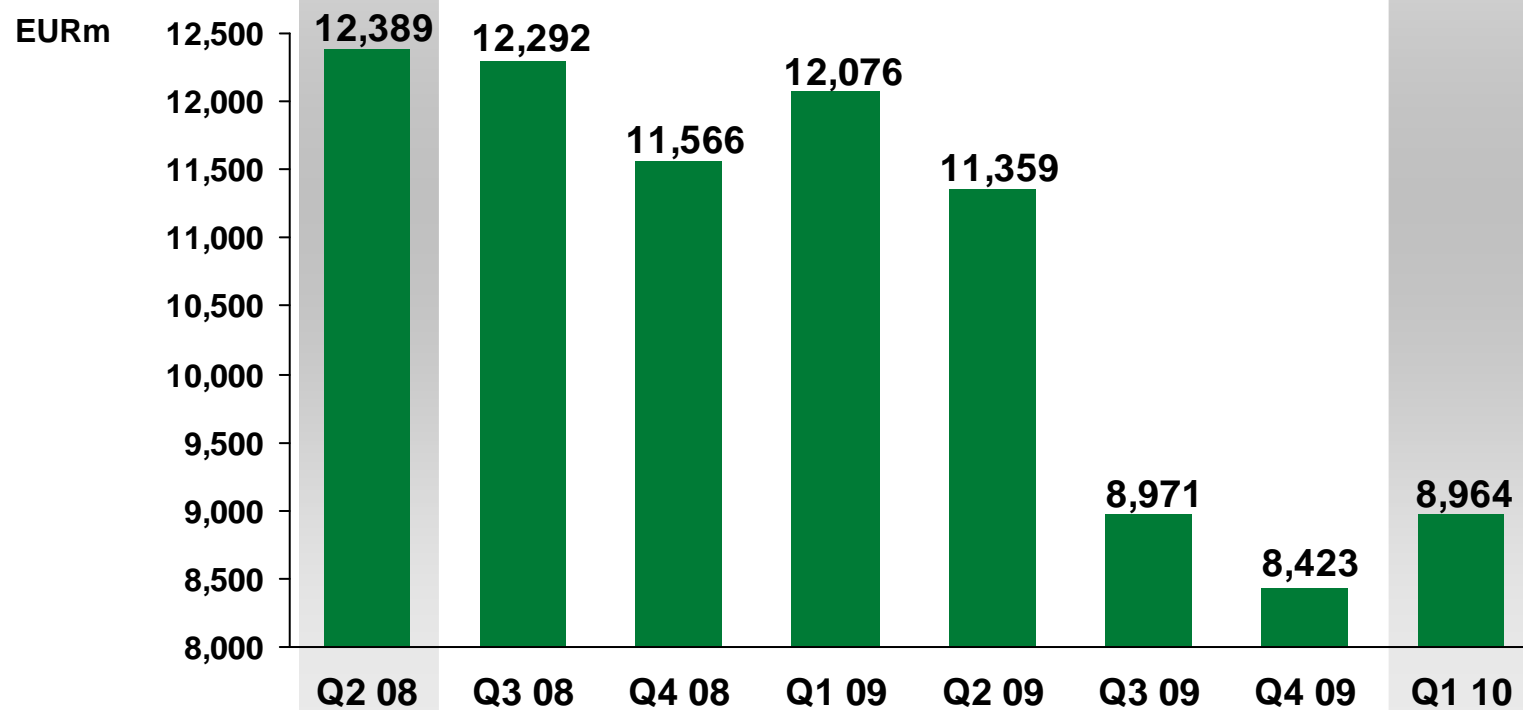
- Purchasing: EURm 30

**HeidelbergCement adapted its savings program to worsening crisis**

## ■ Since mid-2008 net debt substantially reduced

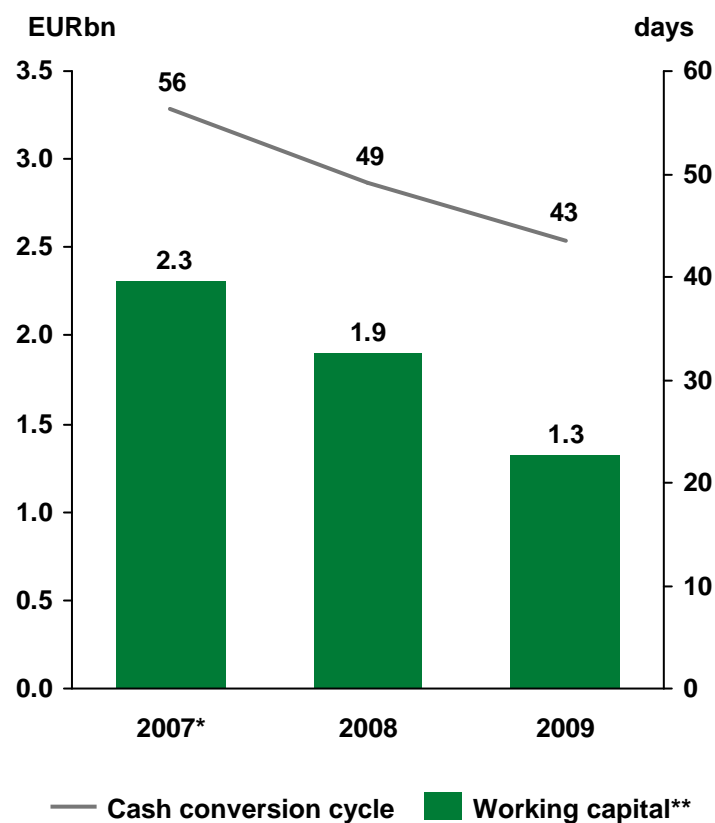
Net debt / LTM operat. EBITDA	5.0x	4.3x
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Gearing	144%	77%
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Note: Net financial liabilities without minorities  
 Slide 8 - 19.5.2010  
 Analyst Day - Dr. Lorenz Näger

## Working capital reduced



\* Pro forma including 12 months Hanson

\*\* Working capital = inventories + trade receivables – trade payables

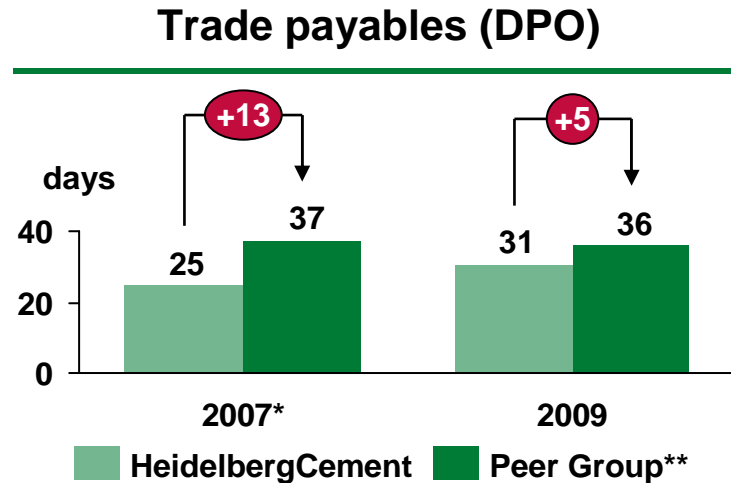
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### Key considerations

- HeidelbergCement has substantially reduced working capital
- Cash conversion cycle significantly reduced
- HeidelbergCement will continue working capital management with focus on payables

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## ■ Working capital management to be continued



**DPO improvement project**  
with focus on harmonization and  
improvement of payments terms

### Group Spare Parts initiative

- Focus on cement business → Warehouses to be optimized
- Target: reduce spare parts per ton cement by 20%

\* Pro forma including 12 months Hanson

\*\* Based on publicly available company reports

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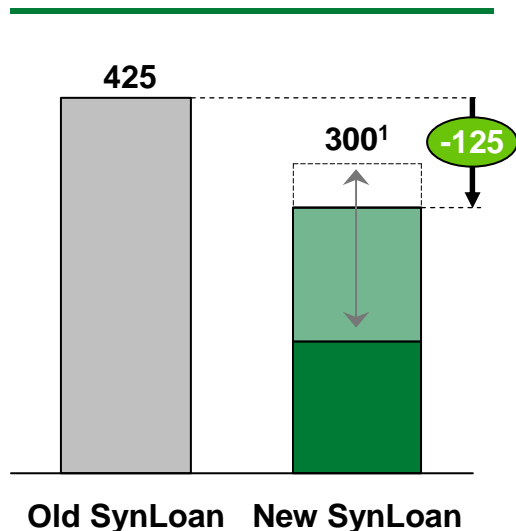
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## ■ **New SFA improves financial flexibility**

- **New Syndicated Multicurrency Revolving Credit Facility Agreement of EUR 3 billion, including EUR 500 million Swingline Facility & up to EUR 500 million L/C facility**
- **Extends maturity from 2011 to end of 2013**
- **Refinancing of syndicated loan facility from June 2009 increases flexibility substantially**
  - No restrictions on dividends
  - No restrictions regarding investments
  - Financial covenants based on latest business plan
  - Reduced share pledges and guaranties

# Reduced fees and margins under the new SFA

## Margin in bps



## Margin Grid

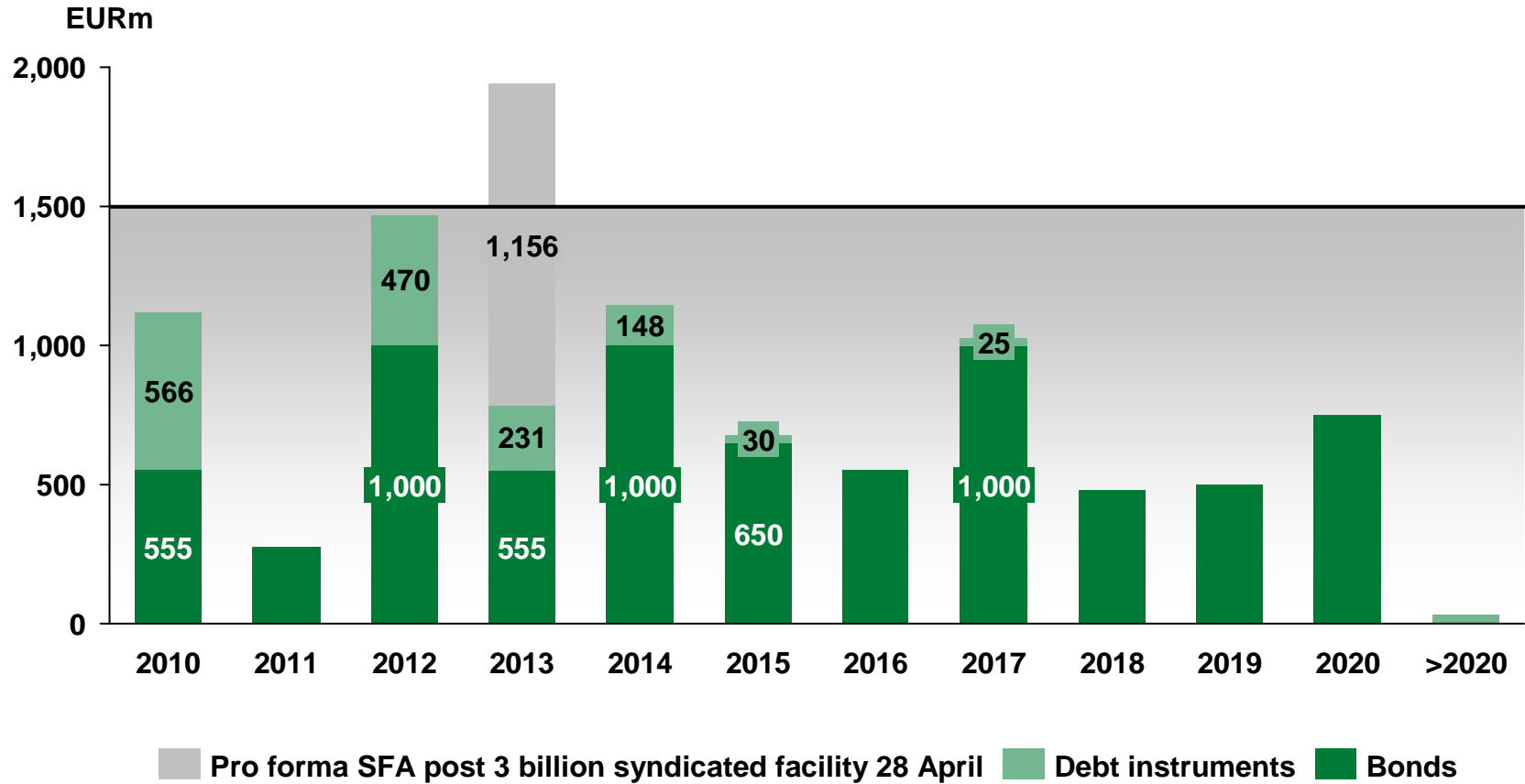
Ratio of Group's Net debt/EBITDA	Margin in % p.a.
Greater than or equal to 4.50:1	3.50
Less than 4.50:1 but greater than or equal to 4.00:1	3.00
Less than 4.0:1 but greater than or equal to 3.5:1	2.50
Less than 3.5:1 but greater than or equal to 3.0:1	2.00
Less than 3.0:1 but greater than or equal to 2.5:1	1.75
Less than 2.5:1	1.50

	in % of applicable margin
<b>L/C Margin for issued L/Cs</b>	75%
<b>Commitment Fee</b>	35%
	in % p.a.
<b>Utilization Fee</b> depending on the utilization of credit line from October 2010 onwards	
➤ 33.33% outstanding	0.25%
➤ 66.66% outstanding	0.50%

# Debt maturity profile further optimized

as per 31 March 2010

**12-months-rolling maturities below 1.5 bn EUR**



Excluding reconciliation adjustments with a total amount of EUR -163 Mio.  
 (transaction costs to be amortized over the term of the SFA, issue prices and fair value adjustments)

## ■ Key value drivers identified – targets defined

- **Strengthening of earnings power in the crisis**
  - Retain achieved cost savings in the economic upswing
- **Return to investment grade rating**
  - Reducing net debt while increasing operating EBITDA at the same time
- **Distribution of a dividend in line with the market**
  - Increase in payout ratio up to 30% - 35% in the medium term

### ■ Financial mid-cycle targets

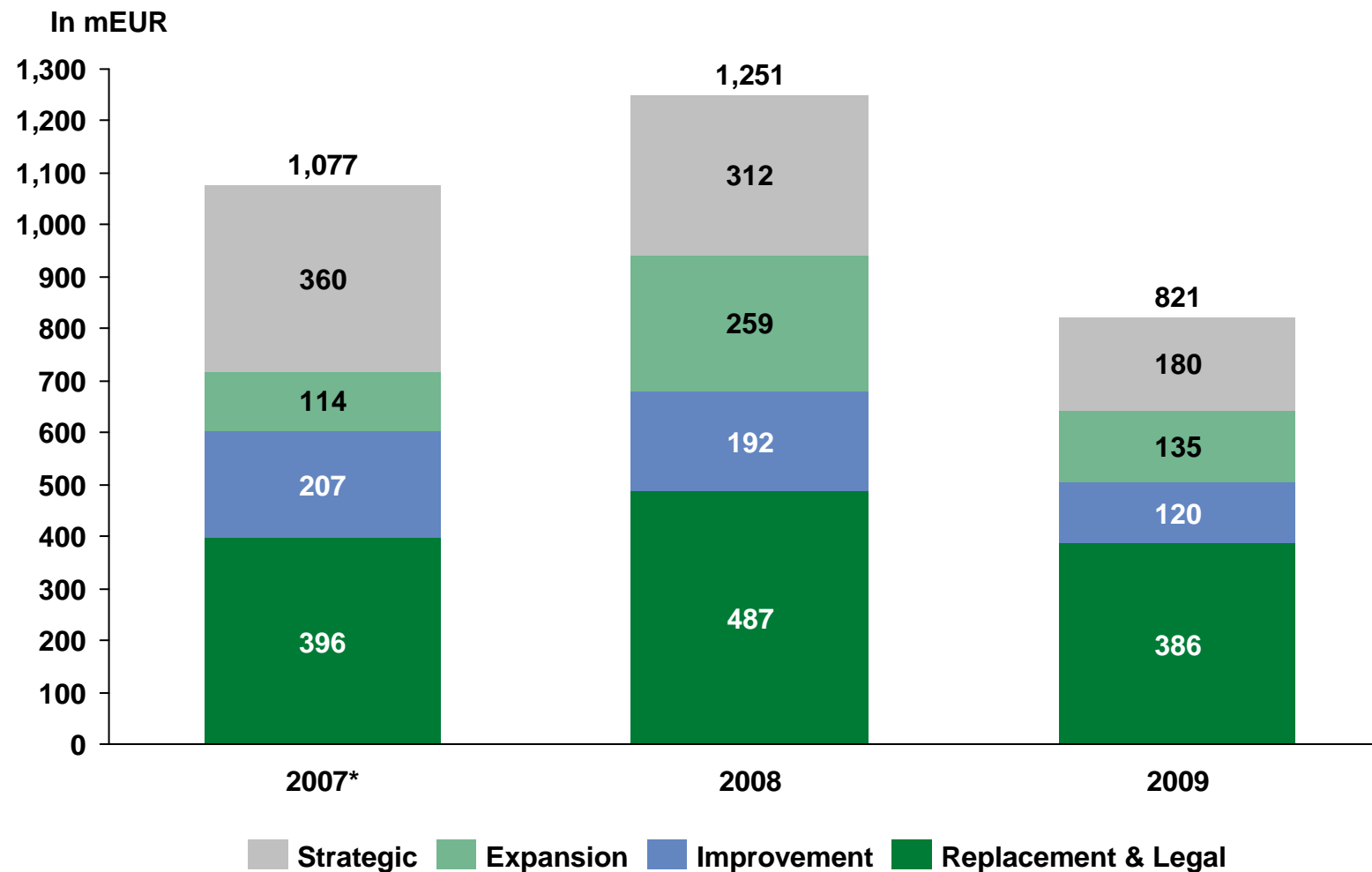
- Operating EBITDA > 3 EURbn
- Net debt/ operating EBITDA < 2.8
- ROCE<sup>1</sup> 19% - 20%

<sup>1</sup> ROCE = (Operating income + result from participations) / (Fixed assets (without intangible assets) + net current assets)

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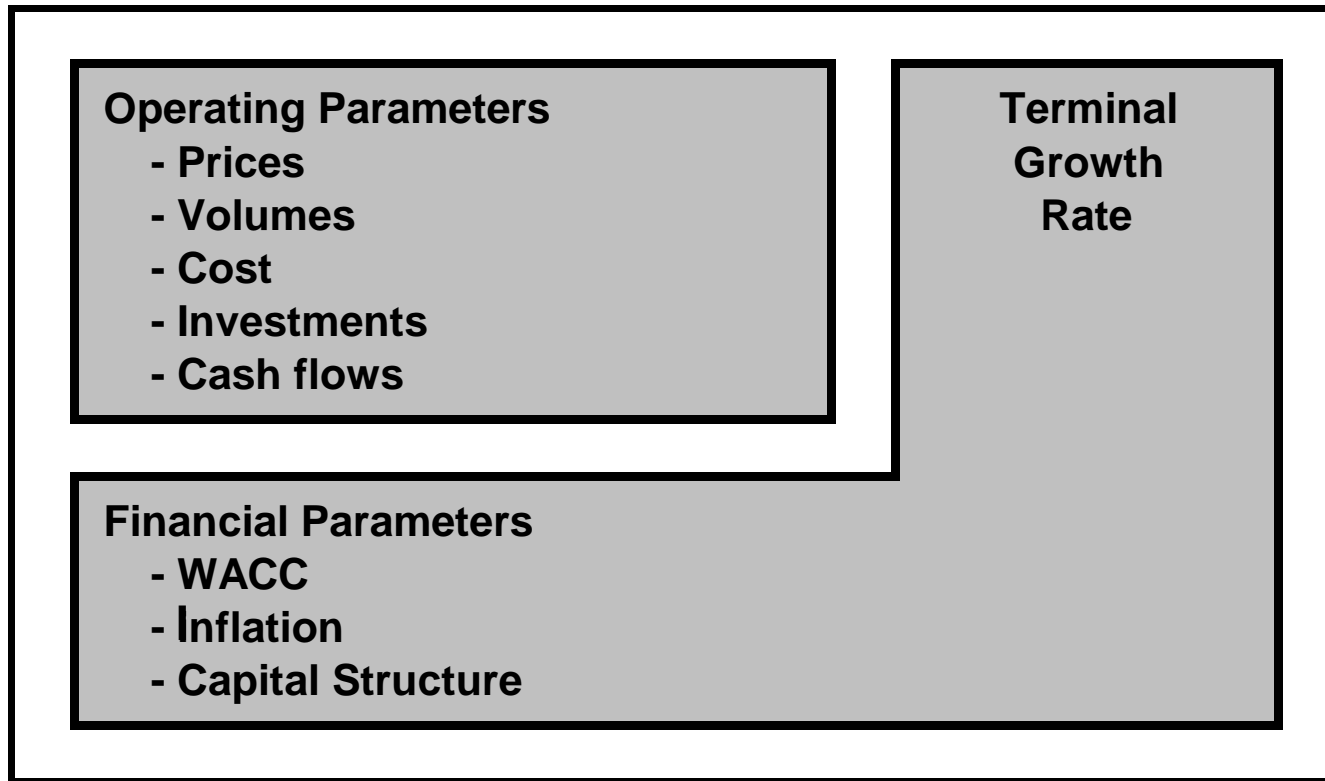
## CAPEX reduced but well balanced in the crisis



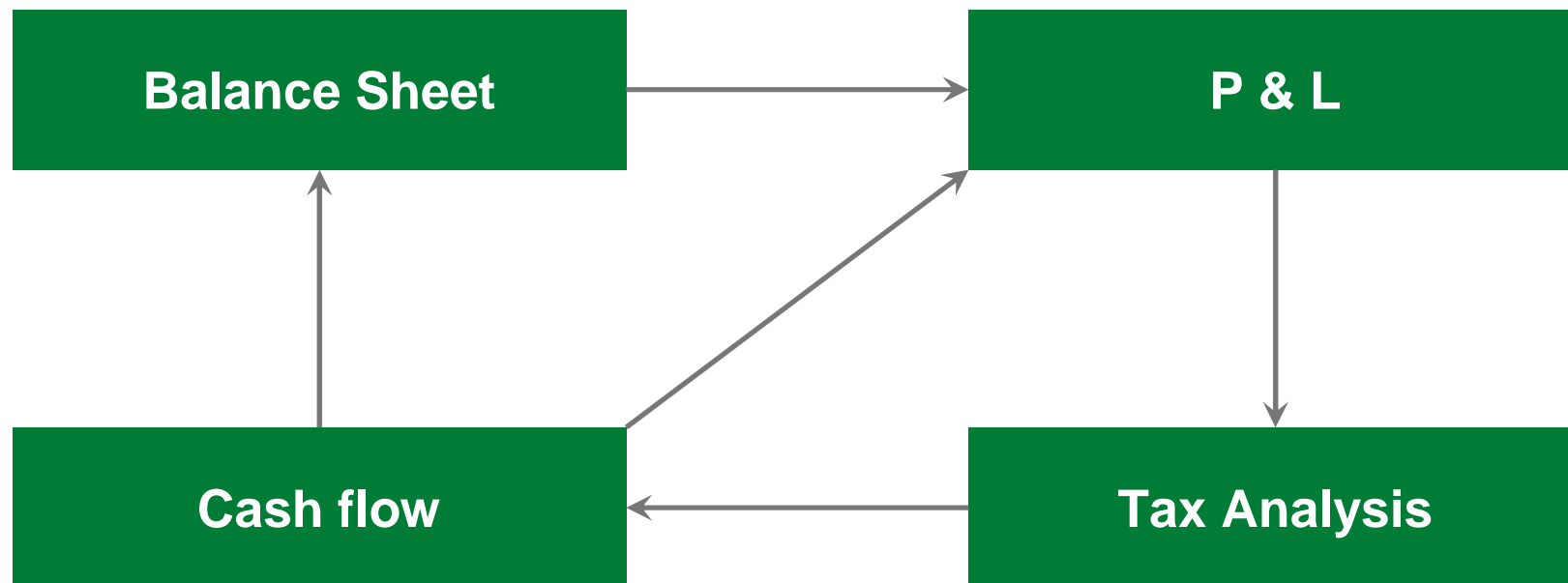
\* Excluding Hanson acquisition (11.697 EURm)

# ■ Factors determining net present value

## Net present value

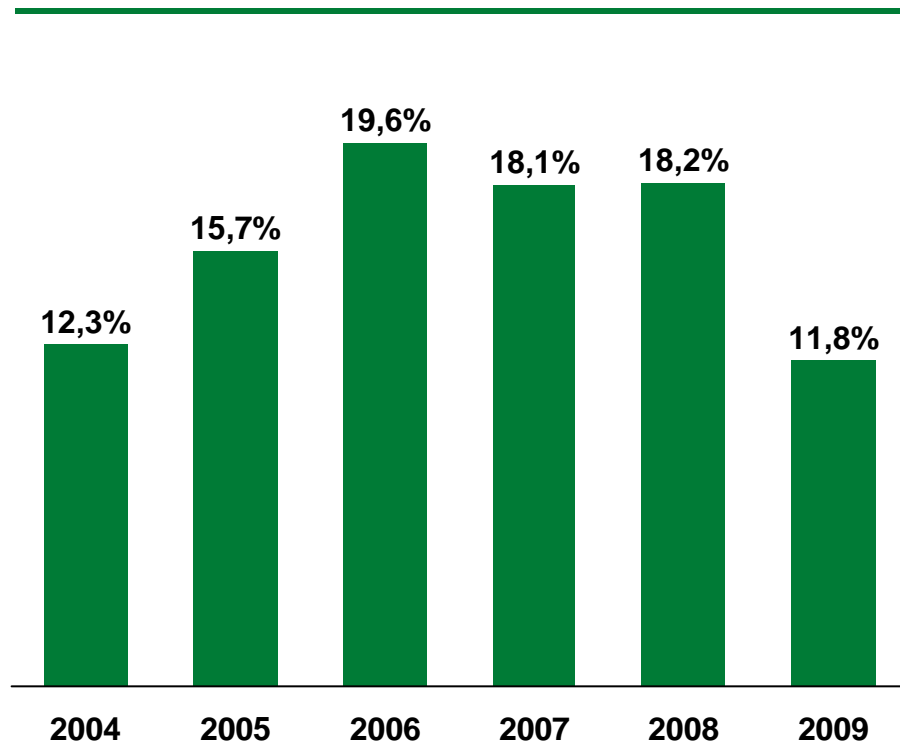


## ■ Detailed 5-y-Analysis of financial impact of major investments



## Return on capital employed significantly increased before the crisis

### Return on Capital Employed



### Key considerations

- HeidelbergCement uses ROCE to measure the operational efficiency of its assets
- HeidelbergCement has more than quadrupled its ROCE before the crisis
- Financial and economic crisis led to a decrease
- Efficient use of company's capital and resources is in the focus of the management

## Return on Capital Employed

	Intangible assets (excl. goodwill)
+	Tangible fixed assets
+	Investments in associates and financial investments
+	Net working capital
+	Long-term operating receivables
—	Long-term operating liabilities
<hr/>	
=	Capital employed
	Operating Income
+	Result from associations and participations
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=	Return

# ■ Evaluation of strategic position

## ■ Competitive position

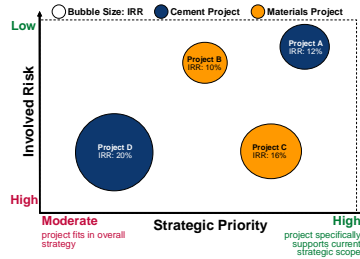
- Access to markets (proximity to population centers, access to road, rail, waterways, etc.)
- Access to sources (quarry, coal, electricity, water, fillers, etc.)

## ■ Profit pool potential

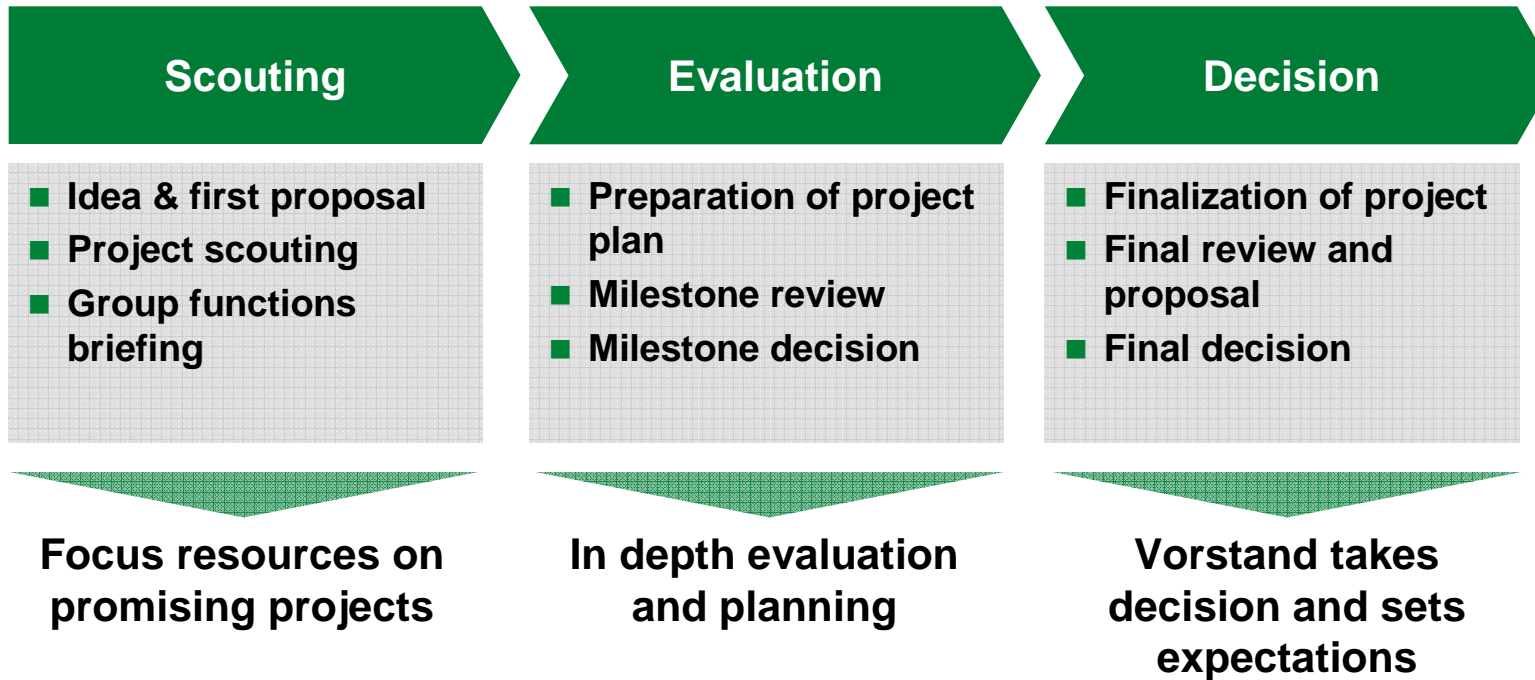
- Growth potential (Population growth, historic cement consumption, phase in cycle, etc.)
- Margin potential (market concentration, capacity utilization, etc.)

■ → **GOOD STRATEGIC POSITION + GOOD MANAGEMENT  
= LONGTERM PROFITABILITY**

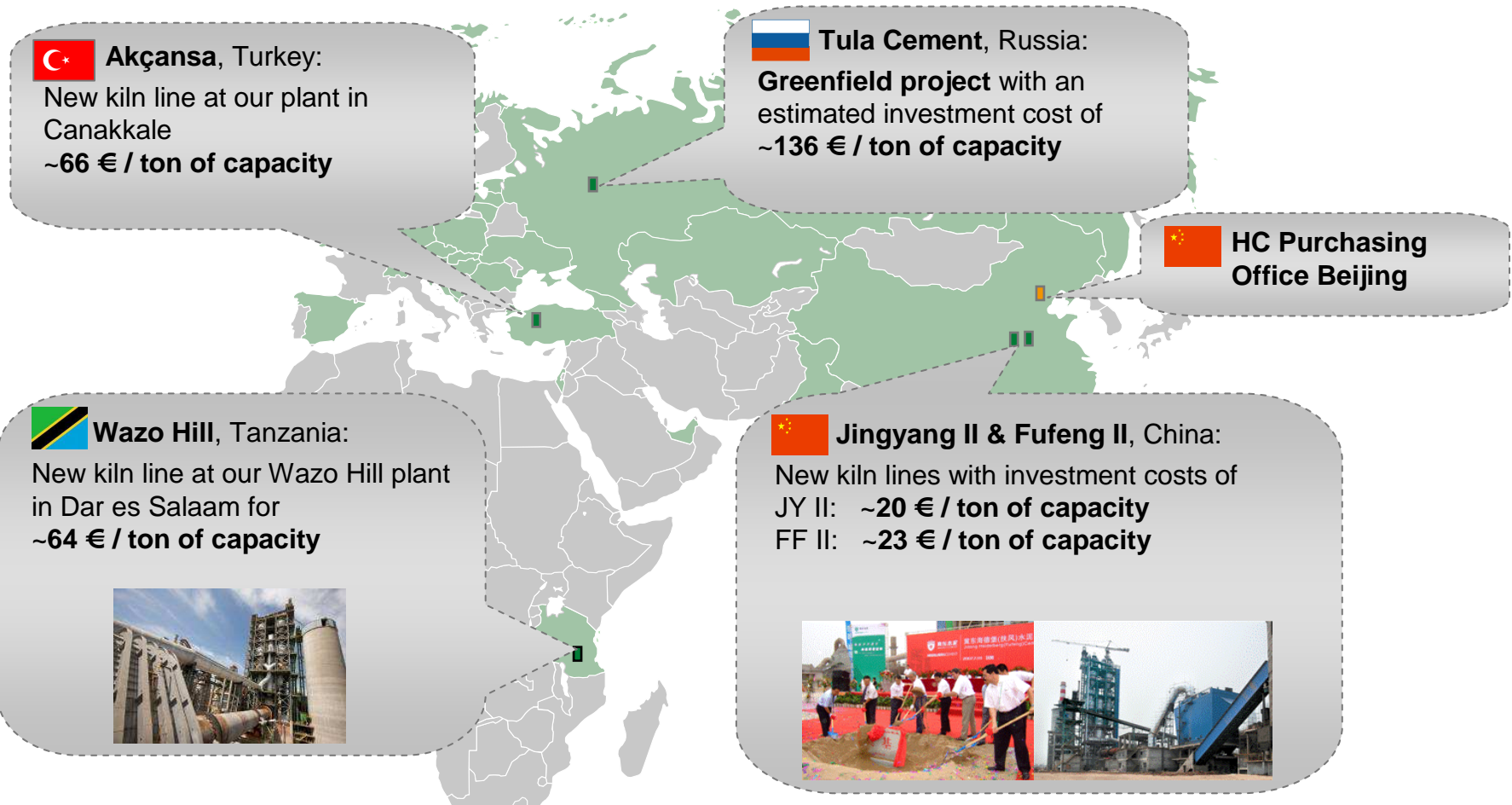
# Three step decision process for CAPEX projects



Category	Item	Score	Weight	Value	Comment/Value
1. Project description	1.1. NPV IRR >= 10%	3	10	30	NPV Value: 1000 t/m
	1.2. Positive NPV	3	10	30	Value: 10%
	1.3. IRR >= 10% (10%)	3	10	30	Value: 10%
	1.4. Positive payback	3	10	30	Value: 10%
2. Economic evaluation	2.1. Payback period	3	10	30	Value: 10%
	2.2. NPV IRR >= 10%	3	10	30	Value: 10%
	2.3. Positive NPV	3	10	30	Value: 10%
	2.4. Positive payback	3	10	30	Value: 10%
3. Environmental impact	3.1. CO2 emissions	3	10	30	Value: 10%
	3.2. Energy consumption	3	10	30	Value: 10%
	3.3. Water consumption	3	10	30	Value: 10%
	3.4. Land use	3	10	30	Value: 10%
4. Overall status	4.1. Overall status	3	10	30	Value: 10%
	4.2. Overall status	3	10	30	Value: 10%
	4.3. Overall status	3	10	30	Value: 10%
	4.4. Overall status	3	10	30	Value: 10%



# Efficient CapEx use by combining world class engineering know-how with low-cost country capacity and purchasing equipment



**Efficient use of CapEx improves cash position and earnings potential**

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# ■ Consequent tax optimization

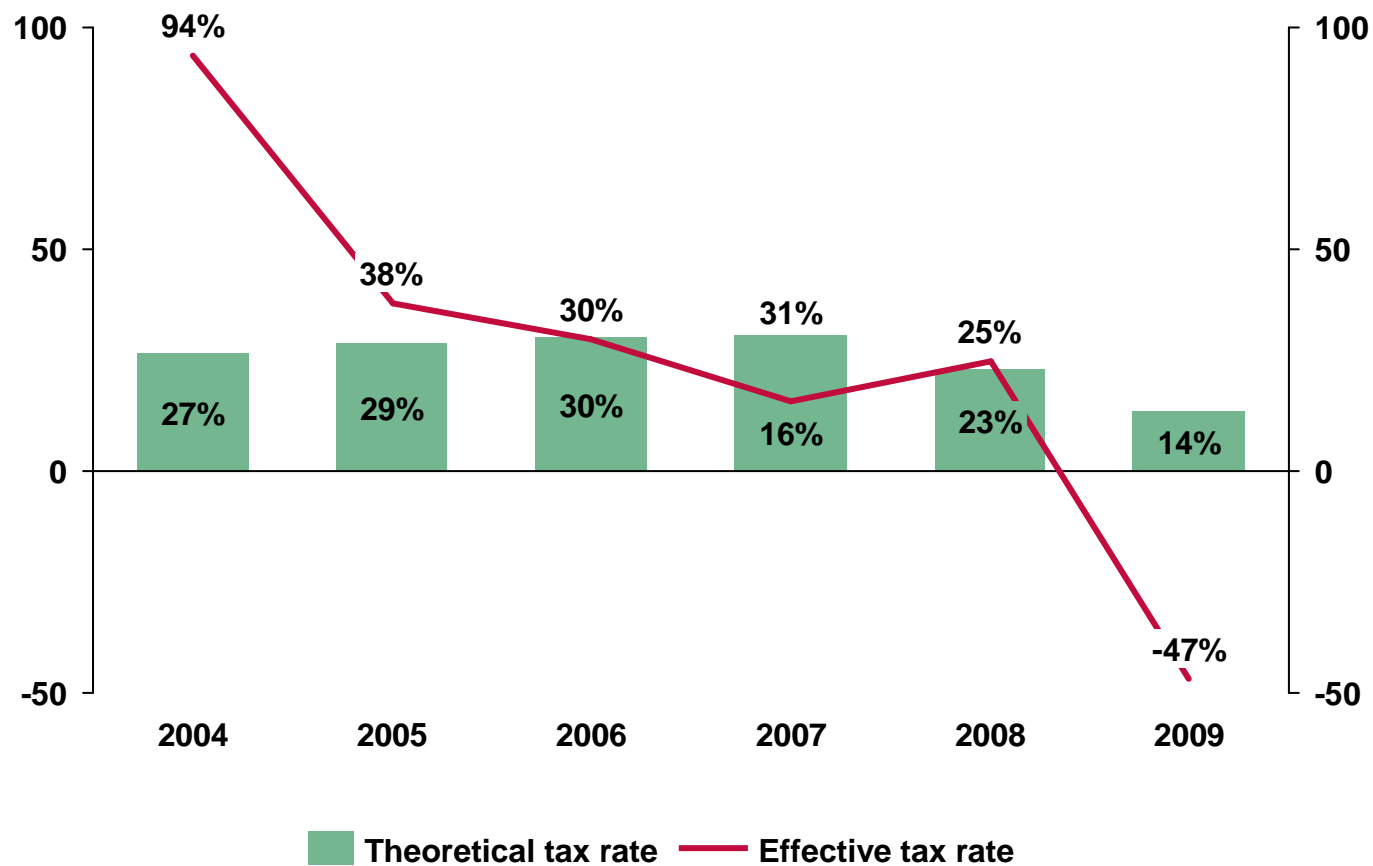
## ■ Group Tax Planning

- Group tax in charge
- Cross-border tax optimization
  - Finance structure
  - Dividend policy
  - Corporate structure
  - intra-group transactions

## ■ Tax improvement program (“TIP“)

- Targets set and monitored by group
- Execution by local management
- Domestic tax planning
  - avoid non-deductable expense
  - generate tax free income
  - use possibilities of local tax accounting

## Effective tax management



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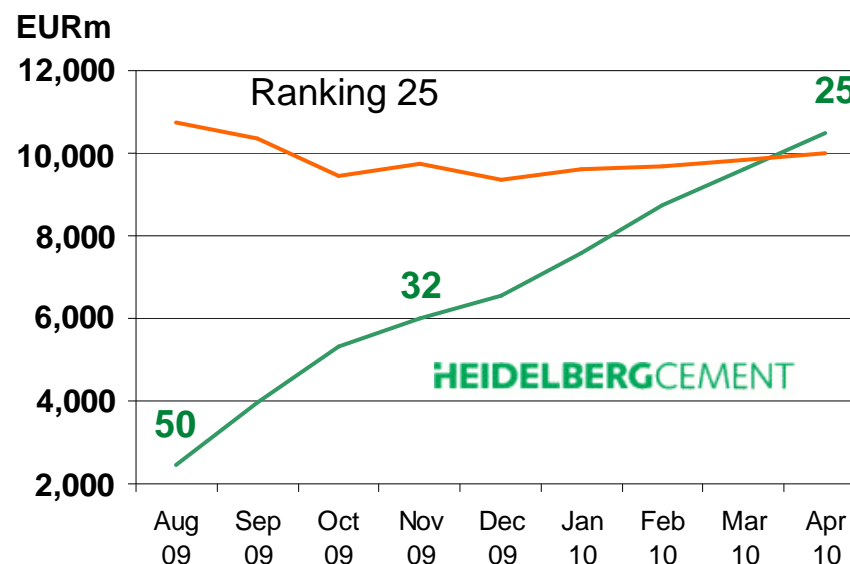
## Fast entry into DAX 30 probably in June 2010

### Free float market capitalisation\*

Company	Ranking
Henkel AG	20
MAN SE	21
<b>HEIDELBERGCEMENT AG</b>	<b>22</b>
K+S AG	23
Metro AG	24

\*Source: Deutsche Börse, May 2010

### LTM share trading turnover\*



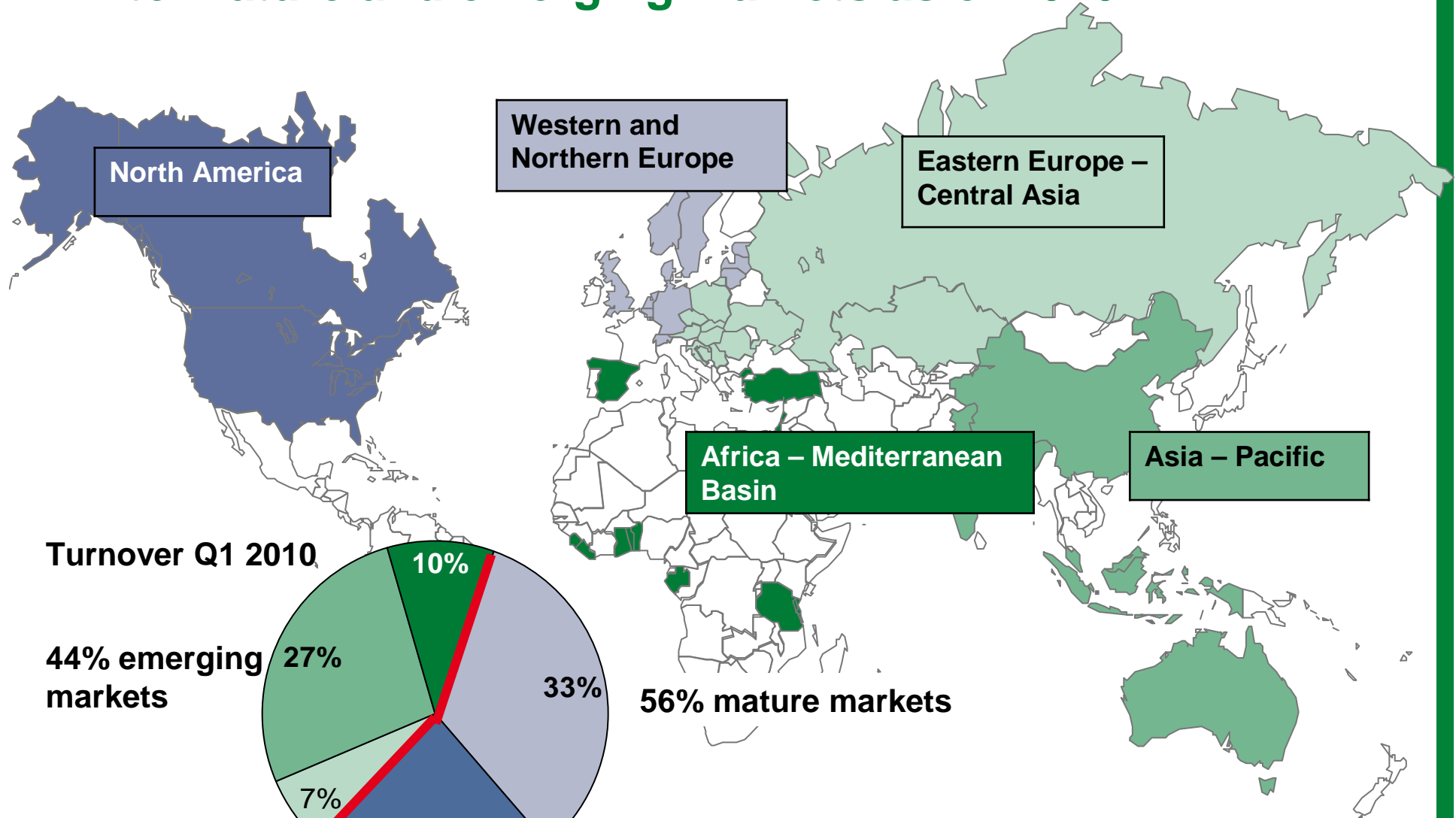
- Increased free float led to dramatic rise in trading turnover of the HeidelbergCement share
- HeidelbergCement fulfills prerequisites for fast entry into the DAX
  - Among top 25 regarding free float market capitalisation
  - Among top 25 regarding trading turnover in the last 12 months
- Deutsche Börse decides on DAX composition on 4 June 2010

## **Consistent strengthening of Investor Relations**

- **Installation of a IR team in Group communication**
- **Evaluation analysis of HeidelbergCement on the capital market**
- **Examination of the expectations of analysts and institutional investors regarding transparency and strategy through interviews**
- **Implementation of a transparency initiative in reporting**
- **Raise the name recognition of HeidelbergCement through increased attendance of the Managing Board at conferences and road shows**

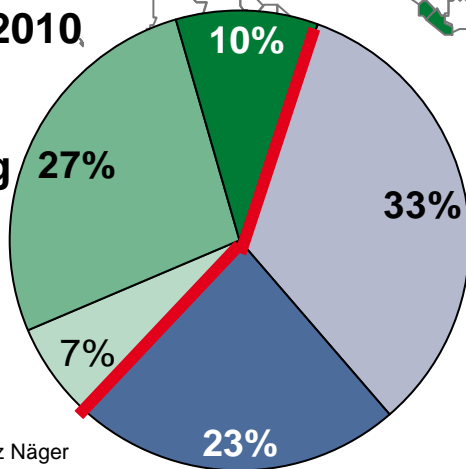
**Very positive feedback from institutional Investors  
regarding improved transparency**

# ■ Transparency initiative: new division of Group areas into mature and emerging markets as of 2010



Turnover Q1 2010

44% emerging markets



56% mature markets

**Thank you very much for your attention!**

# Safe Harbour Statement

Unless otherwise indicated, the financial information provided herein has been prepared under International Financial Reporting Standards (IFRS).

This presentation contains forward-looking statements and information. Forward-looking statements and information are statements that are not historical facts, related to future, not past, events. They include statements about our beliefs and expectations and the assumptions underlying them. These statements and information are based on plans, estimates, projections as they are currently available to the management of HeidelbergCement. Forward-looking statements and information therefore speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.

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