

HEIDELBERGCEMENT

Interim Report



January to December 2004

- **Changes in the chairmanship of the Supervisory Board and Managing Board**
- **Development of sales volumes and turnover in the fourth quarter in line with expectations**
- **Cement and clinker sales volumes exceed 65 million tonnes**
- **Elimination of balance sheet risks leads to one-time extraordinary charges of around EUR 700 million**
- **Acquisition of majority stake in Teutonia Zementwerk AG, Hanover/Germany**
- **Managing Board and Supervisory Board resolve cash capital increase in the amount of around EUR 270 million**

Letter to the shareholders

Ladies and Gentlemen

The international economic environment remained varied in the fourth quarter of 2004. The environment in the construction industry varied significantly in the individual countries. In Germany the gross domestic product increased by 1.6%, which is just below the average for the euro zone. However, construction activity once again recorded a decline amounting to expected 2.5%.

During 2004, Group turnover increased by 8.8% to EUR 6,929 million (previous year: 6,372). Both the first-time consolidation of Indocement with a plus of EUR 411 million and currency effects - especially from the reduced US dollar exchange rate - with a minus of EUR 185 million, were significant influential factors. Adjusted for currency and consolidation effects, turnover rose by 5.8%. In particular, operating improvements were achieved in North America, Africa-Asia-Turkey and Central Europe East.

The complete annual accounts of HeidelbergCement will be published on 23 March 2005.

- **Cement and clinker sales volumes exceed 65 million tonnes**
In 2004, the cement and clinker sales volumes increased to 65.2 million tonnes (previous year: 51.1). This is largely attributable to the first-time consolidation of Indocement. Welcome increases in sales volumes were achieved in North America, Central Europe East, Africa and China. Excluding consolidation effects, the sales volumes rose by 2.2% compared with the previous year.

- **Balance sheet risks eliminated**

As part of the pre-audit of the 2004 annual accounts, a decision was made to carry out a thorough revaluation of balance sheet items, which will lead to one-time extraordinary charges in the region of up to EUR 700 million. The majority of this is due to the revaluation of goodwill for the Western Europe and Northern Europe regions, as well as for Indocement. Other significant amounts result from the laying of restructuring provisions for the Belgian-Dutch cement business and valuation adjustments for deferred tax assets.

The extraordinary charges are mainly non-cash items. They will result in a loss for the Group for the 2004 financial year in the amount between EUR 350 million and EUR 400 million. The Managing Board and Supervisory Board will make a decision regarding the proposed dividend for the HeidelbergCement AG at a later date.

- **Capital increase**

Above this, the Managing Board of HeidelbergCement AG has resolved, with the consent of the Supervisory Board, to implement a capital increase with subscription rights for shareholders following the extraordinary charges in 2004. In order to strengthen the equity base, the company expects cash proceeds in the amount of around EUR 270 million. The share-offer price amounts to EUR 35 per share. For 13 existing shares, shareholders may subscribe for one new share.

- **Changes in the Managing Board and Supervisory Board**

On 1 February 2005, Dr. Bernd Scheifele was appointed Chairman of the Managing Board of HeidelbergCement, succeeding Hans Bauer. Dr. Bernd Scheifele was previously Chairman of the Managing Board of PHOENIX Pharmahandel Aktiengesellschaft & Co KG and Chairman of the Supervisory Board of HeidelbergCement. Hans Bauer, who began his career at HeidelbergCement, was appointed to the Managing Board in 1997 and named Chairman

Cement and clinker sales volumes January to December

1,000 tonnes	2003	2004
Central Europe West	7,560	7,138
Western Europe	8,750	8,649
Northern Europe	5,361	5,359
Central Europe East	9,720	9,804
North America	12,531	13,414
Africa-Asia-Turkey	7,144	20,822
Total	51,066	65,186

in 2001. After more than 35 years of successful work for HeidelbergCement, Hans Bauer went into retirement at the end of January.

The Supervisory Board elected Fritz-Jürgen Heckmann, who has been a member of the Supervisory Board of HeidelbergCement since 2003, as Dr. Scheifele's successor in the post of Chairman of the Supervisory Board.

■ Employees

In 2004, HeidelbergCement employed an average of 42,062 (previous year: 37,774) members of staff across the Group. This represents an increase of 4,288 employees in comparison with the previous year. The number of employees increased by 7,030 as a result of the consolidation of Indocement alone. This first-time consolidation more than compensates for the decline in personnel of around 2,750 employees in all other regions, which results from restructuring measures and disinvestments.

■ Prospects

The varied trend in the global economy should continue in 2005, albeit slightly weakened. Once again, the growth impetus is expected from the United States, Asia and the middle and Eastern European countries. Growth remains limited in the euro zone and weak in Germany.

In view of the international economic environment, we anticipate moderate increases in sales volumes for 2005. In Germany, demand continues to decline. The development of turnover will benefit from the proceeds situation in numerous markets. Rising energy costs and freight rates will increase pressure on costs.

HeidelbergCement has set a new course in order to consistently take advantage of attractive opportunities for growth to enlarge its international market position on the basis of a risk-free balance sheet. In operational terms, we focus on increasing the efficiency in all areas to further reduce the costs significantly.

Heidelberg, 22 February 2005

Yours sincerely,



Dr. Bernd Scheifele
Chairman of the Managing Board

HeidelbergCement on the market

■ Central Europe West

During the previous year, construction activity in Germany decreased again. The heavy decline in investment in commercial and public construction continues unabated. Only residential construction reached approximately the previous year's level, as the announced abolition of subsidies to promote home ownership had a positive effect on construction demand. The cement and clinker sales volumes of our German plants fell by 5.6 % to 7.1 million tonnes (previous year: 7.6). Excluding the first-time consolidation of the Bosenberg plant, this corresponds to a minus of 12.9 %. One cause of this volume loss is the consistent pricing policy, which, on the other hand, led to noticeable improvements in proceeds. Furthermore, capacity adjustments, such as the conversion of Bosenberg into a pure grinding plant, and cost reductions are reflected positively in the development of results. In January 2005, we carried out a price increase in order to offset the added strain resulting from increased electricity, fuel costs and the HGV toll on German motorways. In order to further expand our market position, particularly in Northern Germany, we acquired the majority share in Teutonia Zementwerk AG in Hanover at the end of 2004. The squeeze-out procedure at Anneliese Zementwerke AG was successfully concluded on 18 February 2005. As a result, HeidelbergCement holds 100 % of the Anneliese shares.

In a ready-mixed concrete market in overall decline, we were able to maintain our overall market shares. In the concrete products operating line, the falling demand forced us to take extensive restructuring measures. The aggregates operating line achieved volume increases, mainly as a result of new consolidations. With lime sales volumes at the previous year's level, we achieved an improvement in results through strict cost management. Despite a slight decline in sand-lime brick deliveries, this operating line also recorded an increased result thanks to cost savings and higher proceeds.

The increase in turnover in the Central Europe West region by 7.4 % to EUR 846 million (previous year: 787) was substantially influenced by the expanded scope of consolidation.

Turnover by business lines January - December

Central Europe West

EURm	2003	2004
Cement	349	387
Concrete	351	376
Building materials	132	132
Intra-Group eliminations	-45	-49
Total turnover	787	846

■ Western Europe

The region's cement and clinker sales volumes were only slightly below the previous year's level, with 8.6 million tonnes (previous year: 8.8). Cement demand in the United Kingdom remained largely stable; in Belgium and the Netherlands, the decline, which had lasted for several years, was halted. In view of the continuing import pressure from Germany, we combined our Belgian and Dutch cement operations at the beginning of the year to form the organisational unit CEM-BENE and initiated a comprehensive restructuring programme in October 2004. The measures include the reduction of clinker capacities and are connected with the expected loss of 460 jobs. At our British subsidiary Castle Cement, modernisation investments are going ahead as planned. By the middle of 2005, a new dry kiln will be put into operation and the capacity of an existing kiln increased. Energy-intensive wet kilns will be decommissioned. Ready-mixed concrete sales volumes decreased as a result of falling demand and imports from Germany. As in the cement business line, we combined the Belgian and Dutch ready-mixed concrete operations halfway through the year to form the organisational unit RMC-BENE. In 2004, high competitive pressure and a weak construction volume also led to a decline in sales volumes of aggregates.

The region's total turnover fell by 3.2% to EUR 929 million (previous year: 959).

■ Northern Europe

The domestic sales volumes of our Scandinavian plants improved by 10.7%, mainly as a result of the increased demand for new residential building and infrastructure projects. Domestic deliveries from the two plants in Estonia and Russia increased more substantially, with a plus of 26%. On the other hand, total exports remained almost 20% below the previous year's level, primarily as a result of the two-month stop of a kiln in the Norwegian Brevik plant, which was converted to allow increased use of alternative fuels. In addition, clinker exports from Estonia had to be cut back in order to

meet the increased domestic demand. Overall, the cement and clinker sales volumes of the Northern Europe region reached the previous year's level, with 5.4 million tonnes. Ready-mixed concrete and aggregates deliveries increased considerably as a result of new acquisitions, but also thanks to favourable market conditions in Norway, Estonia, Latvia and Russia.

Turnover in the Northern Europe region fell by 5.5% to EUR 716 million (previous year: 758) as a result of the sale of non-core activities with a turnover of around EUR 90 million.

■ Central Europe East

In the countries of the Central Europe East region, the dynamic macroeconomic conditions and positive development of construction activity continued. In our main markets, Poland, and Romania, we were able to increase cement and clinker sales volumes significantly. Our subsidiaries in Bosnia, the Czech Republic and the Ukraine also recorded welcome increases. Only in Hungary the sales volumes were below the previous year's level, as a result of decreased exports. In total, cement and clinker sales volumes in the Central Europe East region rose by just under 1% to 9.8 million tonnes (previous year: 9.7), despite the sale of the Bulgarian cement activities at the end of 2003. Adjusted for negative consolidation effects, the sales volumes showed an improvement of 9.4%. Ready-mixed concrete and aggregates deliveries achieved significant increases, with a plus of 6% and 12% respectively.

Turnover rose by 4.8% to EUR 657 million (previous year: 627).

■ North America

In the US and Canada, the macroeconomic expansion in the previous year continued. The construction industry also benefited from this favourable climate in all sectors, with substantial growth rates.

Our cement and clinker sales volumes in North America rose by a total of 7.0% and thus with 13.4 million tonnes (previous year: 12.5)

Turnover by business lines January - December

Western Europe

EURm	2003	2004
Cement	691	683
Concrete	310	290
Building materials		
Intra-Group eliminations	-42	-44
Total turnover	959	929

Northern Europe

EURm	2003	2004
Cement	377	385
Concrete	383	371
Building materials	29	
Intra-Group eliminations	-32	-40
Total turnover	758	716

Central Europe East

EURm	2003	2004
Cement	497	509
Concrete	159	187
Building materials		
Intra-Group eliminations	-30	-39
Total turnover	627	657

North America

EURm	2003	2004
Cement	982	1,007
Concrete	846	829
Building materials		
Intra-Group eliminations	-142	-137
Total turnover	1,686	1,699

we achieved our highest sales volumes to date. Particularly welcome increases in quantities were achieved on the West coast of the US and Canada. In 2004, we also had to import additional quantities, amounting to around 20% of our sales volumes, to supply our markets on the East coast, in Florida and in California. The majority of these imports came from Group plants in Turkey and Scandinavia. While the sales volumes of ready-mixed concrete also developed very positively, shipments of aggregates decreased slightly by 3.7%.

Despite the weak dollar, turnover in North America increased by 0.8% to EUR 1,699 million (previous year: 1,686). In the national currency, turnover was 10.3% above the previous year with USD 2,112 million – the highest turnover in the 107-year history of our American subsidiary Lehigh.

■ Africa-Asia-Turkey

In Africa, the upward trend in cement demand continued. Our participations in Sierra Leone, Benin, Nigeria, Liberia, Gabon and Tanzania in particular achieved, in some cases, considerable increases in sales volumes. As part of the optimisation of our portfolio, we sold our 24.5% share in the Angolan cement company Nova Cimangola in November 2004. In Asia, our cement and clinker sales volumes rose to 15.1 million tonnes (previous year: 1.8) as a result of the consolidation of Indocement on 1 January 2004 and the pro rata inclusion of China Century Cement (since 1 July 2003). In Indonesia, continuing intense competitive pressure is affecting the domestic market, despite increasing cement consumption. Nevertheless, our subsidiary Indocement was able to increase its sales volumes, including exports, by 13% to 12.5 million tonnes (previous year: 11.0). In China, economic growth remained at a high level in 2004 despite the government's restrictive measures. The sales volumes of our joint venture China Century Cement increased by 5.4% to 3.4 million tonnes (consolidated: 1.7 million

tonnes). In Turkey, our participation Akçansa was able to increase results due to favourable market conditions and cost reductions.

In total, the cement and clinker sales volumes of the Africa-Asia-Turkey region almost tripled to 20.8 million tonnes (previous year: 7.1). Excluding consolidation effects, the increase amounted to 6.6%. Turnover rose to EUR 1,007 million (previous year: 492).

■ maxit Group

During the course of 2004, the construction markets recovered in nearly all the countries where the maxit Group operates. However, construction demand remains weak in Germany and the Benelux countries; additionally, the German market is adversely affected by strong price competition. We achieved welcome growth in turnover and sales volumes in the Baltic States, Russia, China and Spain.

We successfully extended the use of our wide product range across the various countries.

As part of the expansion of our activities in growth markets, we are constructing a dry mortar plant in both Russia and China, which will be put into operation during 2005.

Turnover increased by 3.2% in comparison with the previous year to EUR 1,053 million (previous year: 1,021).

■ Group Services

With a total trade volume of 12.1 million tonnes (previous year: 11.9), HC Trading exceeded the high level of the previous year by just under 2%. Increased deliveries of cement and related materials such as gypsum, blast furnace slag and lime more than compensated for the declining volume of clinker.

Turnover in the Group Services business unit, which manages worldwide trading in fossil fuels, increased by 21.1% to EUR 505 million (previous year: 417) as a result of significantly increased cargo rates.

Turnover by business lines January - December

Africa-Asia-Turkey

EURm	2003	2004
Cement	452	953
Concrete	50	74
Building materials		
Intra-Group eliminations	-10	-19
Total turnover	492	1,007

maxit Group

EURm	2003	2004
Cement		
Concrete		
Building materials	1,021	1,053
Intra-Group eliminations		
Total turnover	1,021	1,053

Turnover development

by regions and business lines January to December 2004

EURm	Cement		Concrete		Building materials		Intra Group eliminations		Total	
	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
Central Europe West	349	387	351	376	132	132	-45	-49	787	846
Western Europe	691	683	310	290			-42	-44	959	929
Northern Europe	377	385	383	371	29		-32	-40	758	716
Central Europe East	497	509	159	187			-30	-39	627	657
North America	982	1,007	846	829			-142	-137	1,686	1,699
Africa-Asia-Turkey	452	953	50	74			-10	-19	492	1,007
maxit Group					1,021	1,053			1,021	1,053
Total	3,349	3,923	2,099	2,126	1,182	1,186	-301	-327	6,330	6,907
Group Services									417	505
Inter-region turnover									-375	-483
Total Group									6,372	6,929

Financial calendar

Press and analysts' conferences on annual accounts	23/24 March 2005
Interim Report January to March 2005	4 May 2005
Annual General Meeting	4 May 2005
Interim Report January to June 2005	9 August 2005
Interim Report January to September 2005	8 November 2005

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