Dr. Bernd Scheifele,
Chairman of the Managing
Board of HeidelbergCement

# Letter to the shareholders

**Dear Shareholders,**
**Dear Employees and Friends of HeidelbergCement,**

Economically, 2009 was a horrific year. It will go down in history as the time of the worst recession since the Second World War: Global economic output fell for the first time, by roughly 1% – with an approximately 5% contraction in Germany and a decline of around 2.4% in the US.

In light of these very adverse conditions, HeidelbergCement placed the Group's capital and financing structure on a completely new and solid basis, thanks to a carefully balanced package of measures and – despite considerable one-time extraordinary charges – achieved a profit for the financial year of EUR 168 million.

The HeidelbergCement team convincingly demonstrated its ability to act quickly, decisively and effectively even under the worst of circumstances. This is a good starting point for future success!

## 2009: Uncompromising cost management in operating activities

In 2009, our global business was characterised by the economic crisis. As forecasted at the beginning of the year, turnover and results were down considerably from 2008 levels. Turnover fell by EUR 3.1 billion (21.6%) to EUR 11.1 billion, which is attributable almost exclusively to substantial, double-digit volume declines in the core business areas of cement, aggregates and ready-mixed concrete. Moreover, we were confronted with negative exchange rate effects totalling roughly EUR 440 million and price reductions in the building products business line.

Operating income before depreciation (OIBD) was down EUR 844 million (28.6%) to EUR 2.102 billion. The negative exchange rate effects amounted to EUR 126 million. Despite this considerable decline, there were two positive developments to report:

Firstly, the Group's gross margin improved by 1 percentage point in comparison with the previous year, to roughly 49%. This shows that, despite declining volumes, we were able to maintain strict price discipline with slightly lower energy and raw material costs.

In addition, in our core business areas of cement and aggregates, the OIBD-margin – adjusted for one-time effects in connection with a reduction in stock – almost maintained its high level. This is proof that our extreme cost discipline paid off.

Business developments varied regionally in 2009:

The US and United Kingdom were particularly hard hit by the decline in the construction industry. In these two countries, market conditions meant that results were noticeably below the previous year and below our expectations. Nonetheless, we generated acceptable results in these two most difficult markets – especially compared to other companies in our industry – and ended the year well in the black.

In our European markets, the construction industry experienced a heavy decline in 2009, which is reflected in the results for HeidelbergCement's Group area Europe: operating income before depreciation (OIBD) fell by EUR 628 million (approx. 39 %) to EUR 999 million. Particularly strong declines were seen in Spain, Russia, Ukraine, Georgia and the Baltic states. In contrast, the development of results in the Asia-Australia-Africa Group area was pleasing. These growth regions accounted for roughly 35 % of operating income before depreciation, which set a record in this Group area at EUR 741 million and a margin of 25.8 %. This was fuelled by a pick-up in demand starting in the first quarter of 2009, especially in China, India, Indonesia, and Bangladesh. In Australia and Malaysia, despite double-digit declines in sales volumes, our rapidly implemented and massive cost reduction measures allowed us to nearly match the high quality of the previous year's results.

Because of the recession, the additional ordinary result was impacted by one-off extraordinary expenses of around EUR 550 million in the Group areas Europe and North America. These included EUR 421 million of non-cash goodwill impairment for our activities in North America, the United Kingdom, Spain, and Israel. In addition, there were restructuring costs and depreciation on production facilities as a result of the considerable capacity adjustments.

The financial result was affected by non-recurring expenditure of around EUR 240 million for bank fees and advisory costs, which arose in connection with the comprehensive refinancing measures taken in 2009.

Given the extraordinary costs totalling approximately EUR 790 million in the exceptional year 2009, the Group's net profit for the financial year of EUR 168 million is respectable.

### The "Fitness 2009" programme: cost savings in excess of EUR 550 million

HeidelbergCement reacted very quickly to the immense dynamics of the worldwide recession:

The "Fitness 2009" programme, which had already been adopted in July 2008 with the objective of achieving EUR 250 million in cost savings, was implemented much more rapidly and successfully than originally planned. We immediately shut down and/or decommissioned production facilities worldwide, reduced the number of shifts and aligned working hours with the new market situation. In addition, all of the employees exercised extreme cost restraint, and the result is conclusive: The "Fitness 2009" programme led to cost savings of more than EUR 550 million.

The strict and necessary implementation of the "Fitness 2009" programme had a considerable effect on staffing. Personnel costs were reduced by more than EUR 250 million compared with the previous year; the number of employees in the Group fell by a further 7,500 in 2009, after a decline of 7,000 employees in 2008.

### "Cash is king": liquidity improved by EUR 1.5 billion

In the autumn of 2008, we implemented a comprehensive package of measures to secure liquidity and optimise the capital and financing structure with a great deal of discipline. The "Cash is king" initiative launched in September 2008, immediately following the Lehman Brothers collapse, played a crucial role: Through targeted Group-wide reductions in inventories, optimisation of cash payments cycle, strict investment discipline and successful divestment of non-strategic business units, liquidity was improved by roughly EUR 1.5 billion.

With successful implementation of the "Fitness 2009" programme and the "Cash is king" initiative, our operating units have laid the foundations for a sweeping reorganisation of the capital and financing structure.

## Improvement of capital and financing structure

In 2009, the Managing Board took a four-step approach to the improvement of the capital and financing structure, which had become necessary because of the financial market crisis:

There was a strong focus in the first half of 2009 on the negotiations with our more than 50 creditor banks concerning an extension of the term of the Hanson acquisition loan. The starting position could not have been worse: In the first months of 2009, enormous uncertainty reigned in the capital markets, along with an irrational – largely dominated by government interventions – banking environment and extremely negative market development. In June, after extremely painstaking and nerve-racking negotiations, we finally succeeded in obtaining the approval of all of the banks – with improved guarantees and a noticeably higher margin – to the refinancing of the Hanson acquisition loan with a new syndicated loan totalling EUR 8.7 billion with a term ending in December 2011.

After successful conclusion of the refinancing agreements, we took advantage of the positive momentum of the banks and capital markets for the second step: As early as September, we carried out a substantial capital increase, which brought the Group a total of around EUR 2.23 billion. As a result of the simultaneous placement of shares belonging to our majority shareholder Ludwig Merckle, free float increased to over 75%. The capital increase met with great interest on the capital market, and was oversubscribed several times. This was a clear sign of confidence in HeidelbergCement.

In a third step, we issued bonds totalling EUR 2.5 billion in October 2009 to institutional investors in Germany and abroad. The issue proceeds, like the proceeds from the capital increase, were used to repay bank debts.

With the issue of further Eurobonds in January 2010, we were ultimately able to reduce our bank debt to roughly EUR 700 million. The success of all these measures is demonstrated by the following key figures:

- Reduction of net financial liabilities by EUR 3.2 billion
- Gearing 76.5%
- Equity ratio 43.2%
- Liquidity reserve of approximately EUR 3 billion

The rating agencies reacted to the successful refinancing measures with a significant upgrade of HeidelbergCement's credit rating.

## Growth markets with new potential

Despite the economic crisis and the substantial extraordinary charges in 2009, we continued our strategy of targeted expansion of our market positions in the cement business line in growth markets. Work on the new kiln lines at our Chinese plants Jingyang and Fufeng, with capacity expansion totalling roughly 4.5 million tonnes, was already completed by the end of 2008. The plants went into operation and reached full capacity in 2009.

In 2009, we were the first company in our industry to successfully commission a new kiln line in Tanzania using Chinese technology with an additional cement capacity of 1 million tonnes, for a low investment cost. In Hungary, the Czech Republic, and Romania, we also completed our investment projects for expansion of the production capacities totalling approximately 2.5 million tonnes on schedule.

In Tula, we began work on a cement plant with a capacity of 2 million tonnes. Production for delivery to the Moscow market is set to begin in early 2011. In the Polish market, where market performance has been very pleasing, we are investing in an expansion of our cement capacities.

At the Indonesian Cirebon plant, we are currently working to expand our cement capacity by roughly 1.5 million tonnes. The commissioning will take place in spring of 2010. At the central Indian locations of Damoh and Jhansi, we have begun construction of a kiln line and additional cement capacity of approximately 3 million tonnes. The project is scheduled for completion in 2012. In Bangladesh, we are also planning an expansion of cement capacities by roughly 1 million tonnes.

Overall, the expansion programme for growth markets, which will be completed by 2012, amounts to around 17 million tonnes of cement. This clearly shows that, despite the current necessity of the rigid cost saving measures, HeidelbergCement continues to invest in the markets of the future – laying the groundwork for new growth.

### Sustainable development even during the crisis

The long-term nature of sustainability means that it is an important foundation for companies, particularly during a deep global financial and economic crisis. Investment cycles at HeidelbergCement often encompass a period of 20 years and more, giving the Group a very long-term horizon.

In order to be successful over the long term – even in times of a crisis like today's – a focus on customers is crucial. HeidelbergCement has always been characterised by a company philosophy grounded in the tradition of a medium-sized enterprise that values close contact with its customers. In order to ensure that we regularly receive up-to-date information about customer acceptance of our services and products in the future, we began in 2009 to conduct Group-wide standardised customer surveys. This will allow us to respond even more effectively to our customers' wishes in the future.

The long-term orientation of our activities is also evident in our mineral reserves. In the cement business line, our reserves last for an average of around 90 years and, in the aggregates business, around 60 years – with around 90 years in core markets such as the US. These are leading figures in our industry!

Our 2009 Sustainability Report shows clear progress in the central areas of our sustainability strategy: With respect to the topic of $CO_2$ emissions, we far exceeded our goals. We had committed to a 15 % reduction in specific net $CO_2$ emissions by 2010 compared to 1990. By 2008, we had already achieved a reduction of 18 %. This positive trend was maintained in 2009 as well.

The use of alternative fuels is a key criterion for reduction of fossil fuel consumption for clinker production. With a proportion of 19.5 %, we are the industry leader in this regard.

In 2009, numerous measures as part of the "Safe Work—Healthy Life" initiative were at the forefront of our sustainability strategy. We plan to further reduce the accident frequency rate and accident severity indicator throughout the Group.

2010 is the year of biodiversity: We were the first company in the building materials industry to define Europe-wide standards for renaturation and recultivation of our quarries in 2009. Furthermore, we plan to introduce these standards at our more than 700 quarries worldwide. Our primary objective is to increase biodiversity during and after the extraction process.

However, sustainability also entails accepting social responsibility. Because of the strong local character of our business and in line with our company philosophy "think global – act local", social responsibility is an integral part of the duties for our local managers.

### Thanks for outstanding commitment

The crisis year of 2009 was an extreme test of the dedication and loyalty of our employees throughout the globe. Under enormous market pressures and despite the refinancing problems, they did an incredible job with an extremely high level of cost discipline. For this, I would like to express my sincere gratitude and appreciation and also those of my colleagues on the Managing Board. Thanks also go to the representatives of the employees. They cooperated very closely, openly and trustingly with the Managing Board during this difficult year, for the good of our company.

I would also like to personally thank and express my utmost appreciation to our managers worldwide. They reacted quickly, flexibly, and successfully, showing great dedication under extraordinarily challenging circumstances in 2009. In these difficult times, the HeidelbergCement team clearly demonstrated what it is capable of!

### Prospects 2010

2010 will prove to be another challenging year for the building materials industry. Although we expect a further recovery in the global economy, developments will vary widely depending on the region.

The markets in Asia-Australia-Africa will return to their previous growth rates, while only a hesitant recovery is on the horizon for the US and Europe. On the whole, we expect global growth in cement, aggregates and ready-mixed concrete in 2010, driven by a noticeable positive development in Asia and Africa.

In the US and Europe, the first half will likely be characterised by a further decline in volumes – not least as a result of the long, hard winter. We anticipate a recovery of the US market in the second half. The extent and speed of this will strongly depend on the further development of housing construction, spending of the states in the US currently struggling with budget deficits, and the pending decision of the US Congress regarding the funding of the Federal Highway Program.

In Europe, we expect housing construction to stabilise at a historically low level, along with a noticeable reduction in commercial construction and positive developments in the area of infrastructure. In some European countries, infrastructure spending is subject to additional uncertainty as a result of the recent political discussions and speculation on the financial markets in connection with Greece's national debt.

Based on our clear strategy of vertical integration and better capacity utilisation as a result of substantial inventory reductions, we expect a stable pricing situation in our core business areas of cement and aggregates.

After two years of heavy exchange rate losses, we also see opportunity in the continued weakness of the euro against other core Group currencies in 2010.

In 2010, HeidelbergCement will focus on three main areas:

– We will continue to emphasise consistent cost management. To this end, we have initiated the "FitnessPlus 2010" programme, which will result in additional cost savings of EUR 300 million. Moreover, in order to improve the operating margin in the core business areas of cement and aggregates, we have launched efficiency optimisation projects in the areas of maintenance and repair, electricity consumption and productivity.

– We will continue to place a high priority on achieving the highest possible cash flow, further reducing debt and securing liquidity.

– We are working intensively to improve the capital market orientation and communication of the company. Our goal is to become one of the best in this respect. Our goal for 2010 continues to be inclusion in the German benchmark DAX index.

HeidelbergCement charted the right course in 2009, and we are well-equipped for the future. With our excellent team, we will also successfully overcome any challenges in 2010.

Our global market position and our worldwide leadership in the aggregates sector mean that we are well prepared to profit tremendously from an expansion of global economic activity driven by a recovery in North America.

Yours sincerely,

Bernd Scheifele

Dr. Bernd Scheifele

Chairman of the Managing Board