

# Driving Growth and Shareholder Returns

Dr Bernd Scheifele, Group CEO



**HeidelbergCement Capital Markets Day  
London, 10 November 2016**

# Disclaimer

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 underlying assumptions. 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.

By their very nature, forward-looking statements and information are subject to certain risks and uncertainties. A variety of factors, many of which are beyond HeidelbergCements' control, could cause actual results to differ materially from those that may be expressed or implied by such forward-looking statement or information. For HeidelbergCement particular uncertainties arise, among others, from changes in general economic and business conditions in Germany, in Europe, in the United States and elsewhere from which we derive a substantial portion of our revenues and in which we hold a substantial portion of our assets; the possibility that prices will decline to a greater extent than currently anticipated by HeidelbergCements' management as a result of continued adverse market conditions; developments in the financial markets, including fluctuations in interest and exchange rates, commodity and equity prices, debt prices (credit spreads) and financial assets generally; continued volatility and a further deterioration of capital markets; a worsening in the conditions of the credit business and, in particular, additional uncertainties arising out of the subprime financial market and liquidity crisis; the outcome of pending investigations and legal proceedings and actions resulting from the findings of these investigations; as well as various other factors. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement or information as expected, anticipated, intended, planned, believed, sought, estimated or projected.

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**Strong Management team** with long standing operational and sector expertise

**Continuous improvement** in operational and financial metrics. New initiatives started in RMC and sales supported by global competence centres

**Integration of ITC notably ahead** of schedule and identified synergies increased

**Sustainable cash flow generation** to drive shareholder returns

**Best managed  
company in the  
sector with  
unique business  
model focusing  
on vertical  
integration**

# The new HeidelbergCement Group

## Global:

**#1** in Aggregates

**#2** in Cement

**#3** in Ready-mix concrete

One of the biggest global trading services



Leading vertically integrated player



Global/local centres of excellence for all three core business lines



€bn >17 Revenue<sup>1</sup> and  
€bn >3 EBITDA<sup>1</sup>



1<sup>st</sup> company in the sector earning premium on WACC

1) Proforma 2015

# The global footprint of HeidelbergCement today

**62,000 employees in 3,000 locations**

60 countries on 5 continents

**197 million t**

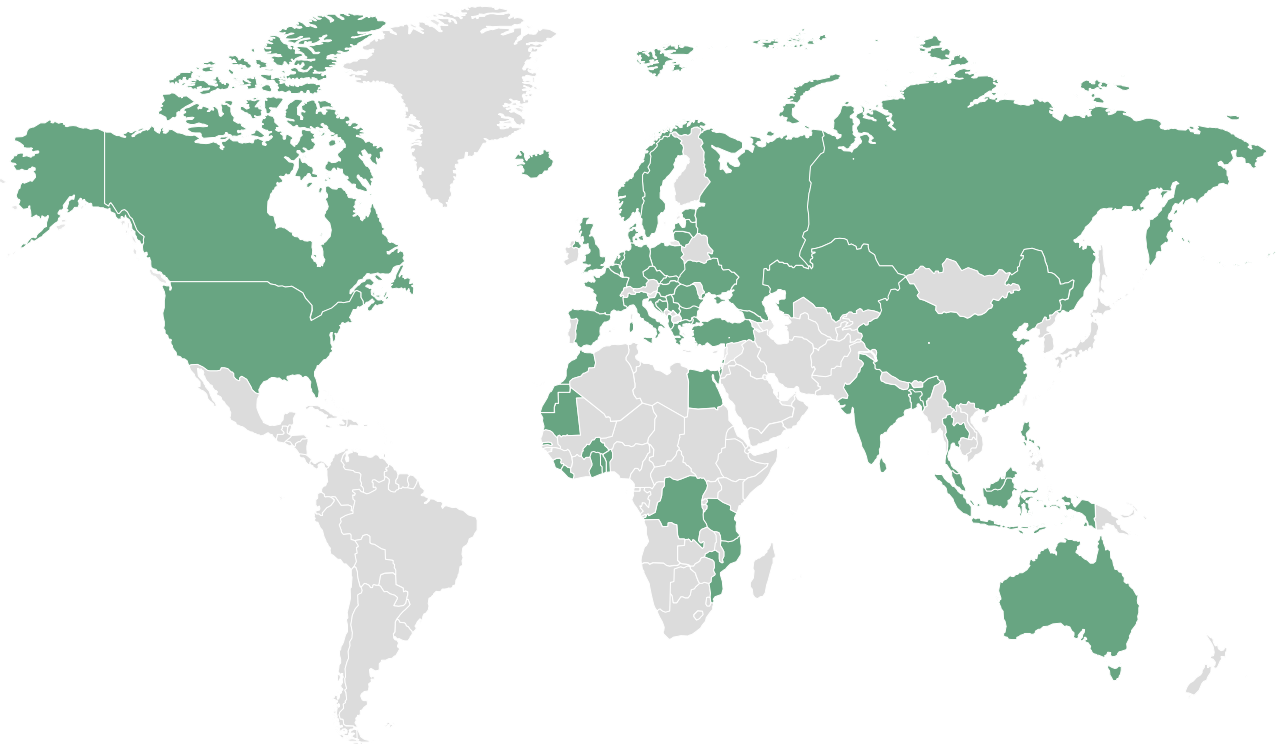
Cement capacity

**19 billion t**

AGG reserves




**1,900 plants**

Asphalt & RMC



**Expanded reach, capacity and expertise**

# New management: Combined 130 years of industry expertise

				Member of the HC Managing Board since 1 February 2016		
						
<b>Dr Bernd Scheifele</b>	<b>Dr Lorenz Näger</b>	<b>Dr Dominik von Achten</b>	<b>Dr Albert Scheuer</b>	<b>Kevin Gluskie</b>	<b>Hakan Gurdal</b>	<b>Jon Morrish</b>
<b>CEO</b>	<b>CFO</b>	<b>Western &amp; Southern Europe (Deputy Chairman)</b>	<b>Northern and Eastern Europe-Central Asia</b>	<b>Asia-Pacific</b>	<b>Africa-Eastern Mediterranean Basin</b>	<b>North America</b>
<ul style="list-style-type: none"> <li>▪ Strategy and Development</li> <li>▪ Group HR</li> <li>▪ Comm. &amp; IR</li> <li>▪ Legal</li> <li>▪ Compliance</li> <li>▪ Internal Audit</li> </ul>	<ul style="list-style-type: none"> <li>▪ Reporting &amp; Controlling</li> <li>▪ Corporate Finance</li> <li>▪ Tax</li> <li>▪ Treasury</li> <li>▪ IT</li> <li>▪ Insurance &amp; Risk Management</li> <li>▪ Shared Service Center</li> <li>▪ Logistics</li> </ul>	<ul style="list-style-type: none"> <li>▪ Industry 4.0</li> <li>▪ Competence Center Materials</li> </ul>	<ul style="list-style-type: none"> <li>▪ Heidelberg Technology Center Cement</li> <li>▪ R&amp;D/Product Innovation</li> <li>▪ Environmental Sustainability</li> </ul>	<ul style="list-style-type: none"> <li>▪ Competence Center Readymix</li> <li>▪ Market Intelligence &amp; Sales Processes</li> <li>▪ Product Marketing</li> </ul>	<ul style="list-style-type: none"> <li>▪ Purchasing</li> </ul>	<ul style="list-style-type: none"> <li>▪ Secondary cementitious materials</li> </ul>
<b>With HC Group</b>						
since 2005	since 2004	since 2007	since 1992	since 1990 (through Pioneer and Hanson)	since 1992 (through Akcansa)	since 1999 (through Hanson)

– Dual responsibilities: Region and Group function



# New board members: Additional expertise in AGG and RMC



**Kevin Gluskie**

**Member of the Managing Board**

- Date of birth: 19 June 1967
- **Education:**
  - Bachelor Civil Engineering at the University of Tasmania
  - MBA: University of Sydney
- **Previous positions (1990-2016):**
  - CEO Australia
  - COO Australia
  - Regional General Manager
  - Divisional Manager
  - Area Manager
  - Quarry Manager
  - Project Manager Concrete
  - Concrete Plant Manager



**Hakan Gürdal**

**Member of the Managing Board**

- Date of birth: 21 January 1968
- **Education:**
  - Bachelor Mechanical Engineering University of Yildiz
  - MBA: University of Istanbul
- **Previous positions (1992-2016):**
  - President of Sabanci Cement
  - Akcansa General Manager
  - VP RMC and AGG
  - VP purchasing
  - VP Cement Sales
  - Strategy & Business Development
  - Terminal and Port Manager
  - Investment Engineer



**Jon Morrish**

**Member of the Managing Board**

- Date of birth: 9 September 1970
- **Education:**
  - Bachelor Biochemistry at the University of Leeds
  - MBA: Cranfield School of Mng.
- **Previous positions (1992-2016):**
  - Regional President NAM South
  - Managing Director Cement & RMC
  - Commercial & Development Director
  - Managing Director Packed Prod.
  - Corporate Development Manager
  - Commercial Director
  - Production & Sales Manager

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# The past 18 months: Delivering on our strategy

## Operating leverage

- ✓ Capitalizing on recovery in mature markets
- ✓ Tapping into emerging markets' growth momentum

## Cost leadership

- ✓ Competence centres (CEM, AGG, RMC) drive Group-wide efficiency through global programs
- ✓ Higher EBITDA and margin leading to increased cash flow generation

# HEIDELBERGCEMENT

## Vertical integration

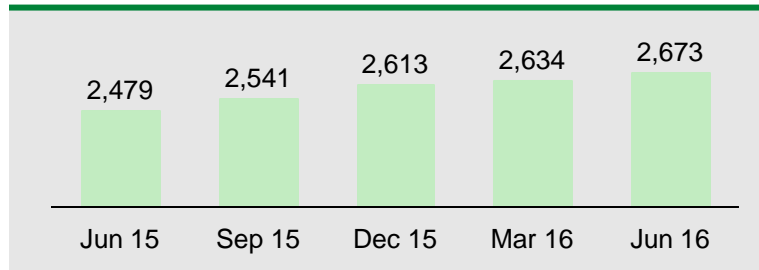
- ✓ Asset and process integration successfully accomplished
- ✓ Business integration well underway with significant margin potential

## Optimal geographic footprint

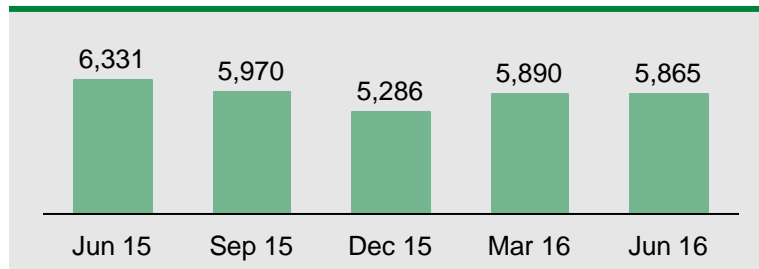
- ✓ Superior global footprint further expanded by ITC sites
- ✓ Strong presence in growing urban centres

# Continuous improvement of financial metrics and returns

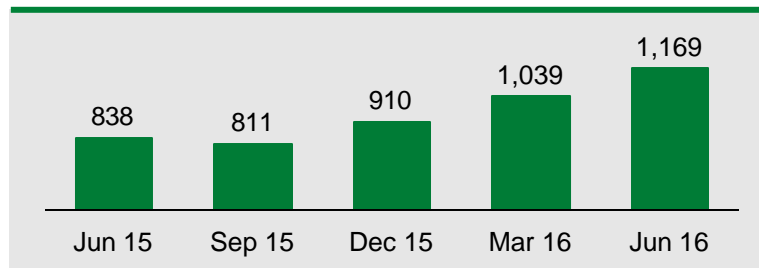
## EBITDA (LTM) in €m



## Net Debt in €m



## Free cash flow<sup>1</sup> (LTM) in €m



Continuous margin improvement and increase in cash flow generation

Financial cost significantly reduced

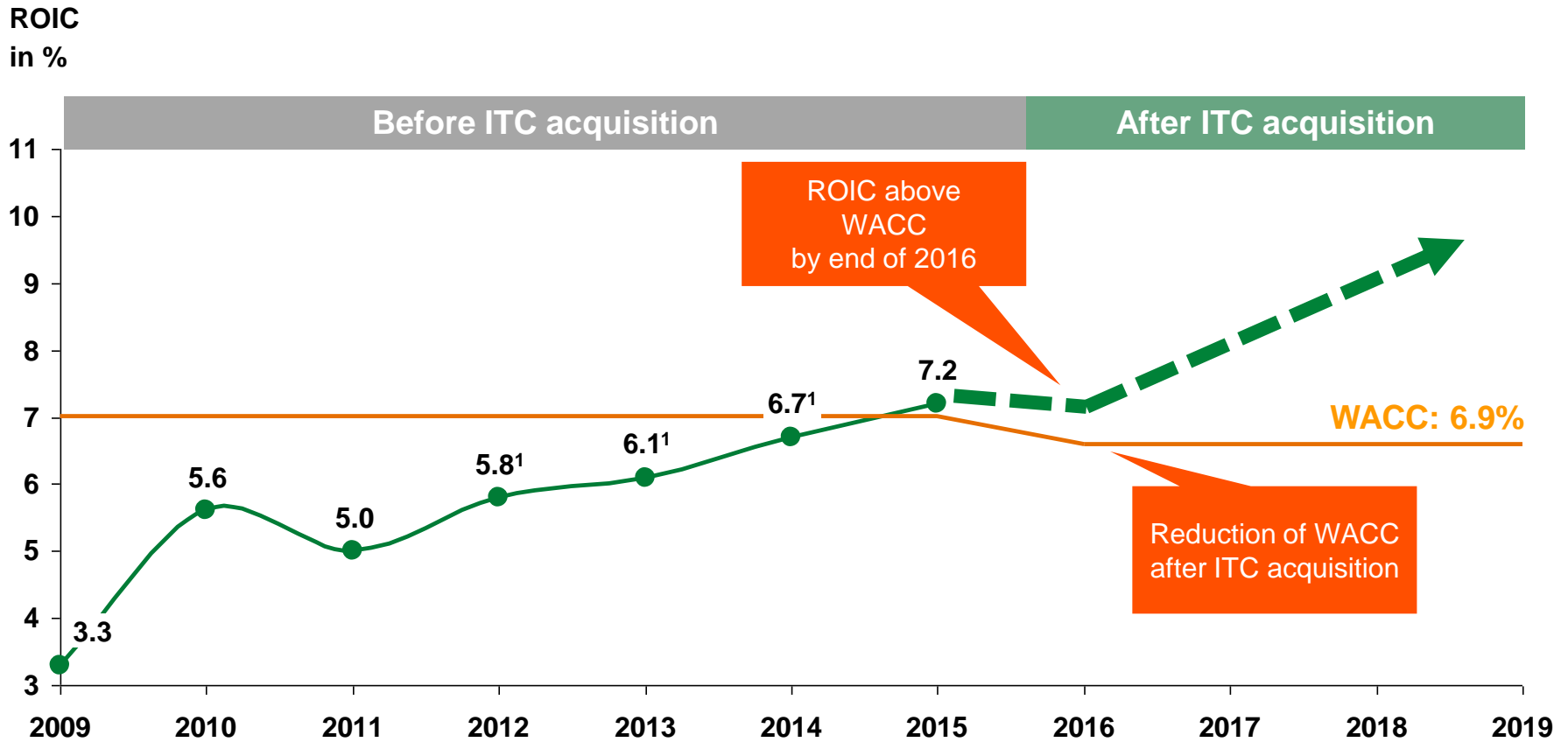
Earned premium on WACC

Dividend increased

Share buyback approval obtained

1) Before growth Capex and disposals (incl. cash flow from discontinued operations)

# Creating value and earning cost of capital



After the ITC acquisition, HC is still earning a premium on the cost of capital

1) Adjusted for exceptional items

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# ITC integration: Progressing faster than expected

**Redundant HQs closed** (Bergamo/Paris/Brussels)

**All key personnel decisions taken & implemented.**  
HC's management philosophy has been consequently introduced

**FTE reductions (1<sup>st</sup> wave) ahead of plan.** Target is to reach 1,500 reductions by year-end (vs. plan 460)

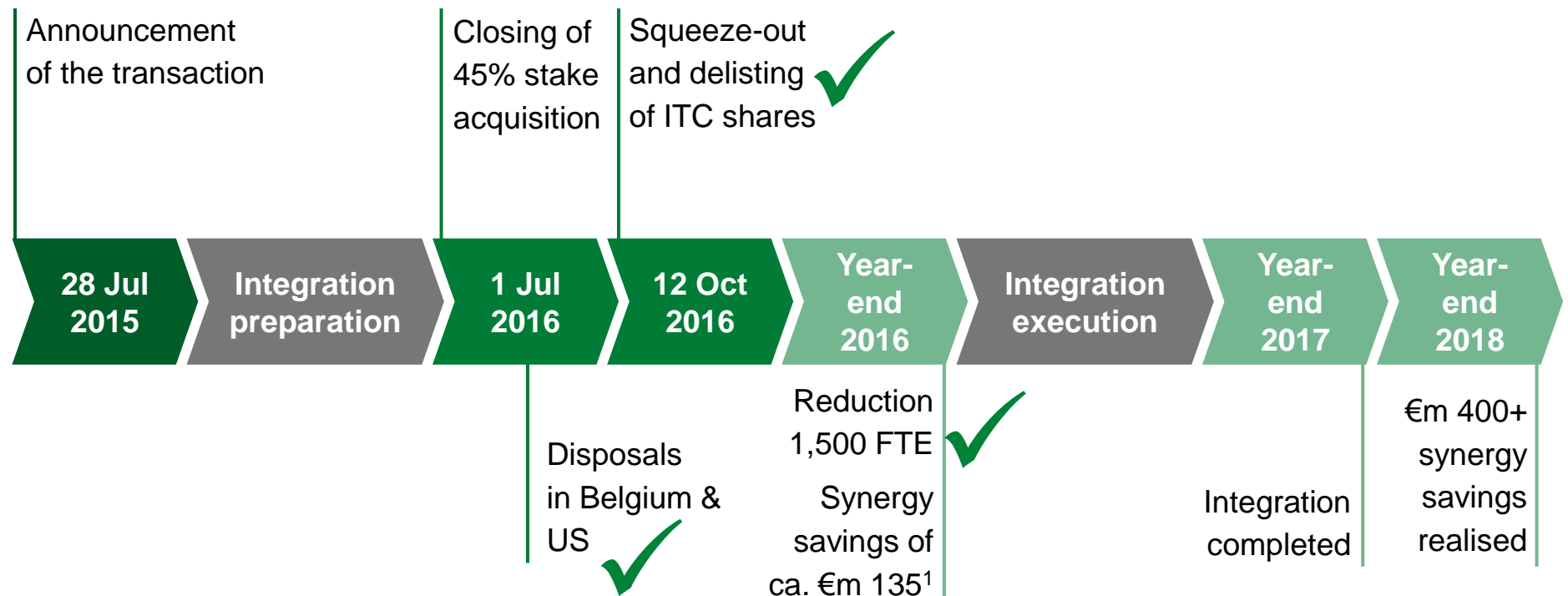
**Synergies significantly increased** to €m 400+

**Proven HC efficiency programs** applied at ITC

**Management of cultural differences** main focus

**HC has strong  
track record in  
integrating  
businesses**

# Timeline and milestones of ITC acquisition



Acquisition process and integration notably ahead of schedule

1) Full year run rate



# Strategic and operational actions taken

## Bundling HQs

Streamlining country HQs



ITC Group headquarters closed by YE, all functions moved to Heidelberg



Italian country headquarters relocated to i.Lab (Bergamo)



## Organizational changes

New HC Managing Board and leadership teams in all ITC countries in place



i.Lab (Bergamo) is home of the new Product Innovation Group function



Reduction of 1,500 FTEs by year end 2016; 2,500 FTEs by year end 2018



## Efficiency improvements

Validation of top-down synergy ambition by local owners completed



Rollout of HC's proven efficiency programs started (MIP, CLIMB, OPEX, CIP)



Implementing new supplier management to increase process automation



Leverage unused capacity through global trading network



# Closure of redundant Group & local headquarters

◆ *Headquarters in continental Western Europe*

**Brussels:**

- BeNeLux HQ (country org.)

**Closed:** HC's regional HQ (TEAM)

**Paris/Guerville:**

- France HQ (country org.)

**Closed:** ITC Group HQ ("Ciments Francais")

**Malaga:**

- Spain HQ (country org.)

**To be closed:** HC's Spain HQ (Madrid)

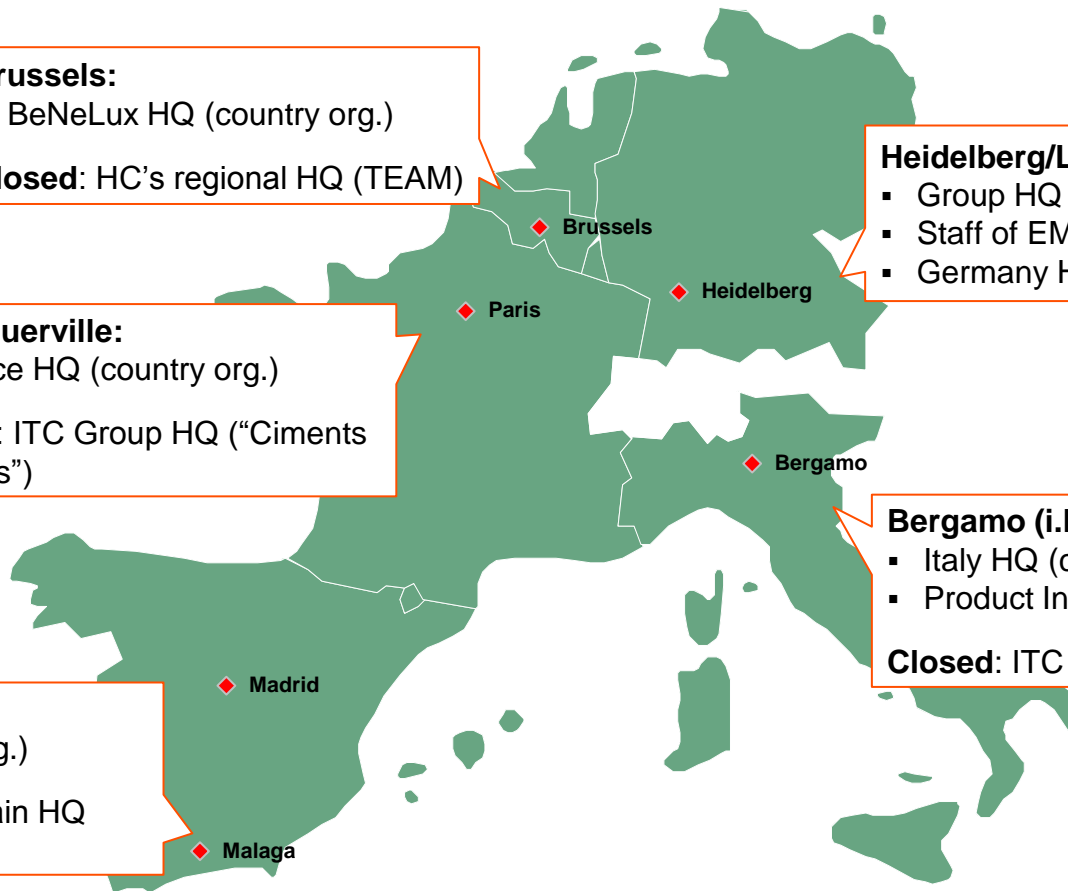
**Heidelberg/Leimen:**

- Group HQ (incl. tech. support)
- Staff of EMEA regions
- Germany HQ (country org.)

**Bergamo (i.lab):**

- Italy HQ (country org.)
- Product Innovation function

**Closed:** ITC Group HQ



**Heidelberg/Leimen also hub for regional staff of AEM and NEECA regions – only APAC (Singapore) and NAM (Dallas) with local regional headquarters**

# New leadership in all major ITC countries

North America



Kazakhstan



France



Morocco



Italy



Egypt



Spain



Thailand



India



Trading



New General Managers in all major ITC country organizations



HC's bonus system for country management already completely implemented

Local management approach and strong signal of change into the markets

# Significantly more synergies than initially expected

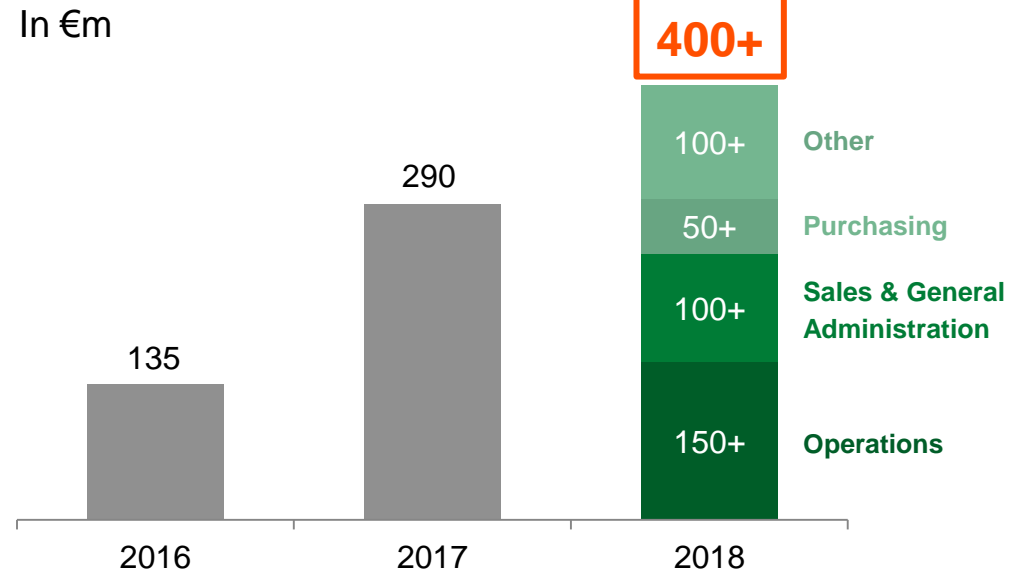
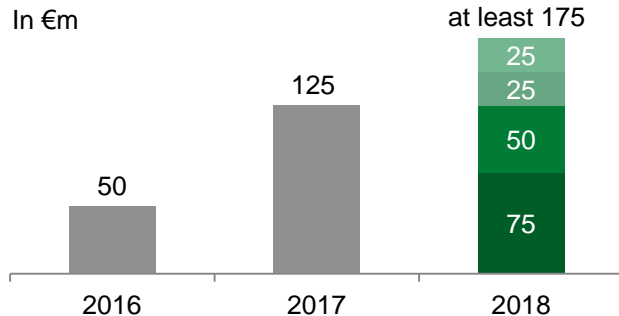
## Key drivers

- Higher than expected synergies from Operations, SG&A and Purchasing
- Identification of additional synergies from Trading, Finance and Market

~10% of target's revenue  
= best in class

## Updated run-rate synergy expectations

### Pre-signing synergy expectations



**Status: All synergies substantiated with detailed implementation plans and 100% commitment of local owners**

# Operational synergies / focus on efficiency improvements

	EGY			U.S.		IND		BUL	FRA	KAZ	ITA	MOR
Plants:	Suez	Kattameya	Torah	Nazareth	Speed	Yerraguntla	Sitapuram	Devnya	Couvrot & Beaucaire	Shymkent	Rezzato	Aitbaha
Fuel Mix Optimization	➔	➔	➔	➔		➔	➔		➔			
Fuel Consumption Improvement		➔	➔					➔		➔	➔	
Power Consumption Improvement			➔		➔	➔		➔		➔	➔	➔
Maintenance Costs	<p style="text-align: center;"><b>Immediate implementation of HC MIP practices in all countries (Project already launched)</b></p>											

**Operational synergy target already increased from original €m 75 to €m 150+**

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# Best-managed company in the sector

Value creative vertically integrated business

Unique de-centralised management model

Integration speed

Timely reaction to changes in the markets

Continuous focus on margin improvement



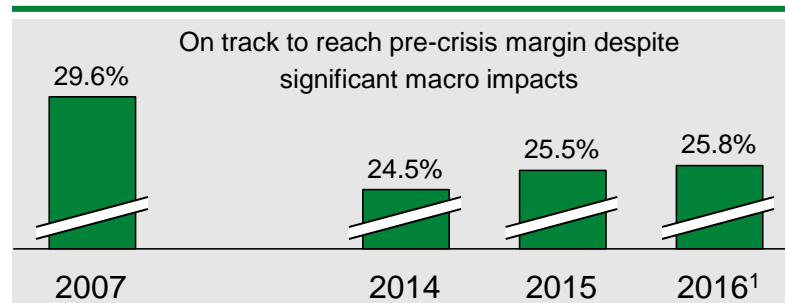
Strong operating leverage

Market leading margin improvement

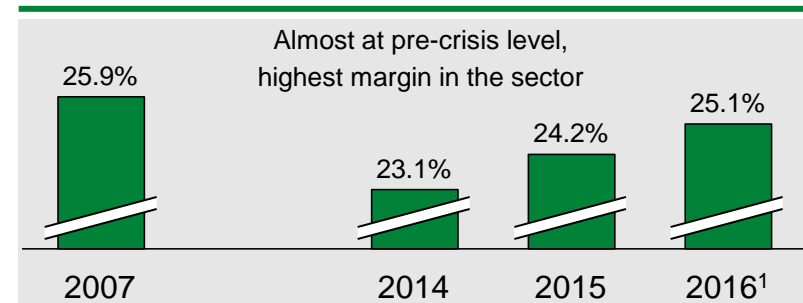
Track record in cost efficiency

Strong cash generation

## Cement EBITDA margin



## Aggregates EBITDA margin



Creating value by improving efficiency rather than re-sizing the business

1) LTM rolling as of June 2016

# Cement: Significantly enhancing efficiency

## Starting point (2004)

- HC was not competitive regarding cash cost per ton

## Key Measures

- Reorganisation of HeidelbergCement Technology Centre (HTC)
- WIN: reorganisation and FTE efficiency (2005)
- Fitness: operational and cost improvements, production and process optimisation
- OPEX: operational excellence and working capital optimisation
- Perform: pricing excellence and realisation for margin improvement
- LEO: supply chain management and logistics optimisation

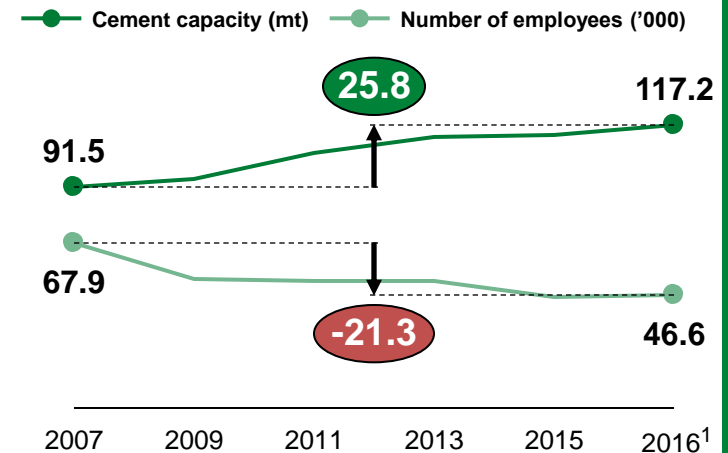
## Effects

- Best margin development in the sector, despite increase in energy costs due to Fukushima

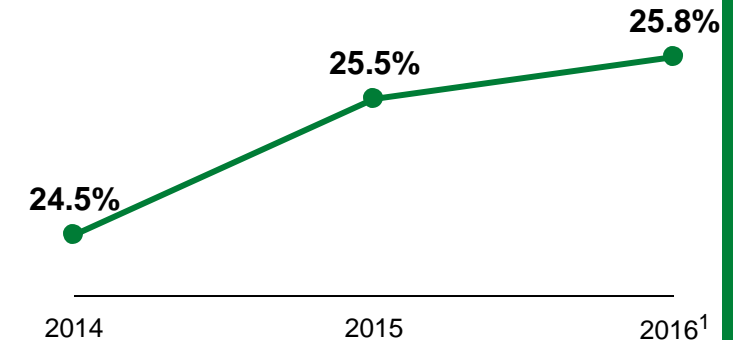
## Next steps

- Customer Excellence Program (CEP):
  - Improve all aspects of customer offering
- Continuous Improvement Program (CIP):
  - Further improve production processes

## Realistic and measurable targets



## Cement EBITDA margin



1) Capacity and number of employees as of June; margin based on LTM rolling figures as of June



# Aggregates: A top performer in the industry

## Starting point (2007)

- Hanson Aggregates was underperforming / EBITDA margin below peer group (2006 / 2007)
- Hanson Aggregates was clearly seen as partially undermanaged

## Key Measures

- Setup of Competence Centre Materials (CCM) (2010)
- CLIMB Operations: efficiency check on key improvement levers in all major quarries
- CLIMB Commercial: professional sales management supported by a simple excel tool
  - Pricing principle: price what the market can take
- LEO: Supply Chain Management and logistics optimisation

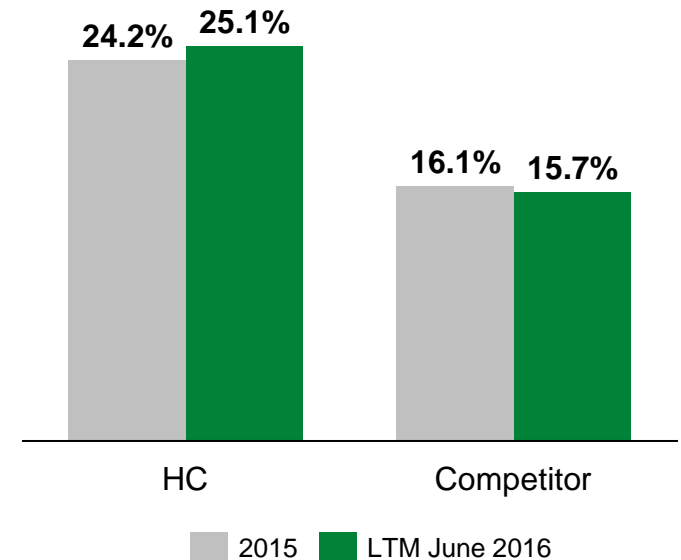
## Effects

- Strong EBITDA improvement of HC
- Industry leading profitability

## Next steps

- AOM: digitalising AGG business
  - Reduction of administrative efforts
  - Support of continuous improvement efforts with better data and faster access

## EBITDA margin

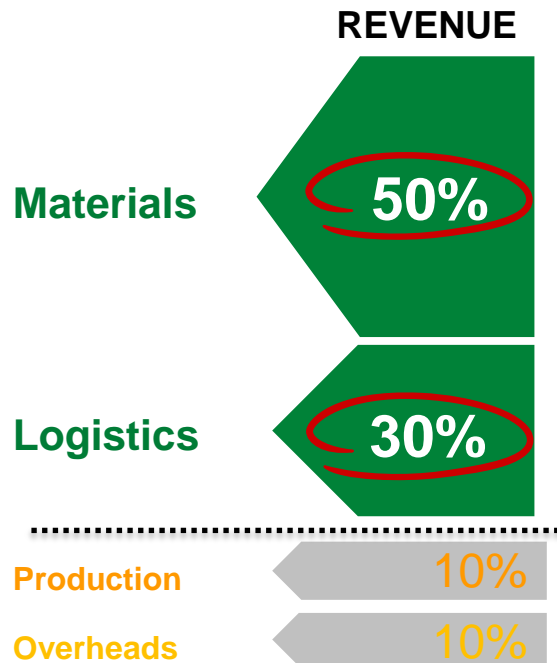


# Ready-mix: New Competence Centre sets clear saving targets

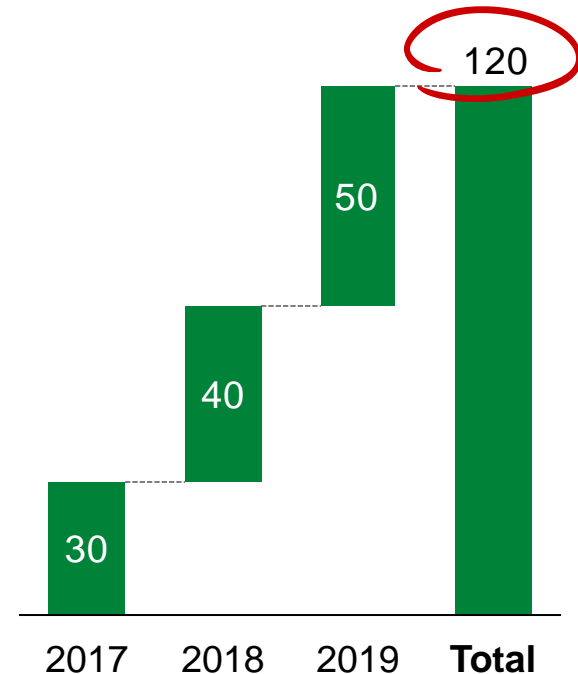
## New activity

- Ready-mix margins of big cement companies are typically below best managed privately-owned ready-mix companies
- Key focus areas are materials and logistics (80% of costs)

## Improvement opportunities

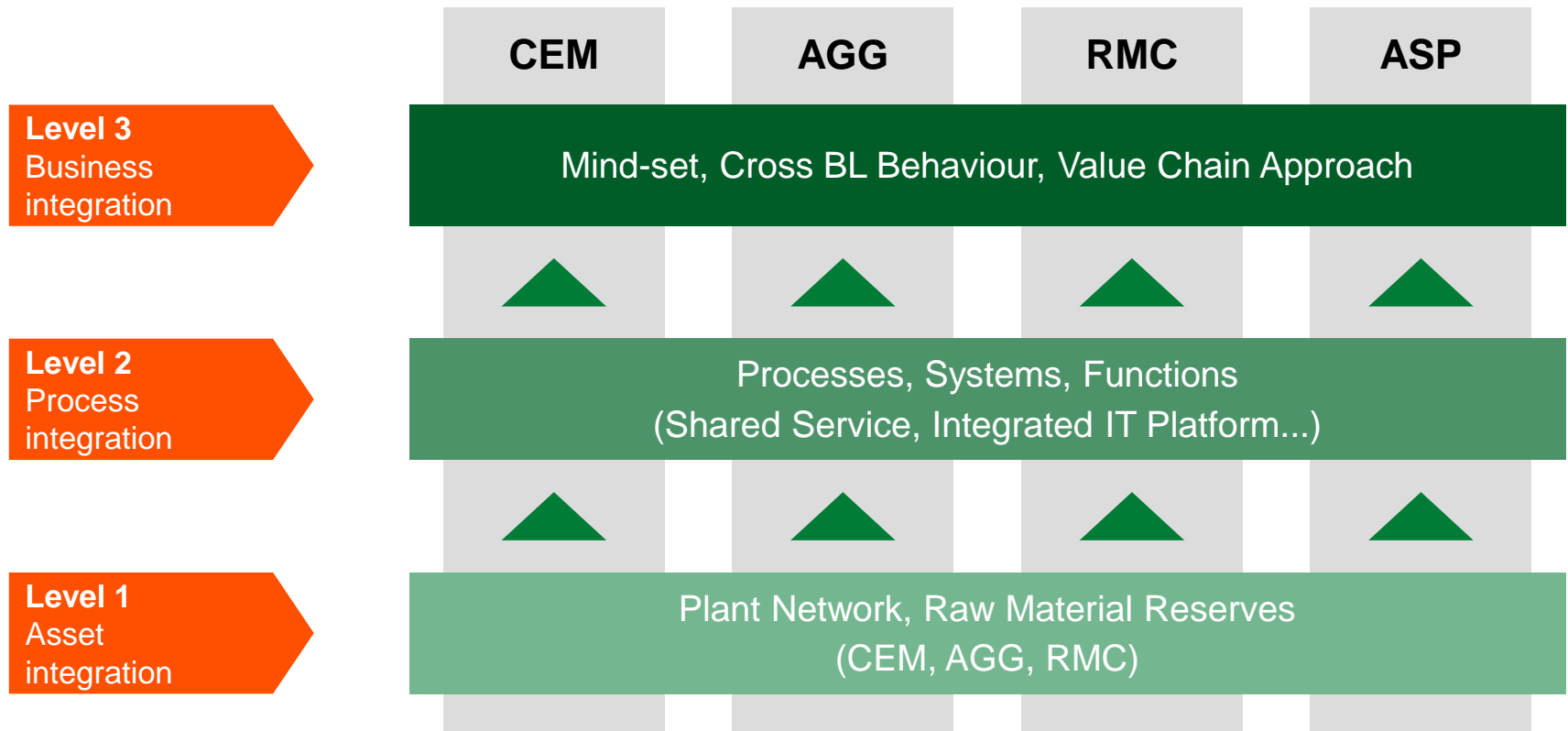


## Saving targets in €m



Significant leverage by optimising materials and logistics costs

# Vertical integration: Assets, Process, Business



**Integrated management – key value driver**

# Vertical integration: Benefits

Centralized dispatch and automated replenishment



Alignment of production and sales



Superior logistics network

- Faster reaction times towards customers
- Improved delivery capability and reliability
- Reduced inventories along the supply chain
- Improved truck utilization through automated replenishment

- Improved pit balance at AGG sites – reduced fine stocks and better resource efficiency
- Early customer collaboration on mix design for large scale projects (e.g. 1.3km pumping of concrete for Crossrail in London – new UK record)

**Defend market positions in attractive, hard to reach city centres through:**

- Rail links and depots
- Jetty and water links
- GPS guided truck fleet
- Local and mobile RMC plants

**Continuous global vertical integration to unlock significant value**

# Paris: Strong, vertically integrated market positions

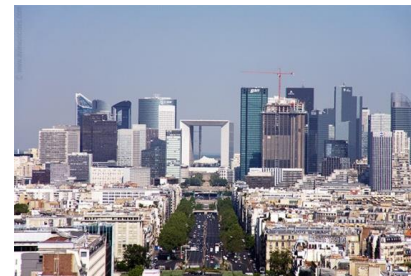
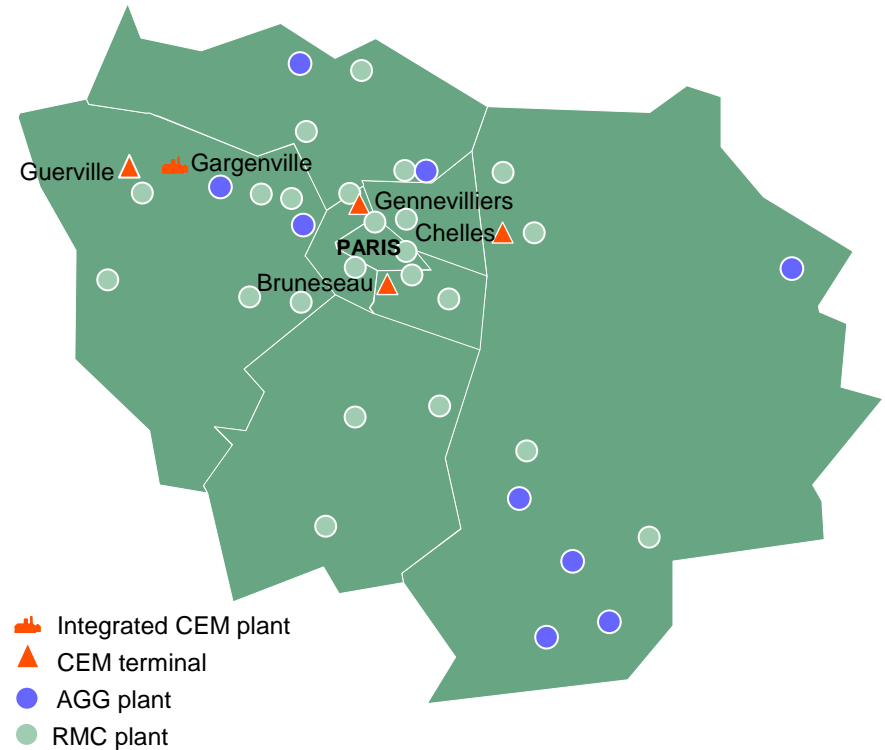
## Footprint

Good vertical integration with:

- 4 rail linked cement terminals out of which 3 could be connected to the river Seine
- 1 cement plant connected to the river Seine
- 23 ready mix plants
- 9 quarries or AGG terminals
- RMC plants and quarries also connected to the river Seine
- 2 mixing stations
- A transport fleet (river boats, barges, trucks..)

## Market position

- Largest player in the Paris area
- Integrated supply chain: comprehensive network of production sites, cement terminals, AGG, RMC and also transport
- The only cement company offering deliveries by barges inside Paris



# Sales is a Science: Digitalisation and process standardisation

New Group Function is based on two pillars

## Market Intelligence and Sales Processes

### Market model:

- Mix of external and internal information used to forecast market development
- Forecasting on a micro-market basis
- Global guidance on the approach with data scientists setting up the model but local ownership of measures to be derived

### Sales process:

- Structured sales planning:
  - Daily, weekly, monthly and quarterly planning for respective tasks
  - Friday sales meeting (review of the week, planning of next week)
- Quarterly gap analysis between plan and actual (per segment and customer)
- Digitalisation through easy to use group-wide CRM tool

With the aim of:

Really knowing the market

Understanding customers better than anyone else

Managing each individual market

Selling the right volume

At a better price

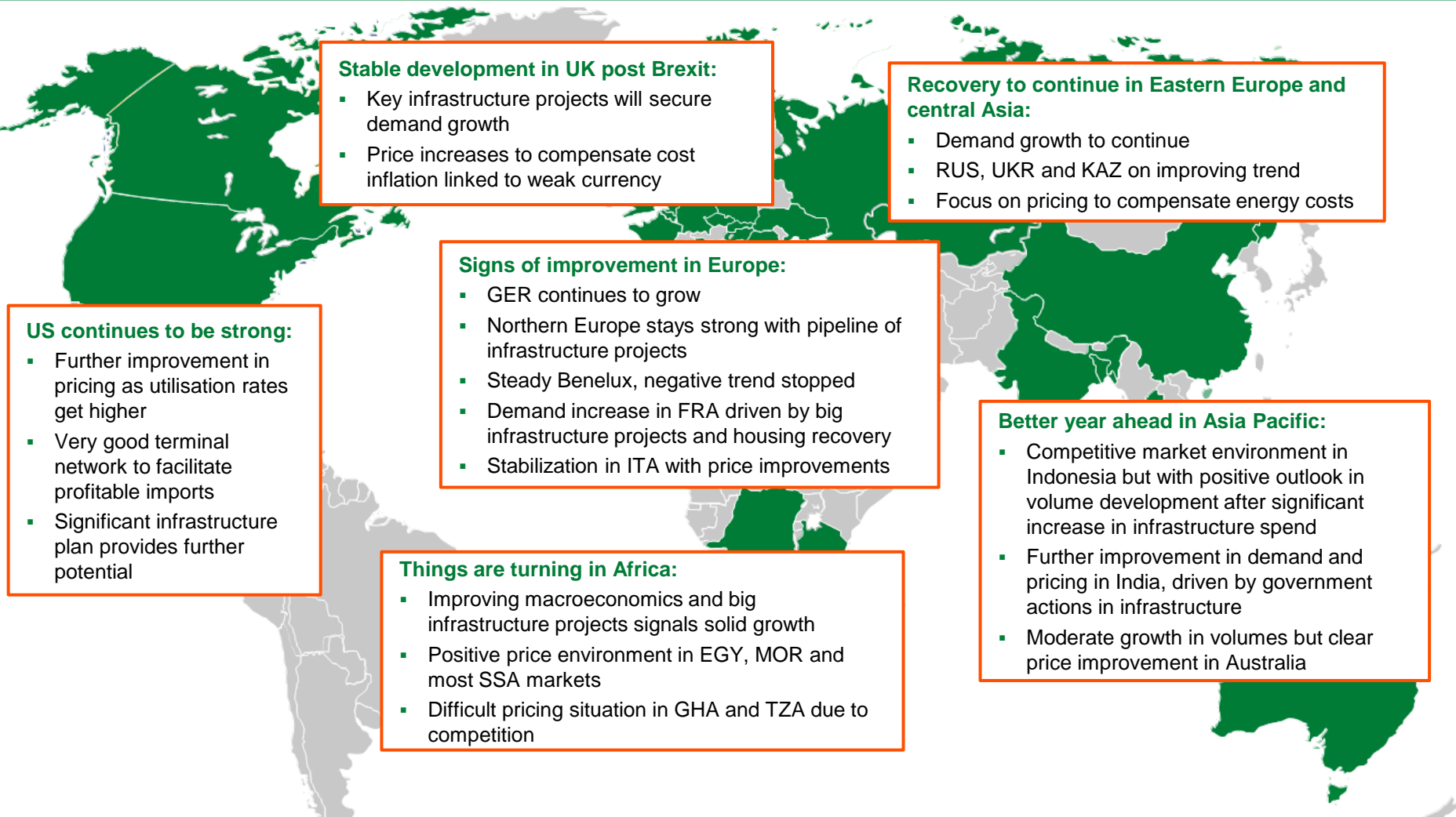


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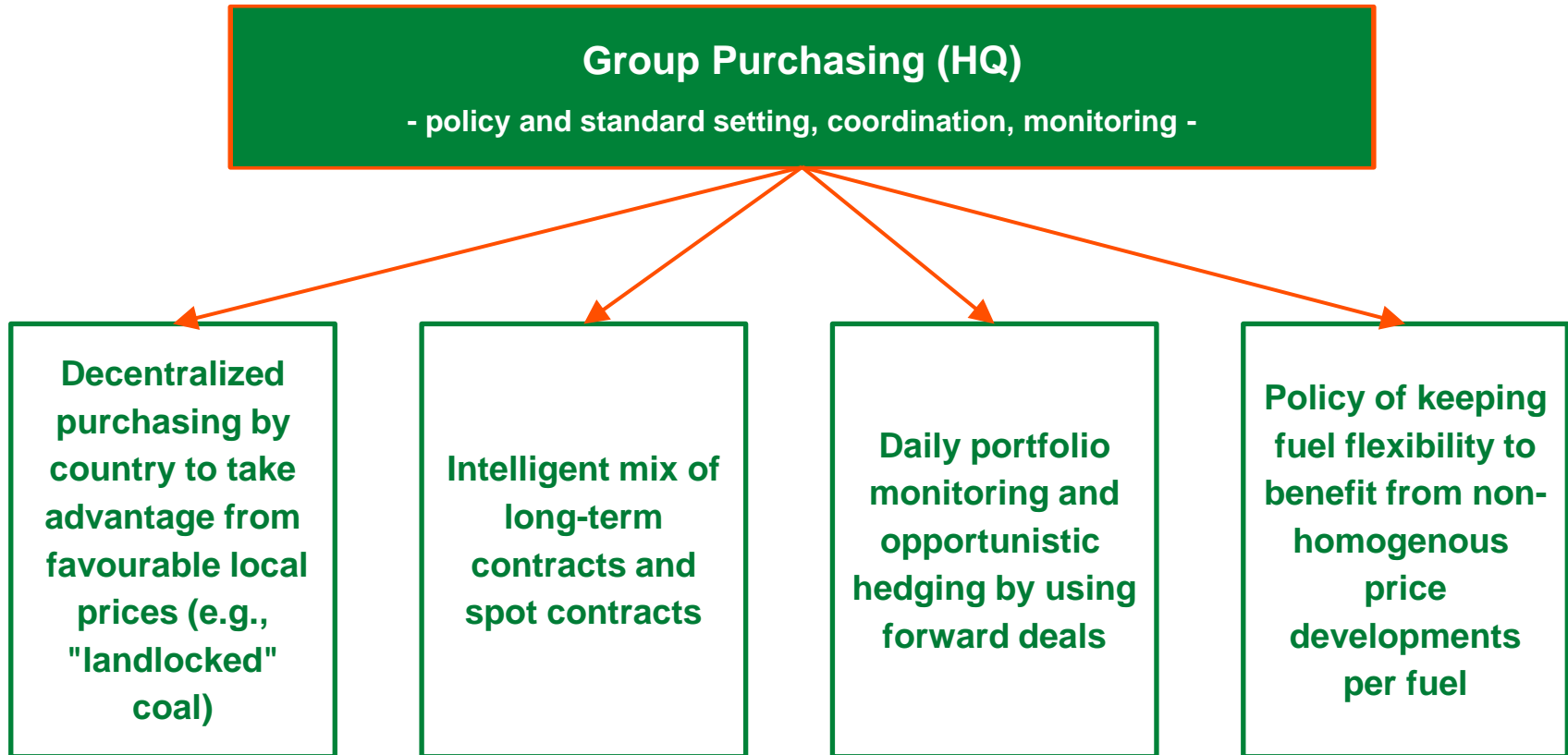
# Global market outlook 2017



Overall positive macro data and growth is in line with IMF forecast



# Sophisticated approach to mitigate energy price increases



Limited effects of recent market price increase on Group level for 2016

# Mid-term targets 2019 unchanged

Revenue	EBITDA	ROIC	Leverage	EPS	Payout ratio
> €bn 20	> €bn 5	>10%	1.5 – 2.5x	~ € 11	40% – 45%

## Downsides

- Market pressure in Indonesia
- Increased competition in Africa

## Uncertainties

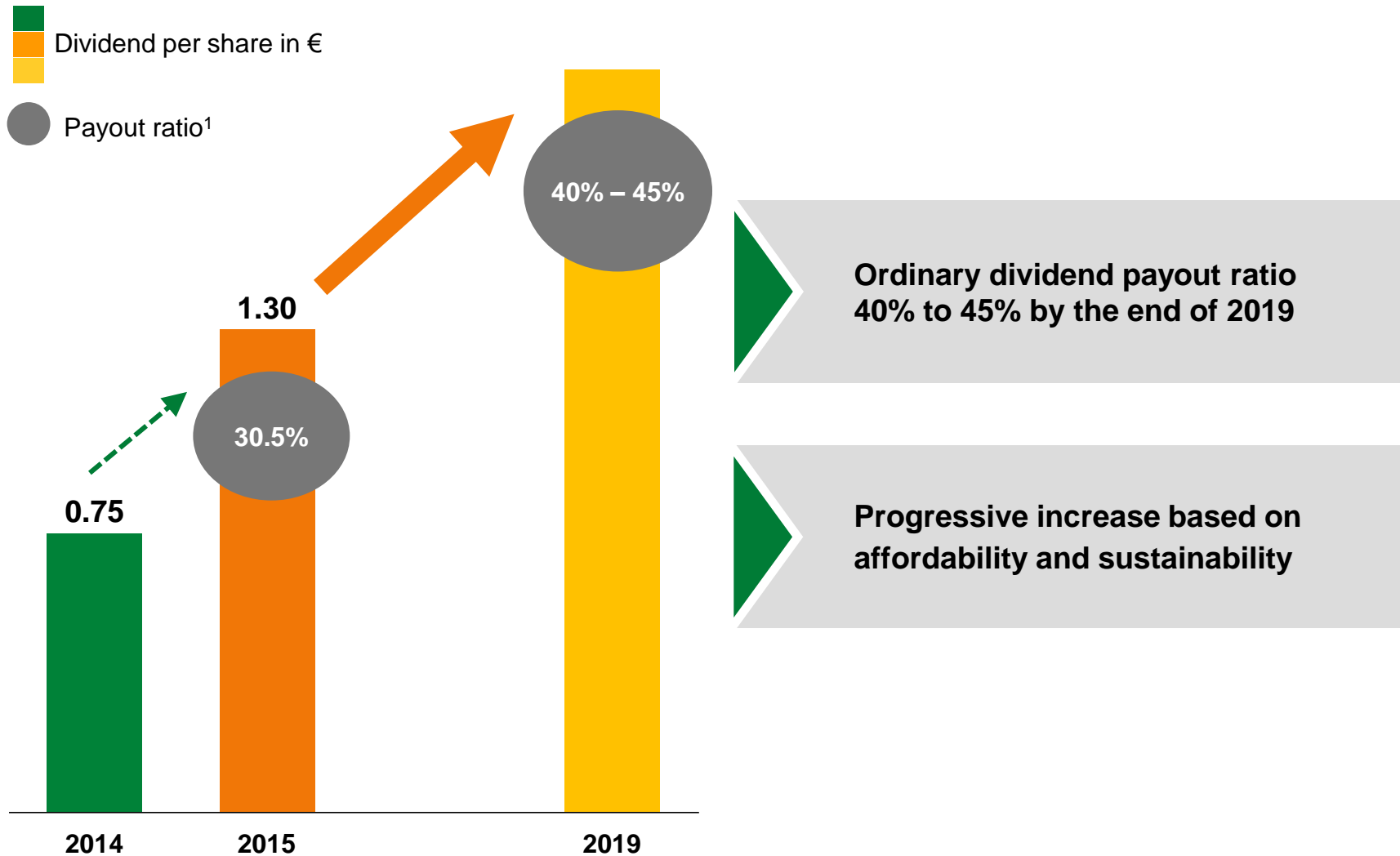
- Impact of the elections in US, Italy, Germany and France
- Consequences of Brexit

## Upsides

- US infrastructure program
- ITC / increased synergies
- New efficiency programs “CCR” & “Sales is a Science”
- Recovery in Europe

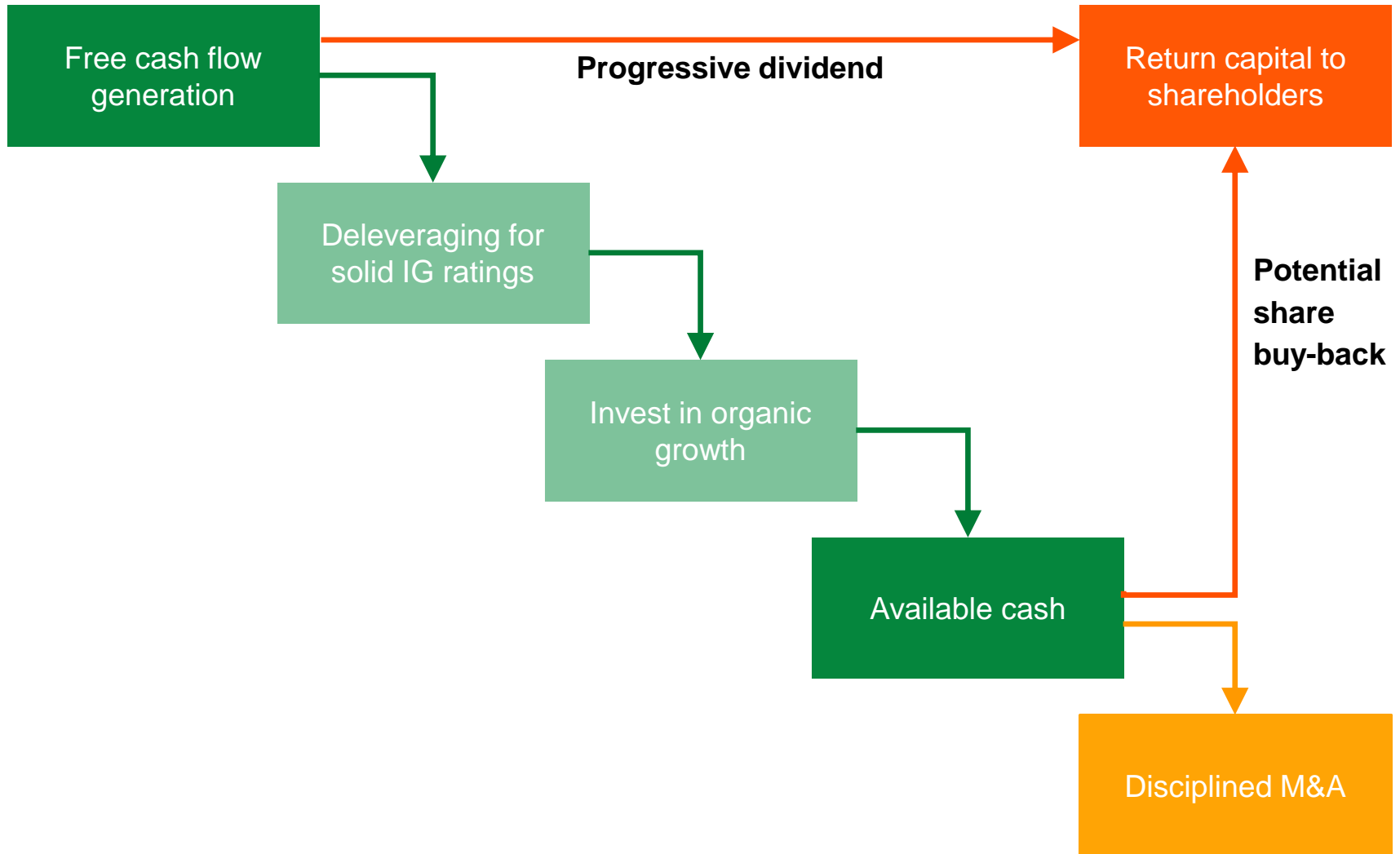
Balanced macroeconomic outlook

# Dividend policy



1) Payout ratio calculated based on clean EPS, excluding "Additional Ordinary Result"

# Reiterating capital allocation priorities



**Strong Management team** with long standing operational and sector expertise

**Continuous improvement** in operational and financial metrics. New initiatives started in RMC and sales supported by global competence centres

**Integration of ITC notably ahead** of schedule and identified synergies increased

**Sustainable cash flow generation** to drive shareholder returns

**Best managed  
company in the  
sector with  
unique business  
model focusing  
on vertical  
integration**

# Driving Growth and Shareholder Returns

Dr Bernd Scheifele, Group CEO



**HeidelbergCement Capital Markets Day  
London, 10 November 2016**

# Integration of Italcementi

Dr. Dominik von Achten, Deputy Chairman of the Managing Board

**HEIDELBERGCEMENT**



**Italcementi**  
Italcementi Group

**HeidelbergCement Capital Markets Day**  
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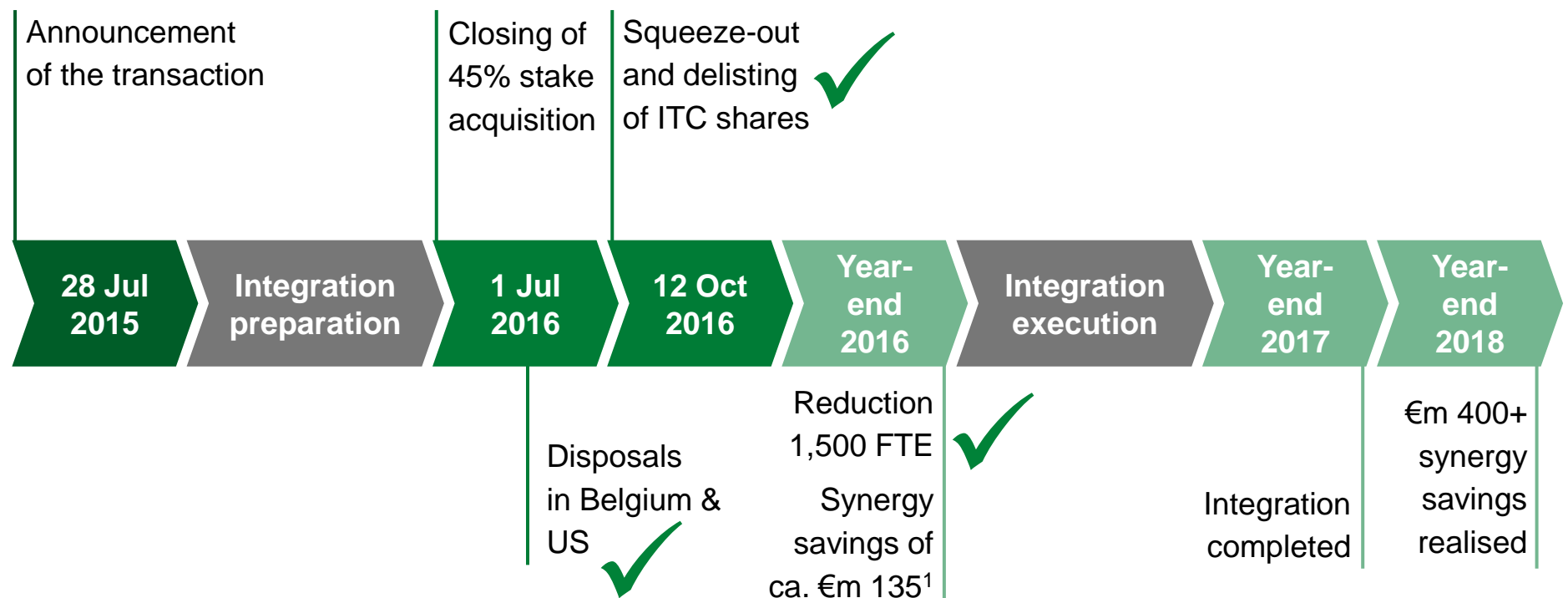
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# Timeline and milestones of ITC acquisition



Acquisition process and integration notably ahead of schedule

1) Full year run rate

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# Well invested plants with very competitive cash cost<sup>1</sup>

Exemplary sample of ITC cement plants

## Rezzato, Italy

- Starting year: 1964
- Capacity: incl. white cement
  - Clinker: 1.2mt
  - Cement: 1.2mt
- Last major update: '12-'14 (€m 150)
  - New grey line
  - New raw mill roller press
  - New high temperature filter



## Devnya, Bulgaria

- Starting year: 1954/58
- Capacity:
  - Clinker: 1.3mt
  - Cement: 1.8mt
- Last major update: 2014 (€m 150)
  - Clinker line modernized with dry 5-stage preheater kiln
  - Calciner with RDF feeding line



## Aït Baha, Morocco

- Starting year: 2010 (€m 300)
- Capacity:
  - Clinker: 1.6mt
  - Cement: 2.0mt
- Key characteristics:
  - Single line with precalcinator



## Yerraguntla, India

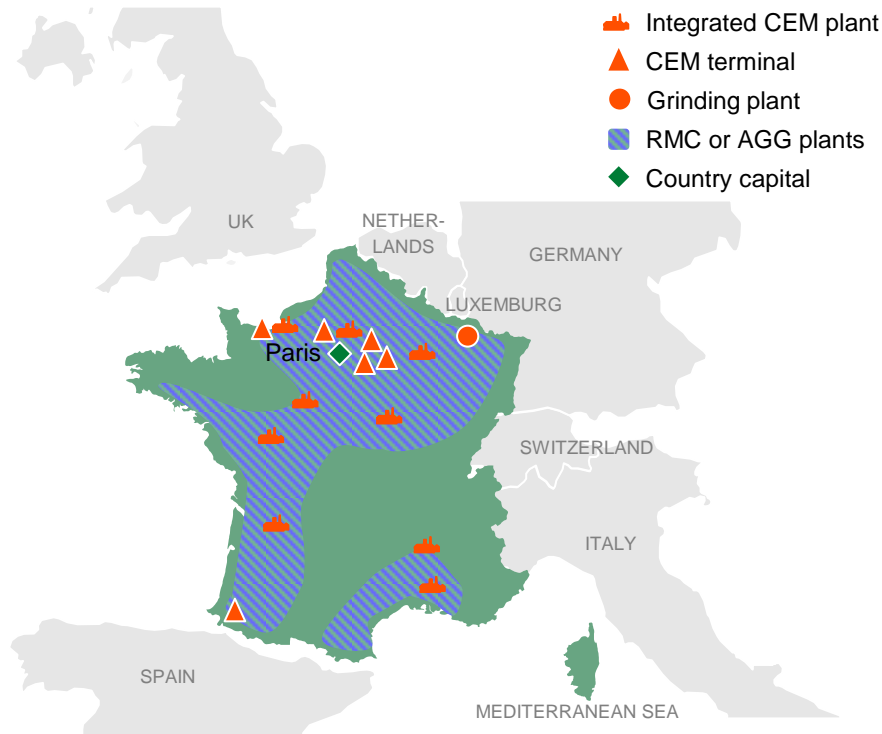
- Starting year: 1985
- Capacity:
  - Clinker: 3.8mt
  - Cement: 3.8mt
- Last major update: '08-'10 (€m 160)
  - New clinker line with 6-stage double-string preheater, incl. mills



No additional major capex required<sup>2</sup>

1) All with variable cost below € 20 / ton clinker / 2) Apart from committed coal mill investments in Egypt & France network optimization

# Deep-dive France – Strong market position



## Strategic position

### Market position & strengths

- Strong market share, 2<sup>nd</sup> largest player in France
- Calcia market share well positioned, with the exception of South East
- Favourable locations with geographical proximity to new mega projects (e.g. Grand Paris)

### Market trends

- Market expected to grow slowly in coming years
- Increasing competition due to newcomers in profitable areas
- Pricing pressure to continue, putting focus on cost efficiency
- Import putting pressure on white cement activity

### Opportunities







- Synergy savings potential
- Reduction of variable and fixed costs
- Strengthening of vertical integration in AGG and RMC

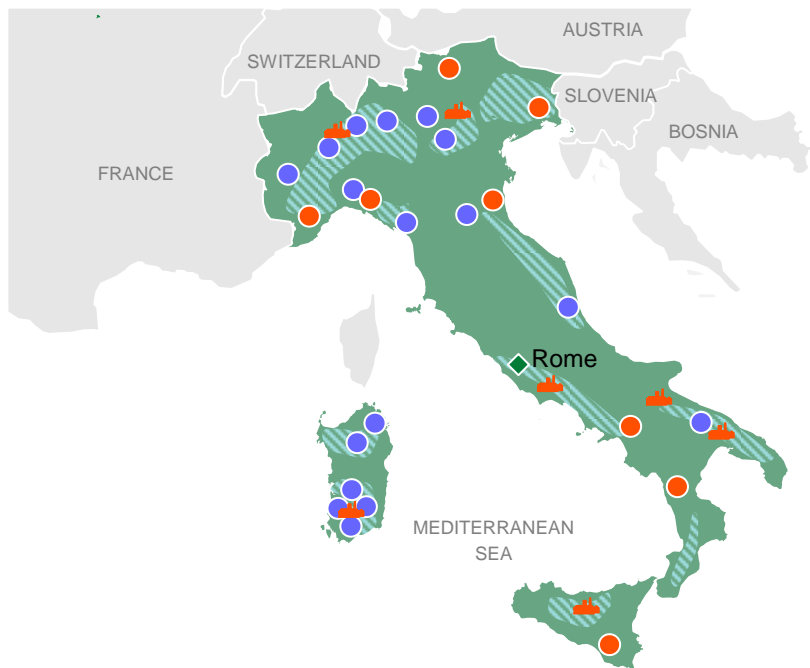
## Operations

■ Integrated Cement plants	9
■ Cement grinding plants	1
■ Cement terminals	6
■ Aggregates plants	~90
■ Ready-mix plants	~180



# Deep-dive Italy – Substantial recovery potential

-  Integrated CEM plant
-  AGG plant
-  Country capital
-  CEM terminal
-  RMC plants
-  Grinding plant



## Operations

■ Integrated Cement plants	7
■ Cement grinding plants	8
■ Aggregates plants	~20
■ Ready-mix plants	~120



## Strategic position

### Market position & strengths

- Largest player with 12.5mt cement capacity
- Modern integrated cement plants in Rezzato, Matera and Calusco
- Strong position in the North with higher utilisation rates compared to national average
- Majority of plants in the South close to the coast
- Rationalised manufacturing and distribution network
- Vertically integrated positions in RMC and AGG

### Market trends

- Economic recovery still weak with impact on construction sector and demand for cement
- Import decrease and export sales increase at low margin to maintain CO<sub>2</sub> allowances
- Overcapacity causes price pressure
- Capacity reduction and some supply consolidation activities

### Opportunities

- Further rationalisation in cement industry
- Recovery in cement consumption from very low levels
- Innovation and construction solutions
- Distribution / depots network optimisation

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# Significantly more synergies than initially expected

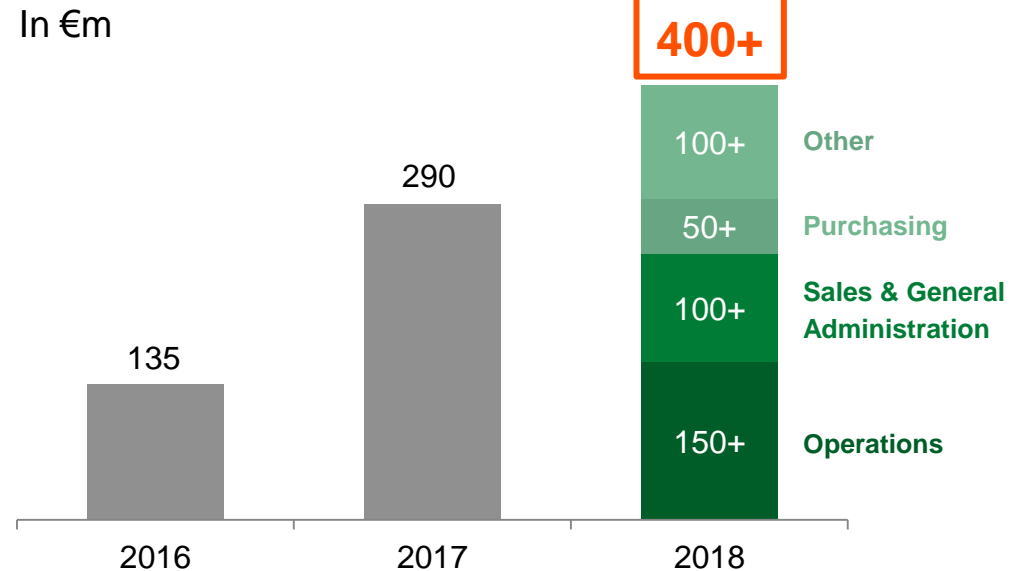
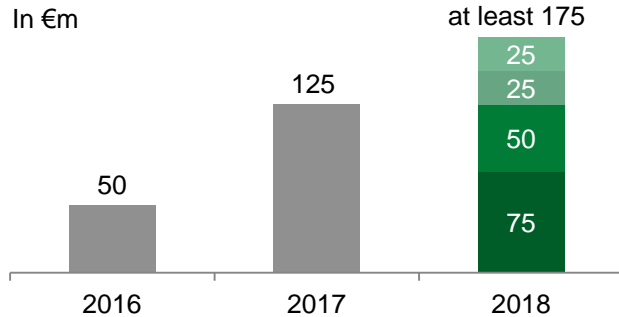
## Key drivers

- Higher than expected synergies from Operations, SG&A and Purchasing
- Identification of additional synergies from Trading, Finance and Market

**~10% of target's revenue  
= best in class**

## Updated run-rate synergy expectations

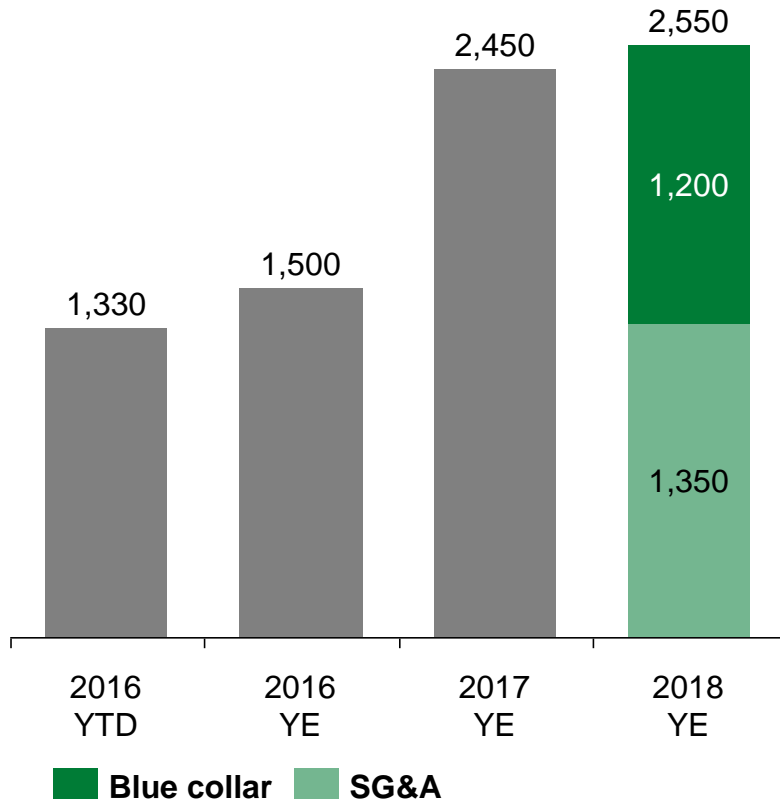
### Pre-signing synergy expectations



**Status: All synergies substantiated with detailed implementation plans and 100% commitment of local owners**

# Staff reductions – Plan 2016: 460 FTE, latest FC: 1,500 FTE

## Expected staff reductions (FTE)



## Key levers

1. Closure of duplicate HQs (Group/local)
2. Benchmark-based adjustments
3. Reduction of external contractors

**SG&A / Blue collar – 1<sup>st</sup> wave significantly faster than planned**

# Closure of redundant Group & local headquarters

◆ *Headquarters in continental Western Europe*

## **Brussels:**

- BeNeLux HQ (country org.)

**Closed:** HC's regional HQ (TEAM)

## **Heidelberg/Leimen:**

- Group HQ (incl. tech. support)
- Staff of EMEA regions
- Germany HQ (country org.)

## **Paris/Guerville:**

- France HQ (country org.)

**Closed:** ITC Group HQ ("Ciments Francais")

## **Bergamo (i.lab):**

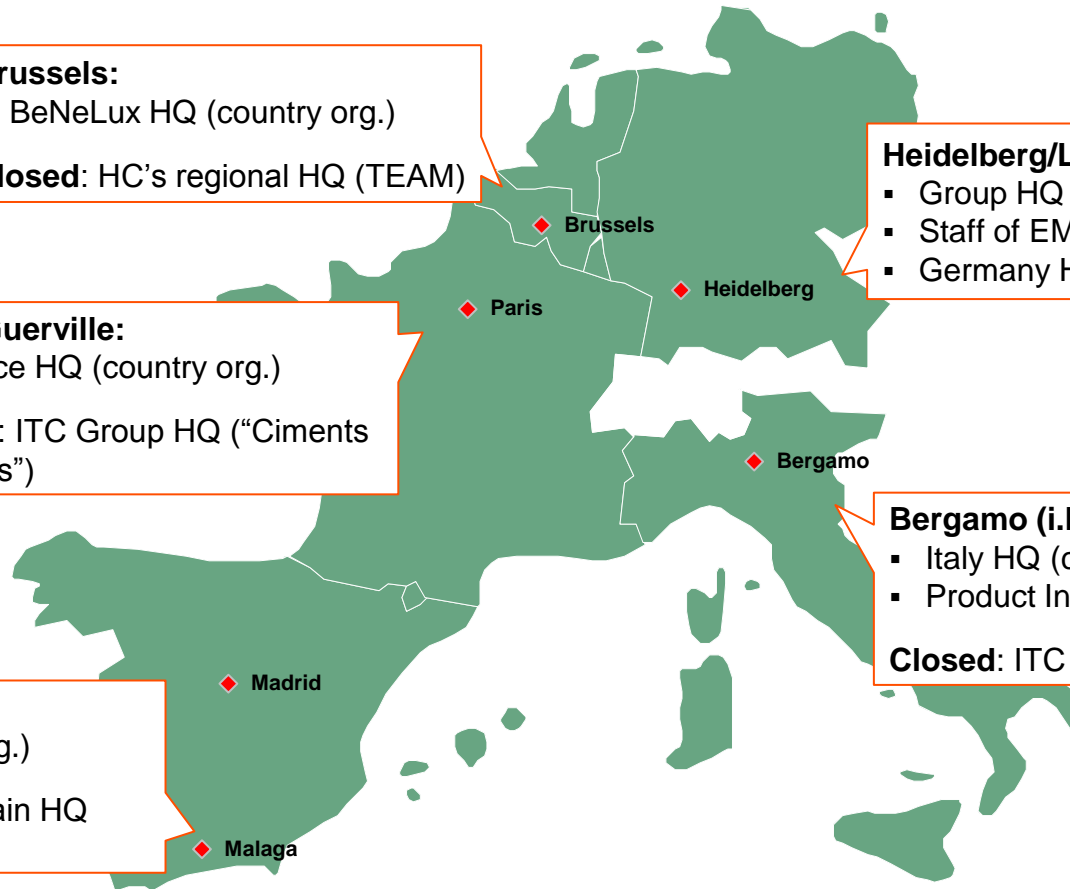
- Italy HQ (country org.)
- Product Innovation function

**Closed:** ITC Group HQ

## **Malaga:**

- Spain HQ (country org.)

**To be closed:** HC's Spain HQ (Madrid)



**Heidelberg/Leimen also hub for regional staff of AEM and NEECA regions – only APAC (Singapore) and NAM (Dallas) with local regional headquarters**

# Example Italy – Fresh start of country organisation in i.lab

Italy, i.lab / Bergamo

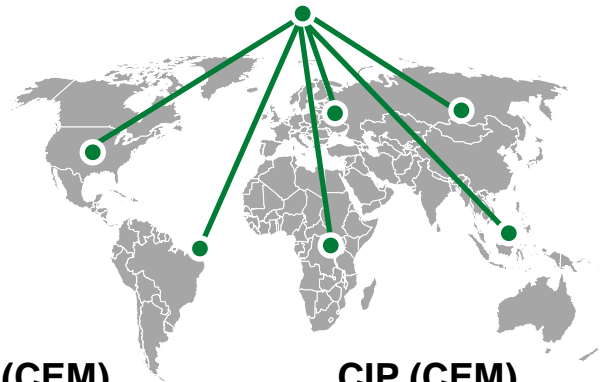


- **Before acquisition:**
  - Italcementi Group HQ and Italy country HQ co-located in Via Camozzi, Bergamo
  - i.lab hosted Italcementi's R&D and Product Innovation staff
- **After integration:**
  - Offices in Via Camozzi and adjacent buildings **closed** by year-end (also Brindisi lab)
  - Italy country HQ (incl. SSC) and new 'Product Innovation' function (with reduced staff) **bundled** in i.lab

**New country HQ together with new country management provides strong basis for future success**

# Leverage HC's proprietary technical efficiency programs

## Heidelberg Technology Center (CEM) / Competence Center Materials (AGG)



### MIP (CEM)

- Period: 2008-2011
- Cum. benefit: € 100M+
- Key levers:
  - Standardised maintenance org. (i.e. strict SAP-based process, daily / monthly)
  - Shutdown cycle optimisation
  - Contractor cost
  - Improving kiln reliability & MTBF

### OPEX (CEM)

- Period: 2011-2013
- Cum. benefit: € 180M+
- Key levers:
  - Reduced fuel consumption / fuel mix cost
  - Reduced power consumption
  - Improved clinker factor

### CIP (CEM)

- Period: Since 2014
- Cum. benefit: € 130M+
- Key levers:
  - Continuation of MIP & OPEX
  - Added continuous improvement focus (incl. bottom-up idea generation)

### CLIMB Ops (AGG)

- Period: Since 2011
- Cum. benefit: € 300M+
- Key levers:
  - Regular plant audits (incl. peer audits)
  - Reduced maintenance cost
  - Reduced fuel consumption
  - Optimised yellow fleet

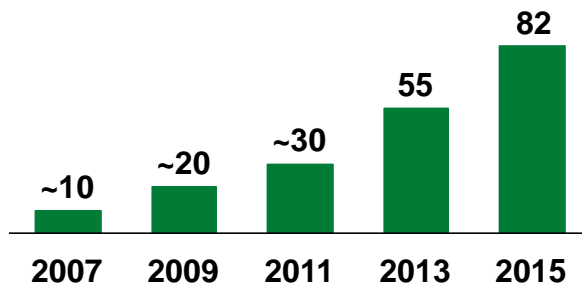
Supported by pricing programs: PERFORM (CEM) and CLIMB Commercial (AGG)  
– pricing based on ‘market value’ (not ‘cost-plus’)

# Procurement savings from new supplier management system

## Best-practice at Italcementi ...

Supplier management system developed and improved over the last decade

Utilisation (% of all tenders)



- Utilisation rate grew constantly in the last years
- Over 40,000 suppliers registered now

## ... to be enhanced and leveraged

Integration into HC system landscape to boost process automation from 2017 onwards

- Consistent approach towards suppliers across the entire Group
- Standardised supplier portal and platform allow efficient e-tenders and e-auctions
- Improved risk evaluation through automated checks of financial health, compliance and sustainability of suppliers

**Target: Reduction of relevant purchasing and process costs by 2 – 5%**

# Leverage unused capacity through global trading network

## Italcementi surplus capacity ...



- Italcementi's available capacities logistically well located, e.g.:
  - **Malaga**, Spain
  - **Devnya**, Bulgaria
  - **Halyps**, Greece
- HC with terminal locations in increasing demand markets (e.g. **NAM**, **Africa**)

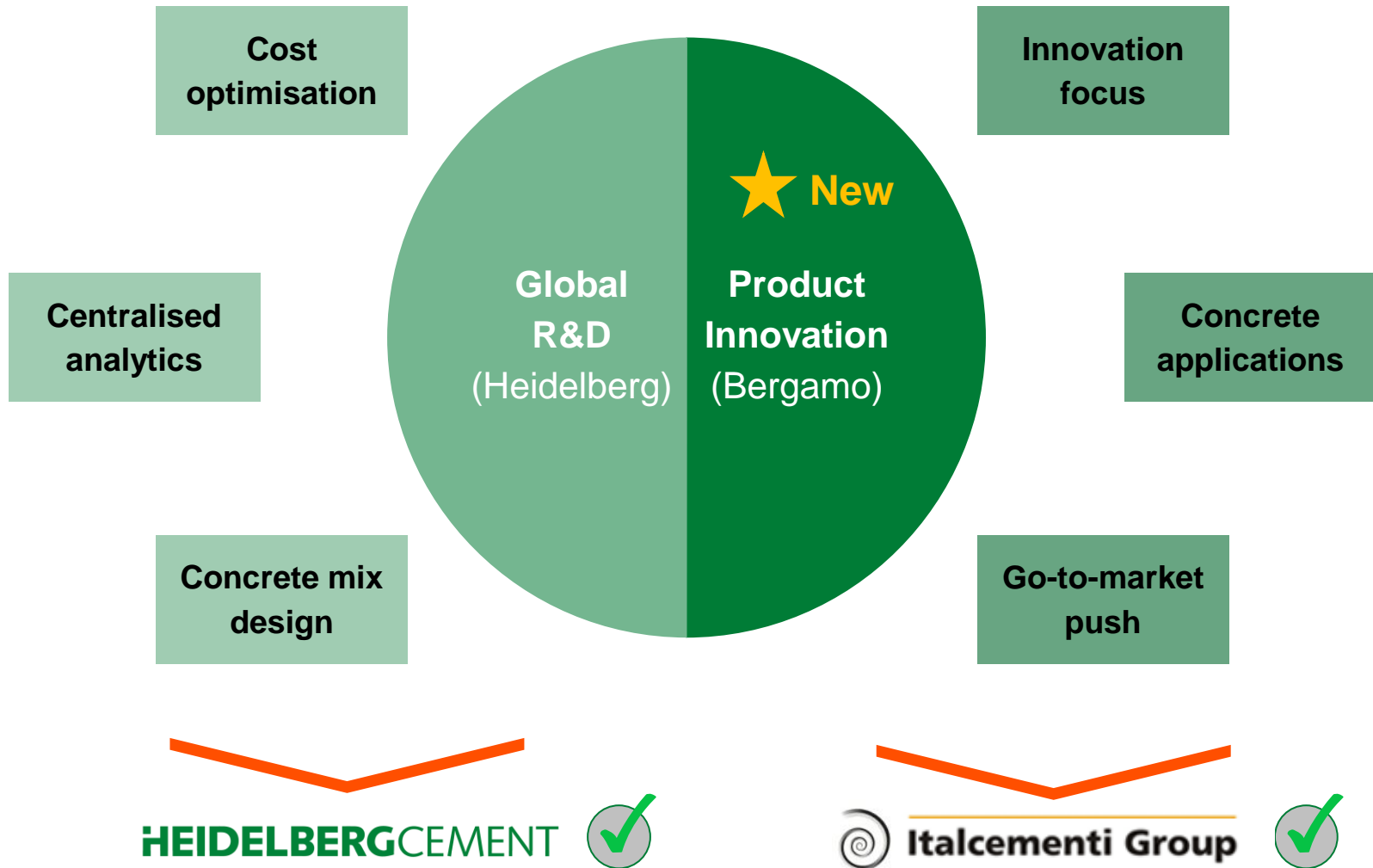
## ... can be leveraged by HC Trading

HC Trading is one of the leading world-wide building materials traders

- Total revenue: €bn 1.1 ('15)
- Total shipments: 21.7mt ('15)
- Destinations/Countries: 175/76
- Load Ports: 134
- Overseas offices: 13

Significant potential from surplus capacity utilisation and improved logistics

# New Group function complementing R&D function



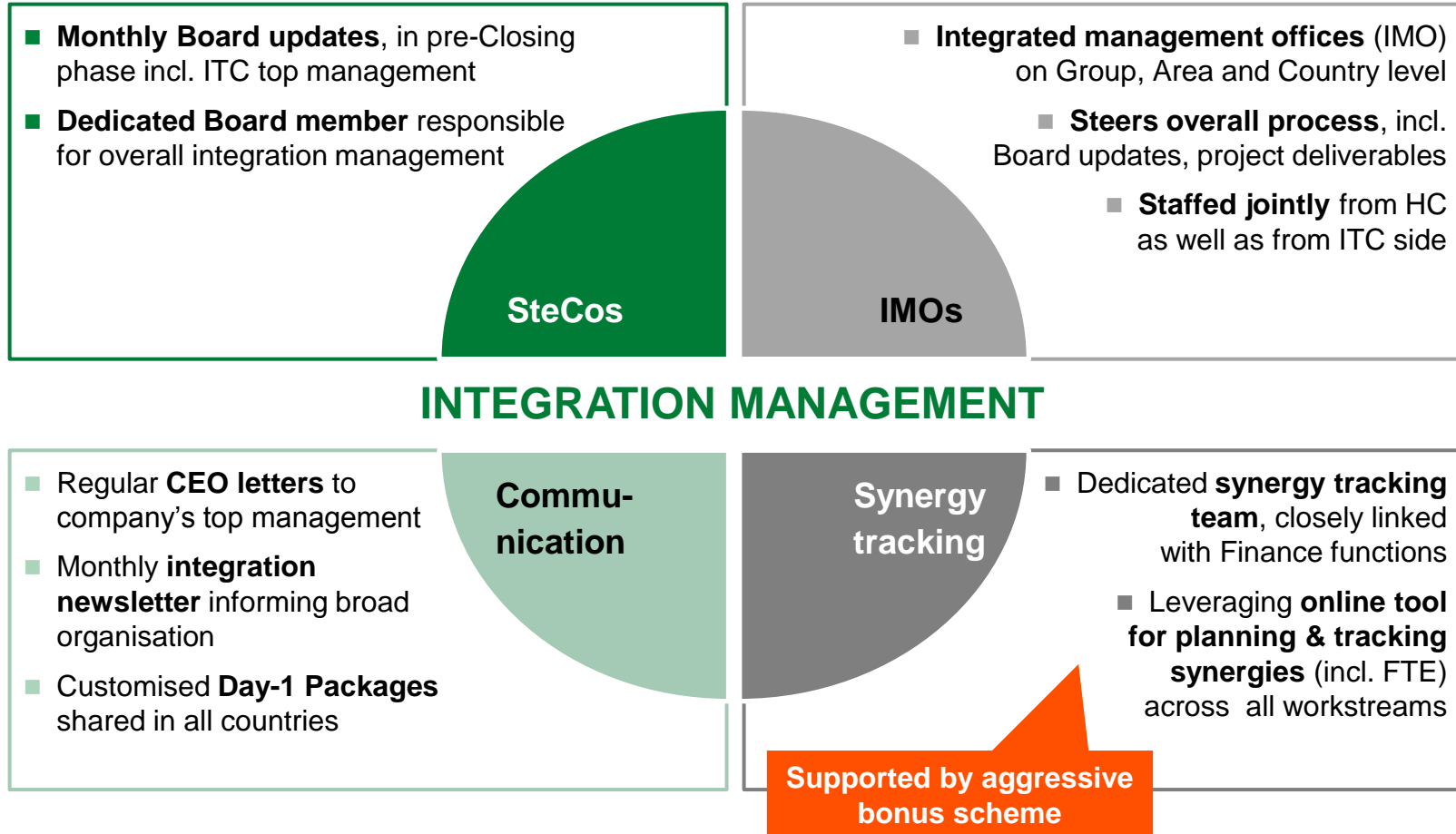


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# Leveraging internal integration track record



Acquisition and integration – a core competency

# Managing cultural differences – Basis for integration success

## Results from cultural baselining



## Proactively addressed

1. Regular pulse checks (employee surveys)
2. Town hall meetings in affected countries
3. Integration newsletter and intranet updates

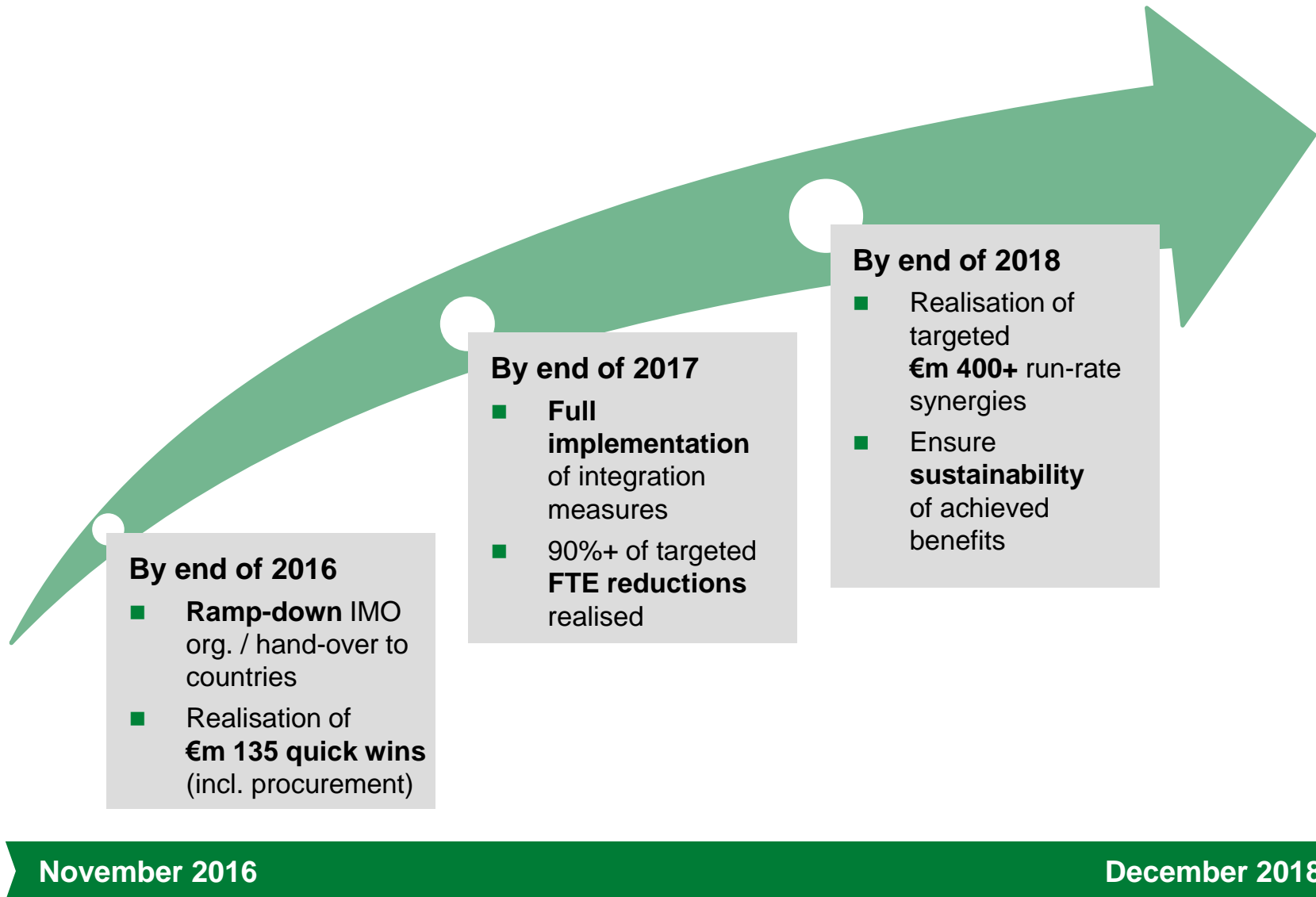
Complementary cultures – more similarities than differences

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# Next action steps clearly defined



# ITC integration – Progressing faster than expected

**Redundant HQs closed** (Bergamo/Paris/Brussels)

**All key personnel decisions taken & implemented.**  
HC's management philosophy has been consequently introduced

**FTE reductions (1<sup>st</sup> wave) ahead of plan.** Target is to reach 1,500 reductions by year-end (vs. plan 460)

**Synergies significantly increased** to €m 400+

**Proven HC efficiency programs** applied at ITC

**Management of cultural differences** main focus

**HC has strong  
track record in  
integrating  
businesses**

# Integration of Italcementi

Dr. Dominik von Achten, Deputy Chairman of the Managing Board

**HEIDELBERGCEMENT**



**Italcementi**  
Italcementi Group

**HeidelbergCement Capital Markets Day  
London, 10 November 2016**

# North America

Jon Morrish, Member of the Board



**HeidelbergCement Capital Markets Day  
London, 10 November 2016**



# Disclaimer

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 underlying assumptions. 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.

By their very nature, forward-looking statements and information are subject to certain risks and uncertainties. A variety of factors, many of which are beyond HeidelbergCements' control, could cause actual results to differ materially from those that may be expressed or implied by such forward-looking statement or information. For HeidelbergCement particular uncertainties arise, among others, from changes in general economic and business conditions in Germany, in Europe, in the United States and elsewhere from which we derive a substantial portion of our revenues and in which we hold a substantial portion of our assets; the possibility that prices will decline to a greater extent than currently anticipated by HeidelbergCements' management as a result of continued adverse market conditions; developments in the financial markets, including fluctuations in interest and exchange rates, commodity and equity prices, debt prices (credit spreads) and financial assets generally; continued volatility and a further deterioration of capital markets; a worsening in the conditions of the credit business and, in particular, additional uncertainties arising out of the subprime financial market and liquidity crisis; the outcome of pending investigations and legal proceedings and actions resulting from the findings of these investigations; as well as various other factors. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement or information as expected, anticipated, intended, planned, believed, sought, estimated or projected.

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

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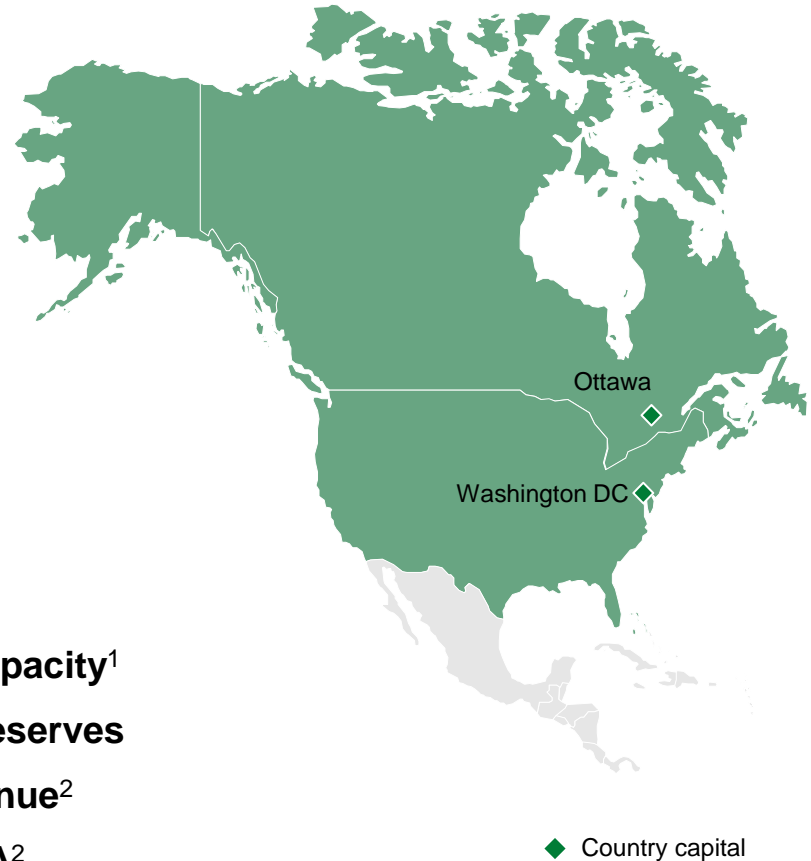
# NAM – Leading market position, economic growth continues

Rebounding housing, enacted FAST Act, steady jobs growth continue to drive demand

Strong position - #2 in Cement with Essroc, Top Aggregates producer, major Ready-Mix producer

Good coverage in most major markets – Essroc strengthens this

Footprint covers many top 20 fastest-growing metro areas – Vancouver, Seattle, Bay Area, Dallas, Houston, San Antonio, Raleigh



## Regional footprint

■ Integrated Cement plants	19
■ Grinding plants	2
■ Blast furnace slag	3
■ Cement terminals	78
■ Aggregates plants	217
■ Aggregates terminals	30
■ Ready-Mix plants	172
■ Asphalt plants	41
■ Concrete pipe plants	3

**18.6mt CEM capacity<sup>1</sup>**

**12.9bnt AGG reserves**

**€m 4,592 Revenue<sup>2</sup>**

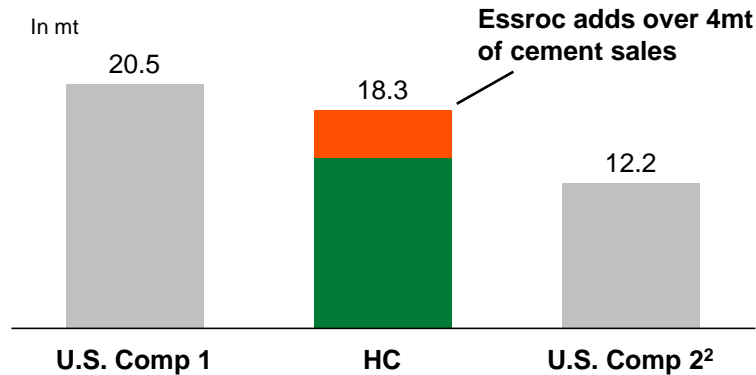
**€m 998 EBITDA<sup>2</sup>**

1) Incl. joint ventures

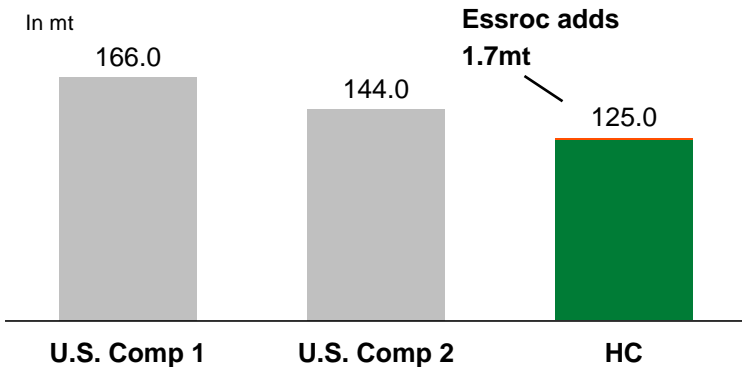
2) Proforma trailing twelve months September 2016, Essroc excl. Martinsburg disposal

# Significantly expanded position in U.S. and Eastern Canada

## Cement sales volume<sup>1</sup> (LTM Sept 2016)



## AGG sales volume<sup>3</sup> (LTM Sept 2016)



Core focus on Cement and AGG, with vertical integration where value-adding

Rising cement demand provides ability to increase prices, yet some pressure from imports

Increased infrastructure spending helps drive AGG demand and enables price improvement

Significant opportunity to improve cement efficiencies and optimize footprint and logistics, with further growth potential

Focused management with emphasis on Operational Excellence and Continuous Improvement helps drive margins






**Essroc acquisition helps push company to #2 in Cement**

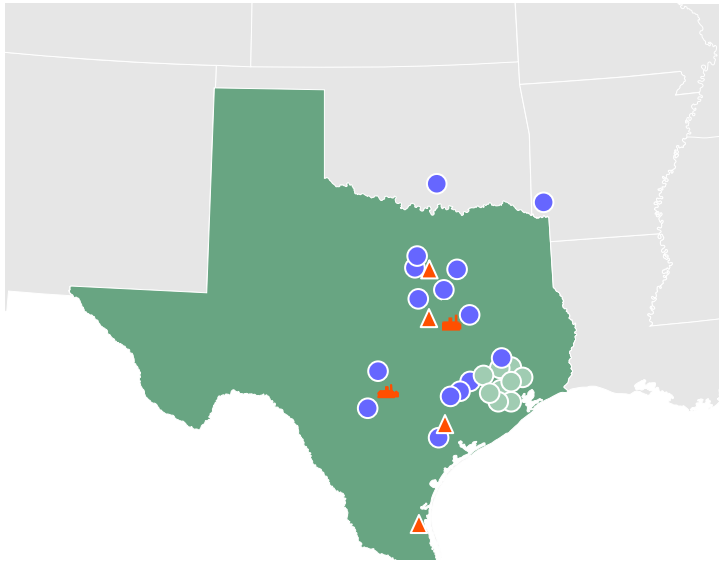
1) Cement shipments; Essroc excluding Martinsburg / 2) Based on capacity less capacity of recently announced disposals x 80% utilisation rate / 3) Aggregates shipments

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# Texas continues to grow despite a wet year

-  Integrated CEM plant
-  AGG plant
-  Grinding plant
-  RMC plant
-  CEM terminal



## Operations

■ Integrated Cement plants	2
■ Cement terminals	6
■ Aggregates plants	15
■ Aggregates terminals	7
■ Ready-mix plants	20



## Strategic position

### Market position & strengths

- Strong cement position (Texas Lehigh JV) in Central Texas, Houston, Corpus Christi
- Major AGG player DFW, Houston, San Antonio
- Vertically integrated in Houston market (Campbell Ready-mix, Gulf Coast Stabilized)
- Strong rail logistics in AGG and Cement

### Market trends






- North Texas attracting corporations to area (Toyota, JP Morgan Chase, Liberty Mutual)
- South Texas (Austin, San Antonio, Houston triangle) one of U.S. fastest growing areas
- Slowing economic development (oil and gas) is a short-term economic challenge

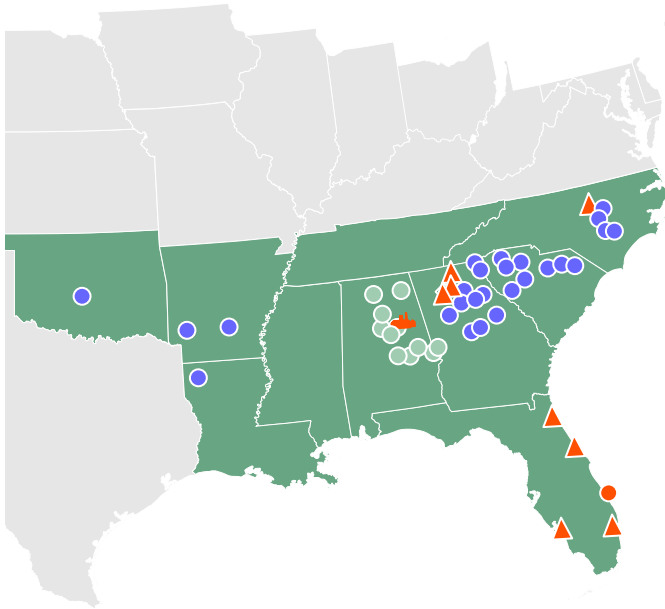
### Opportunities

- Continue to grow AGG footprint across Texas
- Continue to expand and enhance distribution network across both North and South Texas
- Further vertical integration upside
- Cement capacity and logistics growth







1) Including White Cement plant in Waco, TX and Texas Lehigh Cement, a 50% JV, plant in Buda, TX

# Well-positioned in growing Sunbelt States

-  Integrated CEM plant
-  AGG plant
-  Grinding plant
-  RMC plant
-  CEM terminal







## Operations

 Integrated Cement plants	1
 Blast Furnace Slag	1
 Cement terminals	16
 Aggregates plants	31
 Aggregates terminals	6
 Ready-mix plants	18






## Strategic position



### Market position & strengths

-  Strong AGG business in Georgia, North Carolina and South Carolina
-  Cement benefitting from Atlanta recovery
-  Turnaround of Alabama Ready-mix business
-  Good cement import and slag business in Florida

### Market trends






-  Atlanta, Georgia recovery well underway
-  Atlanta – Charlotte – Raleigh ‘I-85 Corridor’ growing strongly
-  Raleigh, North Carolina one of the Top 10 fastest-growing metro areas in the U.S.

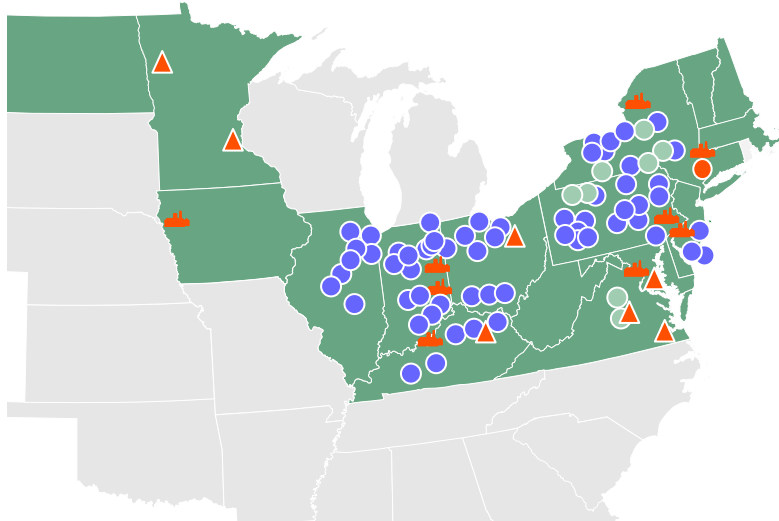
### Opportunities

-  Cement and slag growth through network investment
-  AGG growth by increasing reserves and further M&A activity



# Excellent product footprint across Northeast and Midwest

-  Integrated CEM plant
-  AGG plant
-  Grinding plant
-  RMC plant
-  CEM terminal



## Operations<sup>1</sup>

■ Integrated Cement plants	10
■ Grinding plants	1
■ Blast Furnace Slag	2
■ Cement terminals	29
■ Aggregates plants	99
■ Aggregates terminals	7
■ Ready-mix plants	30
■ Asphalt plants	29



## Strategic position

### Market position & strengths

- Essroc and Lehigh Cement combination creates largest player in cement
- Good productivity & strict cost control discipline across large established AGG business
- Capital investments in key assets to further strengthen positions in key markets (e.g. Chicago, Mid-Atlantic)

### Market trends

- Solid recovery in recent years for all key micro-markets across most densely populated areas of US
- Good mix of public and private development, plus urban renewal driving construction demand
- State infrastructure spending improving

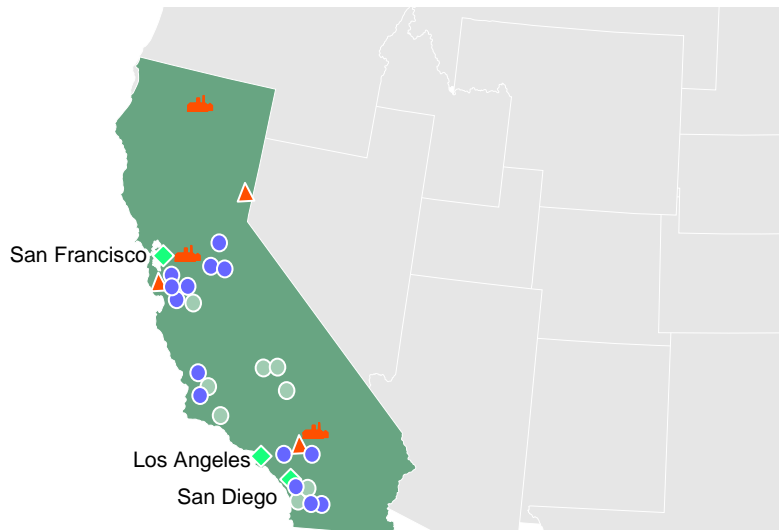
### Opportunities

- Improving cement logistics network across legacy and newly acquired Essroc facilities
- Bringing Essroc production efficiencies up to Lehigh levels
- Synergies with Essroc acquisition (near-term)
- Bolt-on deals to fill in AGG footprint and further vertical integration







1) Includes Joint Ventures, Essroc excludes Martinsburg

# California has further improvement potential

-  Integrated CEM plant
-  AGG plant
-  Major city
-  CEM terminal
-  RMC plant






## Operations

 Integrated Cement plants	3
 Cement terminals	5
 Aggregates plants	15
 Aggregates terminals	4
 Ready-mix plants	24
 Asphalt plants	12







## Strategic position




### Market position & strengths

-  Largest Cement player in Northern California
-  Unique high-margin sand dredging business, strengthens Bay Area AGG business
-  New AGG plants in Central and South CA underpin integrated materials business

### Market trends

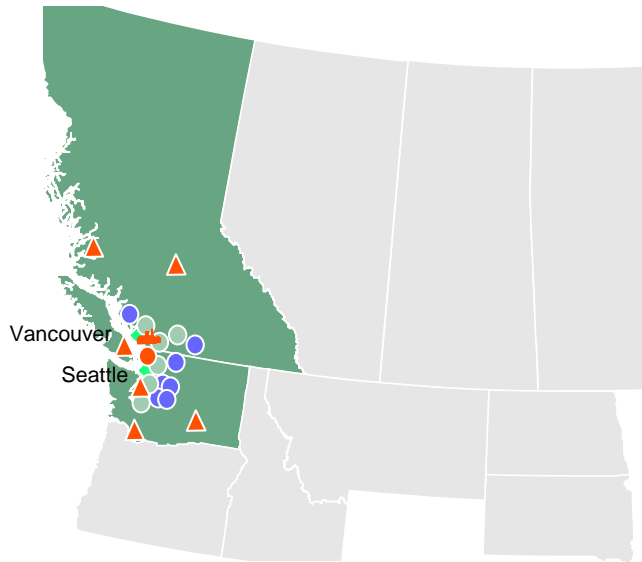
-  Largest U.S. state population 39+ million; GDP \$16.7 trillion
-  Strong pricing despite recent market slow down
-  Job creation for California flat, yet Bay Area expected to grow by 3%
-  State infrastructure spending now improving

### Opportunities








-  North CA cement plants production and logistics efficiencies
-  Capital investment underway in South CA cement plant to increase grinding capacity
-  AGG opportunities in North and South CA, plus further vertical integration

# Pacific Northwest one of the fastest-growing regions

-  Integrated CEM plant
-  AGG plant
-  Major city
-  CEM terminal
-  RMC plant







## Operations

 Integrated Cement plants	1
 Grinding plants	1
 Cement terminals	8
 Aggregates plants	13
 Aggregates terminals	6
 Ready-mix plants	36
 Concrete pipe plant	1





## Strategic position

### Market position & strengths

-  Strong vertically integrated positions in British Columbia and Washington state
-  Long history with widespread local brand recognition and community involvement
-  Strong AGG and Cement pricing
-  Solid logistics network in Cement and AGG

### Market trends

-  Growing urban markets, benefitting from mix of Asian investment, population growth, and corporate relocations
-  Strong infrastructure growth forecasts

### Opportunities

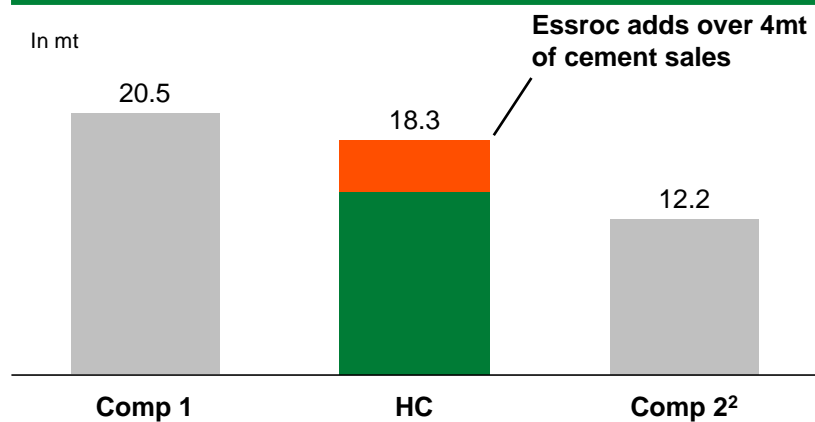
-  Actively pursuing expansion through greenfield and M&A investment
-  Further logistics improvements within AGG and Cement
-  Strengthen Cement business with slag cement grinding

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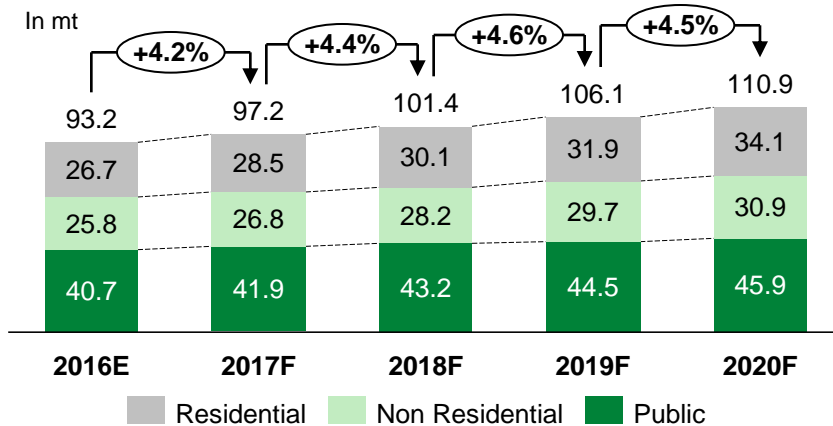
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# Strong cement footprint, with further upside potential

## Cement sales volume<sup>1</sup> (LTM Sept 2016)

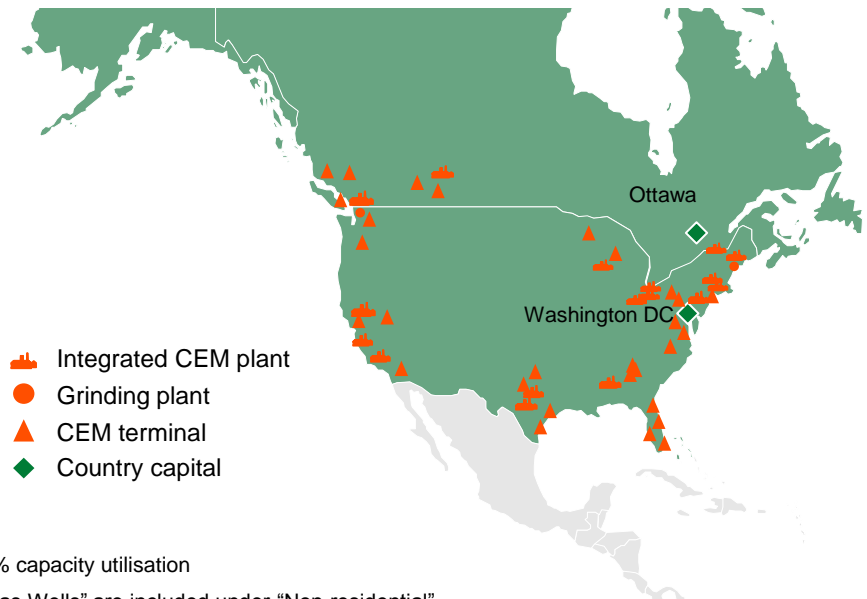


## PCA Summer 2016 Forecast<sup>3</sup>



## #2 Cement producer

- Essroc and Lehigh cement combination gives excellent U.S. and Canada plant and rail terminal network coverage
- Significant synergies (\$m 100+) already well underway in operations, logistics, SG&A
- Further potential to increase production capacity and improve efficiencies through management focus and modest capital investment



1) Cement shipments / 2) Based on capacity less capacity of recently announced disposals x 80% capacity utilisation

3) Source: Portland Cement Association; "Public Utility & Other", "Farm Non-residential" and "Oil & Gas Wells" are included under "Non-residential".

# Strong Cement & Slag terminal network in key coastal markets

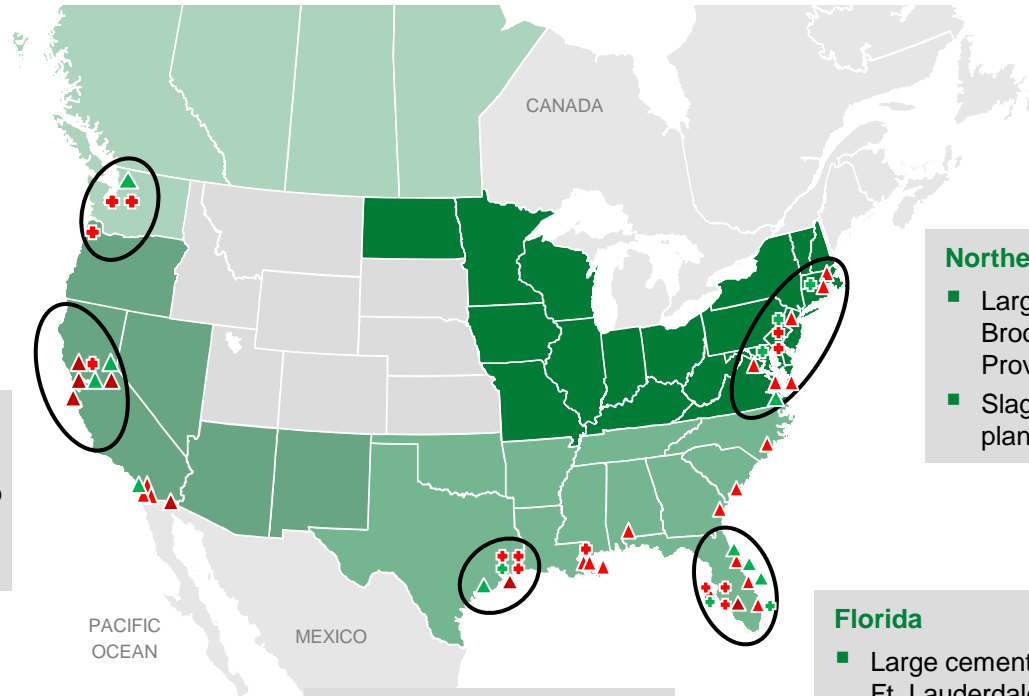
## Pacific Northwest

- Competitive coastal cement plant in British Columbia
- Cement terminals in Everett and Seattle, Washington
- Opportunity for slag cement imports

## Bay Area

- Cement terminals in Stockton and Sacramento
- Opportunity for slag cement imports

- Active HC Terminals
- Active Terminals – Competitors
- Inactive HC Terminals
- Inactive Terminals – Competitors
- Targeted micro markets



## Northeast

- Large cement terminals in Brooklyn, Baltimore and Providence
- Slag cement grinding plant in Camden, NJ

## Florida

- Large cement terminals in Ft. Lauderdale and Cape Canaveral
- Port Canaveral slag cement grinding plant

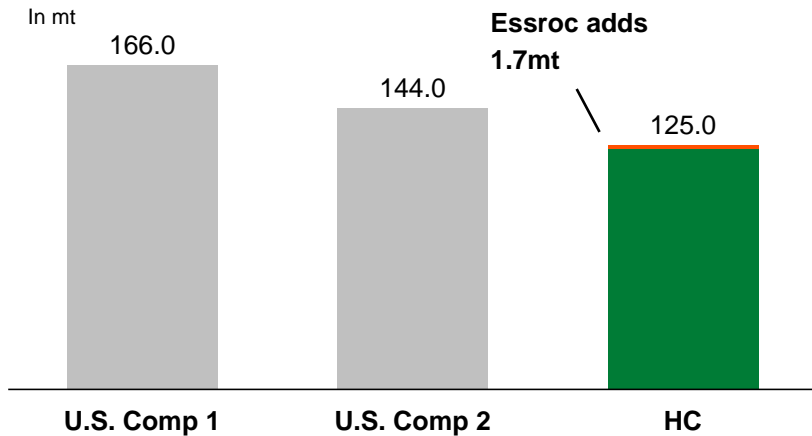
## Houston

- Imports through “Houston Cement Co.” partnership
- Opportunity for slag cement imports

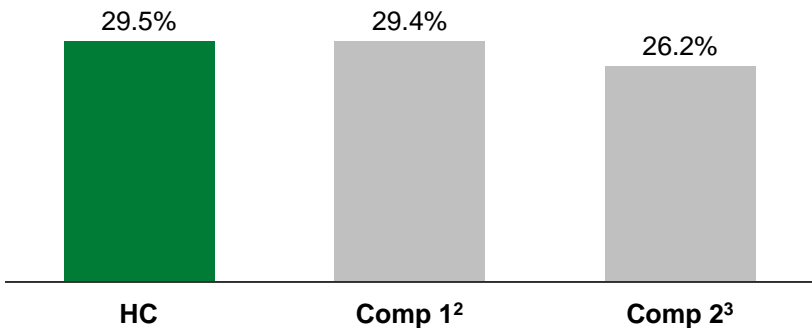
Well placed to benefit from cement and slag imports to augment domestic production

# Expanding AGG footprint, strong margin improvement

## AGG sales volume<sup>1</sup> (LTM Sept 2016)

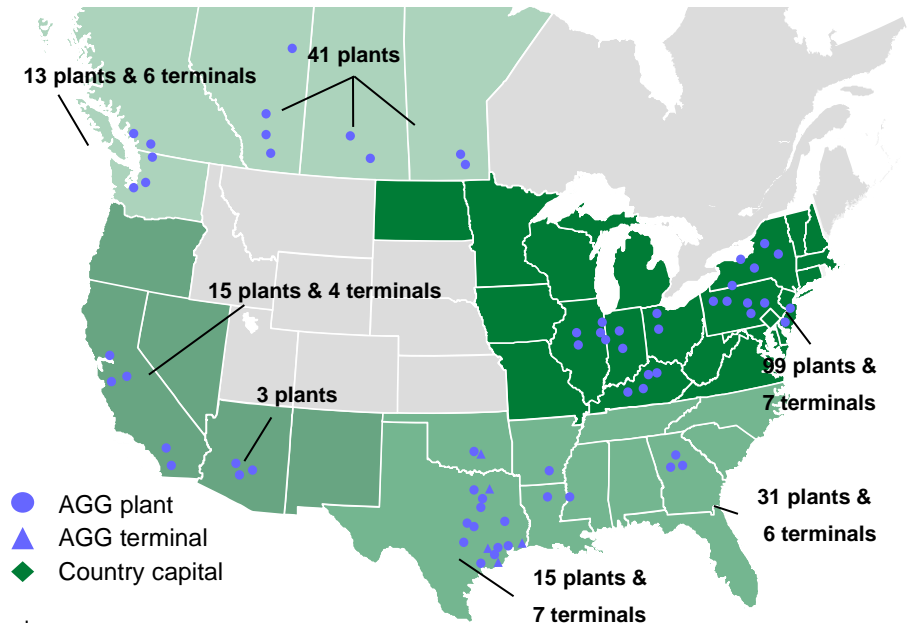


## AGG OIBD margin (LTM Sept 2016)



## Top AGG producer

- Excellent positions in numerous growth markets
- Industry leading margins through disciplined cost control and price increases
- Continuous improvement culture with structured efficiency improvement programs (i.e. CLIMB)



1) Aggregates shipments / 2) Selling, General & Administrative allocated based on aggregate sales

3) Depreciation calculated as non-cement depreciation

# North America

Jon Morrish, Member of the Board



**HeidelbergCement Capital Markets Day  
London, 10 November 2016**



# Asia-Pacific

Kevin Gluskie, Member of the Board



**HeidelbergCement Capital Markets Day  
London, 10 November 2016**

# Disclaimer

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By their very nature, forward-looking statements and information are subject to certain risks and uncertainties. A variety of factors, many of which are beyond HeidelbergCements' control, could cause actual results to differ materially from those that may be expressed or implied by such forward-looking statement or information. For HeidelbergCement particular uncertainties arise, among others, from changes in general economic and business conditions in Germany, in Europe, in the United States and elsewhere from which we derive a substantial portion of our revenues and in which we hold a substantial portion of our assets; the possibility that prices will decline to a greater extent than currently anticipated by HeidelbergCements' management as a result of continued adverse market conditions; developments in the financial markets, including fluctuations in interest and exchange rates, commodity and equity prices, debt prices (credit spreads) and financial assets generally; continued volatility and a further deterioration of capital markets; a worsening in the conditions of the credit business and, in particular, additional uncertainties arising out of the subprime financial market and liquidity crisis; the outcome of pending investigations and legal proceedings and actions resulting from the findings of these investigations; as well as various other factors. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement or information as expected, anticipated, intended, planned, believed, sought, estimated or projected.

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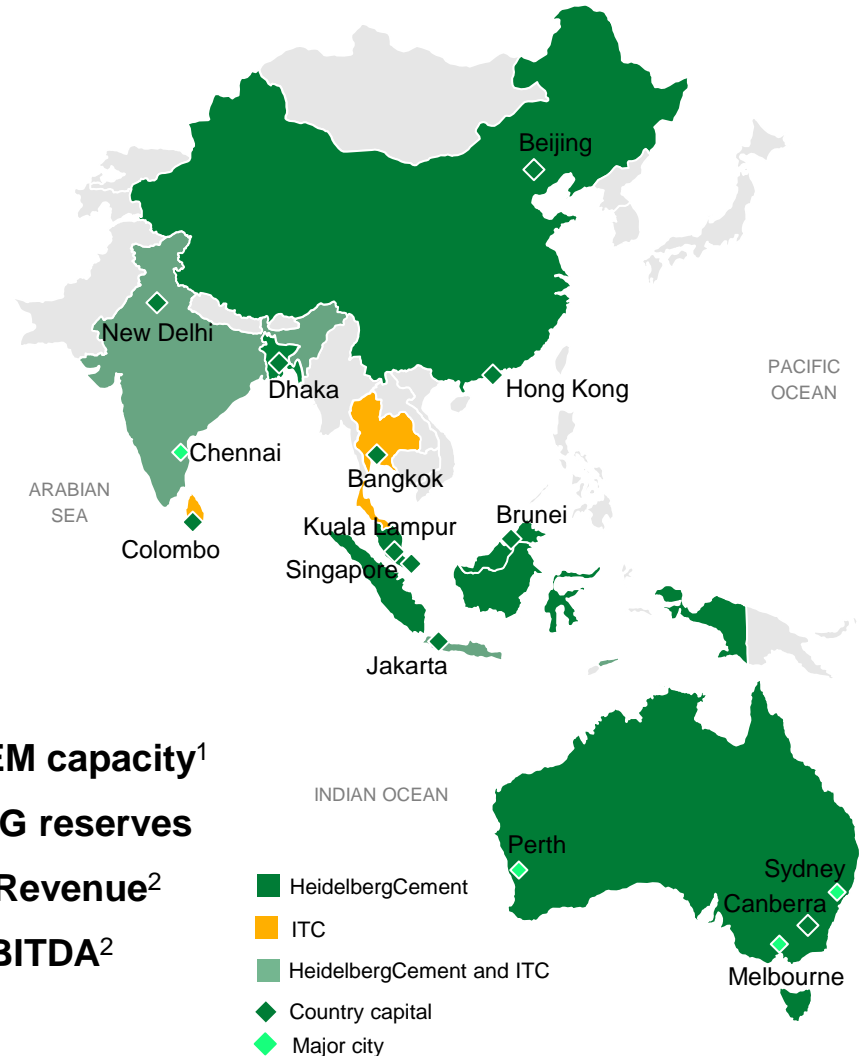
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# Asia-Pacific – A global growth engine

**Growing population –  
3.8b people, >50% of the world**

**High rate of urbanisation –  
>60% of global rural population**

**Positive economic outlook despite  
volatility**



## Regional footprint

■ Integrated Cement plants	16
■ Grinding plants	9
■ Cement terminals	12
■ Aggregates plants	105
■ Ready-mix plants	339
■ Asphalt plants	19

**51.1mt CEM capacity<sup>1</sup>**

**1.3bnt AGG reserves**

**€m 3,205 Revenue<sup>2</sup>**

**€m 754 EBITDA<sup>2</sup>**

1) Incl. joint ventures

2) Proforma LTM rolling as of September 2016

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# Indonesia – Conquering in West Java, Jakarta area

-  Integrated CEM plant
-  AGG plant
-  Country capital
-  CEM terminal
-  RMC plant



## Operations

■ Integrated Cement plants	3
■ Cement terminals	8
■ Aggregates plants	6
■ Ready-mix plants	39



## Strategic position

### Market position & strengths

- Most profitable and 2<sup>nd</sup> largest player with 23mt capacity
- Largest player in largest cement market (West Java)
- Strong vertically integrated business and logistics network in Java

### Market trends

- Higher demand growth outside Java in 2016
- Price pressure in mid-term due to overcapacity
- Well-funded infrastructure program commencing
- Strong GDP growth in mid-term (2016-2020: CAGR ~ 5.6%)

### Opportunities




- Significant increase in cement consumption expected: from ~243kg/capita (2016) to ~ 406kg/capita (2025)
- Improve capacity and logistics network to capture demand outside Java
- Strengthen vertically integrated position in AGG and RMC and bolster sales competency to support #1 position in home market

# India – High demand driven by infrastructure and housing

-  Integrated CEM plant
-  Grinding plant
-  Major city
-  CEM terminal
-  Country capital



## Operations

-  Integrated Cement plants 4
-  Grinding plants 4
-  Cement terminals 1



## Strategic position

### Market position & strengths

- Strengthened market position especially in South India through ITC acquisition
- ITC's footprint complements HC's footprint
- Strong brands – “Mycem” in Central India and “Zuari” in South India
- Significant synergies to be achieved
  - Closure of ITC Bangalore HQs

### Market trends

- Strong demand through government's push on infrastructure and low-cost housing
- Better pricing potential in increasingly consolidated market
- Strong GDP growth in mid-term (2016-2020: CAGR ~ 7.8%)

### Opportunities

- Capture demand arising from infrastructure spend and low-cost housing
- Opportunistically grow capacity and footprint through greenfield / acquisitions



# Thailand – Cost control and downstream integration

- Integrated CEM plant
- AGG plant
- RMC plant
- Country capital



## Operations

■ Integrated Cement plants	3
■ Aggregates plants	1
■ Ready-mix plants	35



## Strategic position

### Market position & strengths

- Geographically well-positioned, vertically integrated business, supplying Bangkok and surrounding markets
- Strong brand and well-diversified product portfolio

### Market trends

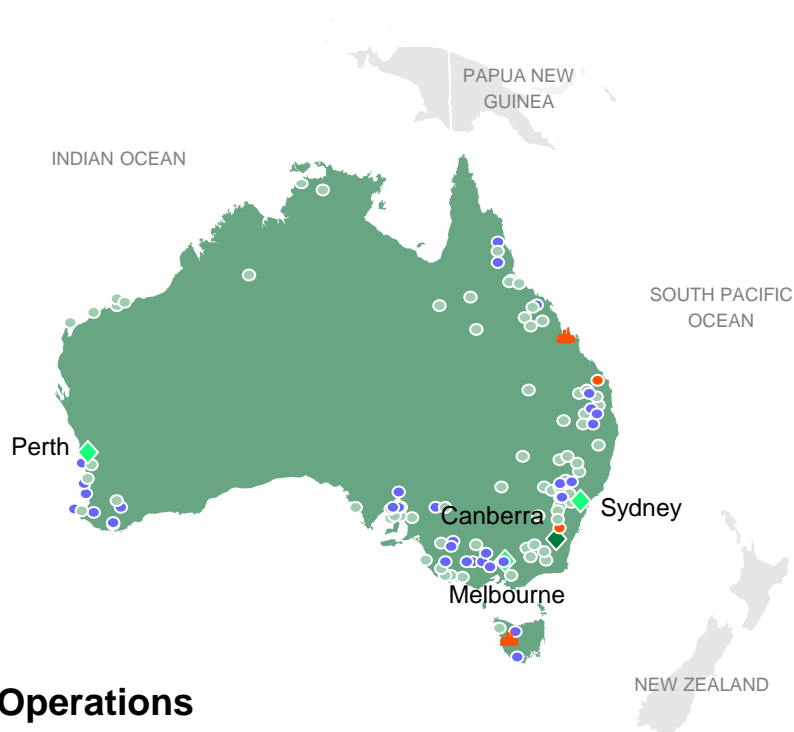
- New capacity (incl. neighboring countries – Myanmar & Cambodia) have exerted pressure in 2016
- Price improvement anticipated in 2017
- Stable GDP growth in mid-term (2016-2020: CAGR ~ 3.1%)

### Opportunities






- Strengthen downstream integration in AGG and RMC
- Any excess clinker can be utilized within HC APAC network
- Logistics optimisation possible due to clustering of industry capacity

# Australia – Growing through volume and margin optimisation

-  Integrated CEM plant
-  AGG plant
-  Country capital
-  Grinding plant
-  RMC plant
-  Major city







## Operations

 Integrated Cement plants	2
 Grinding plants	2
 Cement terminals	2
 Aggregates plants	80
 Ready-mix plants	315






## Strategic position



### Market position & strengths

-  Industry leaders in AGG and RMC
-  Fast growing business: Best practice in sales & logistics has enabled business to outpace market growth
-  Strong vertically integrated footprint across all major cities
-  Strong cash generating business

### Market trends

-  Stable price and volume developments in all business lines expected for the mid-term
-  Demand growth to come from major infrastructure projects; residential construction slow down from 2017
-  Stable GDP growth in the mid-term (2016-2020: CAGR ~ 2.9%)

### Opportunities

-  Optimise volumes and margins in consolidated market – “Sales is a Science”
-  Capture demand from major infrastructure pipeline

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# Indonesia – Challenging but promising market

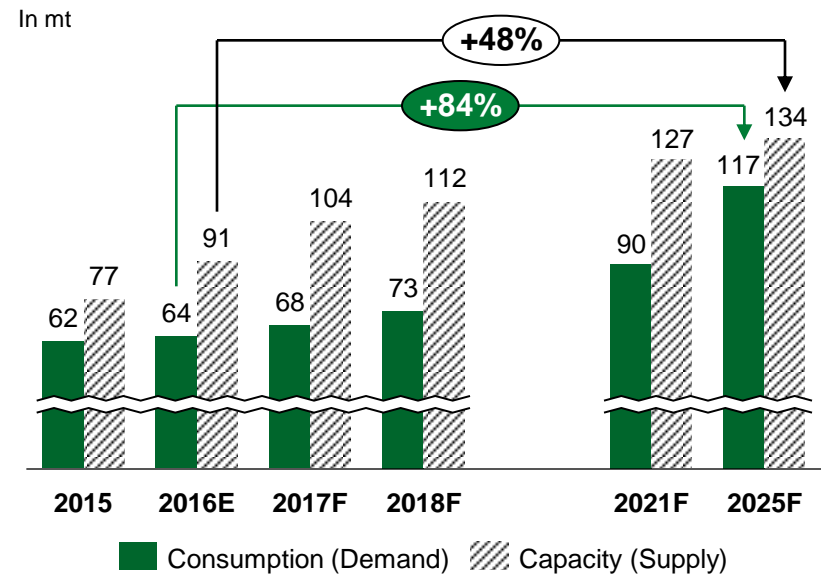
## Situation

- Challenging, oversupplied market with many new entrants
- New entrants adopt low pricing policies to gain market share
- Direct pressure from government on cement prices
- Infrastructure spend in 2016 directed away from Java. Large projects expected in Java from 2017 onwards

## Outlook

- Strong cement demand growth will outgrow supply growth in the long run
- Leverage Indocement's superior footprint and cost leadership position
- Increasing demand outside Java to be captured
- Young working-age population offers economic demographic dividend
- Urbanisation expected to accelerate

## Cement demand & supply



# India – Consolidating for the better

## Situation

- Major consolidation took place in 2016 (Lafarge, Jaypee, Reliance, etc.)
- HC active in consolidation – increased capacity to 13mt through acquisition of ITC
- Consolidation will continue to take place in South India where there are many small players and utilisation rates are still relatively low

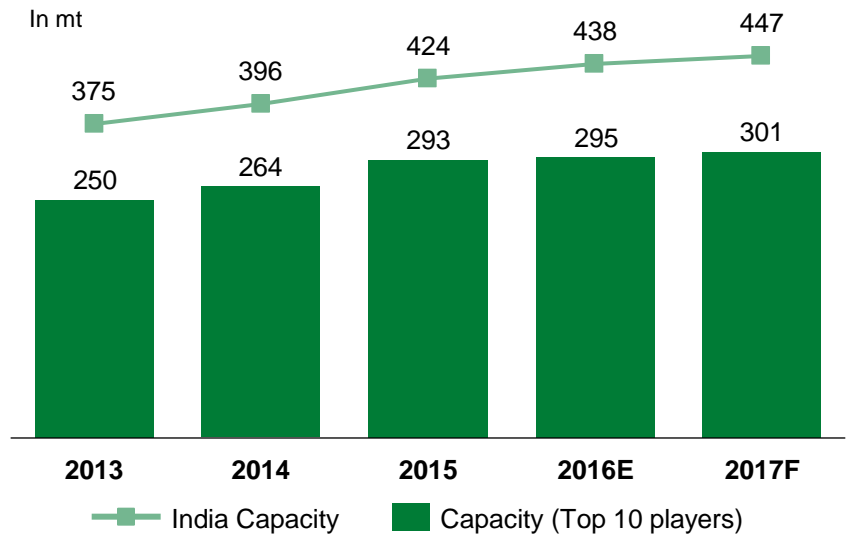
## Outlook

- Increasingly consolidated market will enable optimised production planning and margin improvements
- Rich infrastructure program and low-cost housing is starting to take flight and will continue to drive cement demand
- HC will further benefit from its superior footprint and achieve and exceed synergy targets

## Cement capacity & capacity share

Consolidation → → → →

Improved Pricing  
Improved Margins  
Optimised Production



# China – Low risk of exports disrupting HC APAC markets

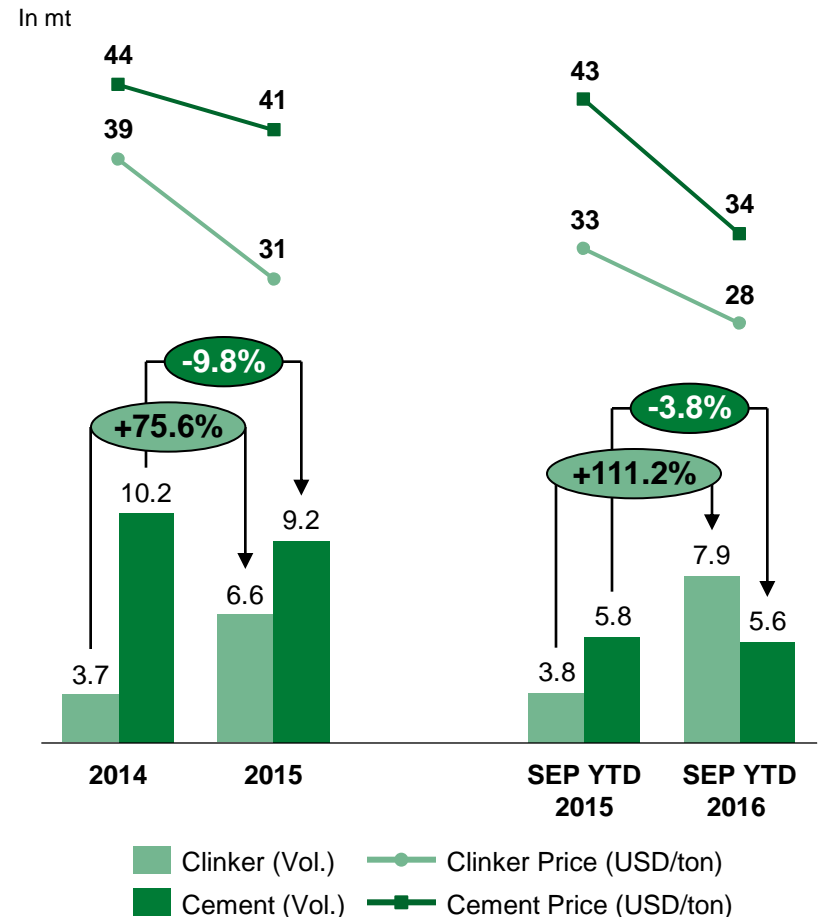
## Situation

- China is transitioning from an investment-driven to a consumption-driven economy
- Resultant severe cement overcapacity due to capacity build up during the building boom in the past years
- To increase utilisation rates, China has increased its export of clinker and prices have significantly come down

## Outlook

- Chinese cement exports will not increase multiple fold and will pose little threat to HC APAC markets due to limited economically exportable capacity, anti-dumping regulations and overcapacity in HC APAC markets
- Higher clinker exports and lower clinker prices may be beneficial in the long run due to reduced production cost base for Bangladesh and Brunei

## Cement & clinker exports and FOB price



# Australia – Strong GDP and population growth rates

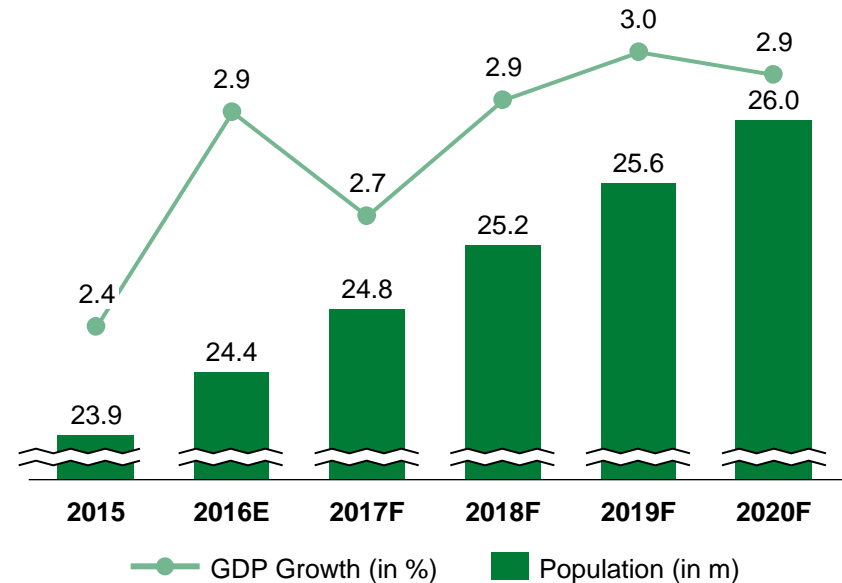
## Situation

- Despite fall in mining investment, economy is still resilient and growing due to current high demand for housing, mining exports and domestic consumption
- Market talk of a “housing bubble” imploding due to high levels of household debt and housing unaffordability
- Housing market starting to cool with government cooling measures and banks tightening lending standards

## Outlook

- Demand for housing still high due to strong economic and population growth, but slowdown expected in 2017 and 2018 due to oversupply
- Australian economy expected to continue to grow due to low interest rates and surging commodity exports
- Building materials demand to continue to grow with major infrastructure projects in the pipelines
- Strong price developments expected in 2017

## Population & GDP growth rates



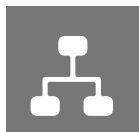
# Sales is a Science – Strong Australian case acts as role model



“Sales is a Science” roll-out commenced in 2014



Initial focus on RMC and AGG; CEM now underway



Organisational, cultural and structural change put in place to professionalise the Sales Team



Additional resources added and comprehensive training supports change

## RESULTS



**Professional salesforce, delivering value to our customers**



**Significant gains in margins in the right markets for our products**









**Successful implementation in both AGG and RMC proves SiaS can be used across all business lines**



**Recurring OI improvement**



# Other APAC markets – Overall, a positive outlook

	<b>Situation</b>	<b>Outlook</b>
<b>Bangladesh</b> 	<ul style="list-style-type: none"><li>■ Robust economy - growing income from expatriate workers</li><li>■ Excellent market with strong demand growth over the past 10 years</li></ul>	<ul style="list-style-type: none"><li>■ Demand will continue rapid growth in mid-term with government push on housing and infrastructure development</li></ul>
<b>China</b> 	<ul style="list-style-type: none"><li>■ Restructuring of investment driven to a consumption driven economy</li><li>■ Demand and prices under pressure</li></ul>	<ul style="list-style-type: none"><li>■ Industry consolidation expected to pick up pace</li><li>■ Price recovery in 2017 expected</li></ul>
<b>Hong Kong</b> 	<ul style="list-style-type: none"><li>■ Market is still adapting to competition law and prices have slid in 2016</li><li>■ Enormous infrastructure program drawing to a close</li></ul>	<ul style="list-style-type: none"><li>■ Strong residential projects pipeline</li><li>■ Achieve upside through implementation of “Sales is a Science” and logistics optimisation</li></ul>
<b>Malaysia</b> 	<ul style="list-style-type: none"><li>■ Turmoil with government</li><li>■ Weak property sector as result of past overbuild</li></ul>	<ul style="list-style-type: none"><li>■ Increased government spend on construction expected before government elections (likely in 2017)</li><li>■ Strong infrastructure pipeline</li></ul>
<b>Sri Lanka</b> 	<ul style="list-style-type: none"><li>■ Peace consolidated after 36 year conflict</li><li>■ Cement deficit (approx. 2mt imported)</li></ul>	<ul style="list-style-type: none"><li>■ Strong cement demand in near-term arising from reconstruction and urbanisation</li></ul>
<b>Brunei</b> 	<ul style="list-style-type: none"><li>■ Oil dependent economy</li><li>■ 80% of the cement consumption are infrastructure projects and investment-related</li></ul>	<ul style="list-style-type: none"><li>■ Government’s budget deficit due to weak oil market, leading to expected fall in cement consumption from 2018 onwards</li></ul>

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# Competence Centre Readymix (CCR) – A centre of excellence

CCR is a clear reflection of HC vertically integrated strategy



**Competence Centre Readymix:**  
A new group focused on improving the total RMC Business

Significant improvements to be unlocked through implementation of  
CCR Strategy



Close collaboration  
with Group  
Functions



Improve  
knowledge  
through training



Best practice  
implementation



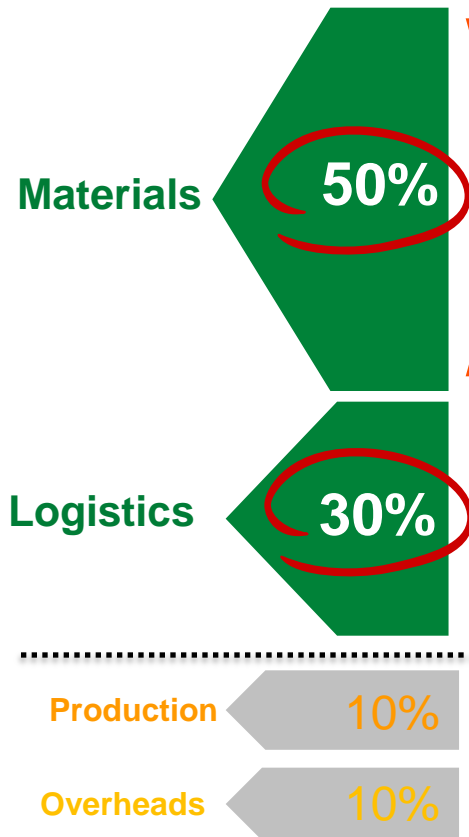
Implement  
consistent  
management cycle



Identify  
improvement  
opportunities

# CCR – New Competence Centre sets clear saving targets

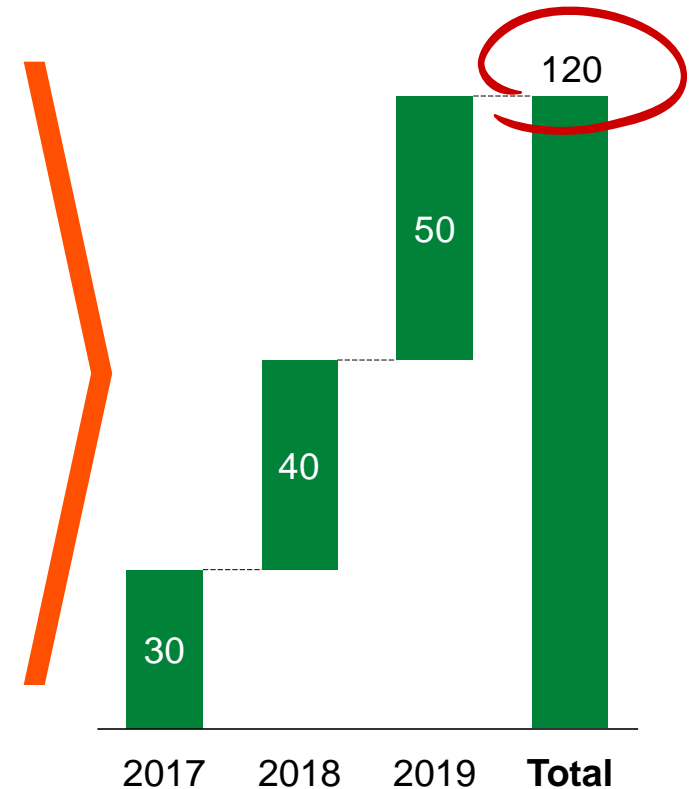
## Cost Structure



## Improvement Opportunities

1. Data acquisition
2. Integrated margin
3. Strength control
4. Variance management
5. Materials optimization
6. Utilization-based cartage cost
7. Increase utilization
8. Waste cost elimination

## Savings TARGET in €m



Significant leverage by optimising materials and logistics costs

# Asia-Pacific

Kevin Gluskie, Member of the Board



**HeidelbergCement Capital Markets Day  
London, 10 November 2016**

# Africa-Eastern Mediterranean Basin

Hakan Gurdal, Member of the Board



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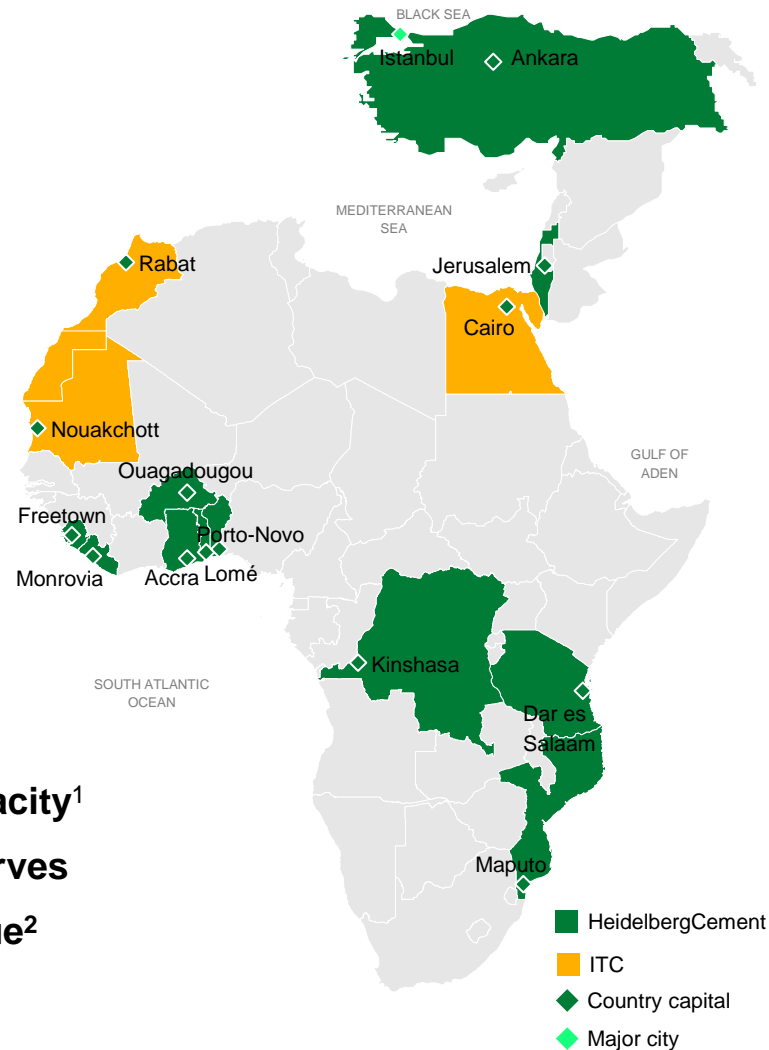
# Africa-Eastern Mediterranean – Expanding in growth areas

**Strong presence in growing megacities (e.g. Cairo, Dar es Salaam, Istanbul)**

**Seven countries with market share > 35%**

**Experienced local management and established brands**

**ITC integration on target**



## Regional footprint

■ Integrated Cement plants	15
■ Grinding plants	12
■ Cement terminals	8
■ Aggregates plants	12
■ Ready-mix plants	113
■ Asphalt plants	2

**33.9mt CEM capacity<sup>1</sup>**

**0.1bnt AGG reserves**

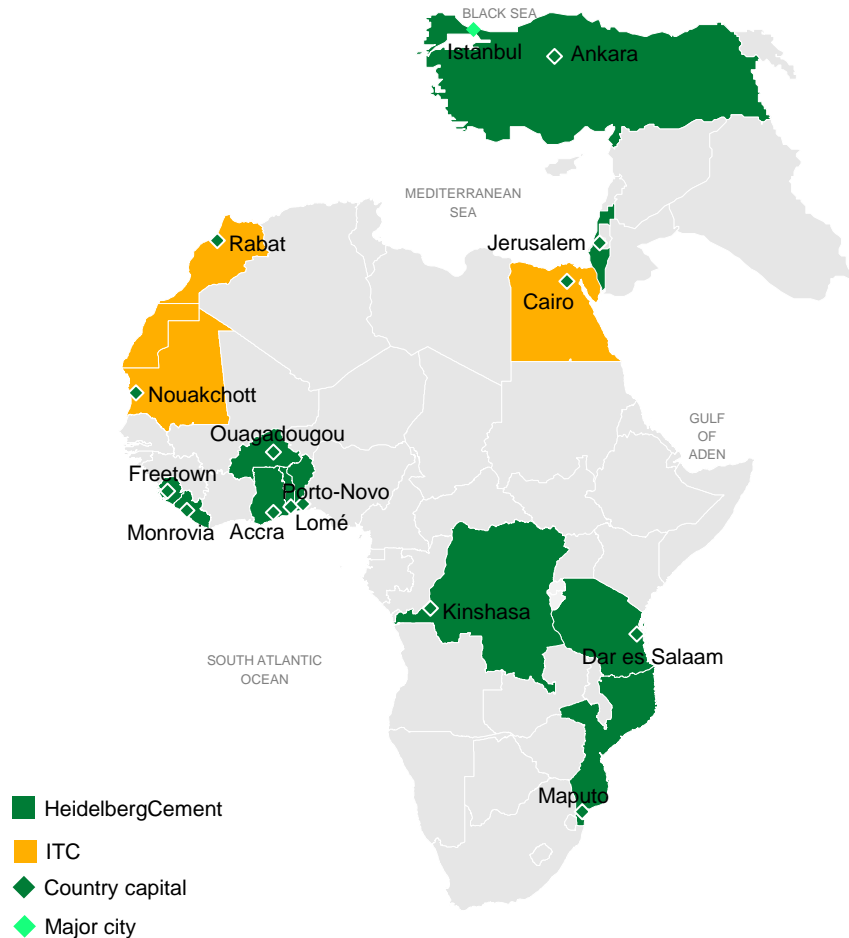
**€m 1,868 Revenue<sup>2</sup>**

**€m 442 EBITDA<sup>2</sup>**

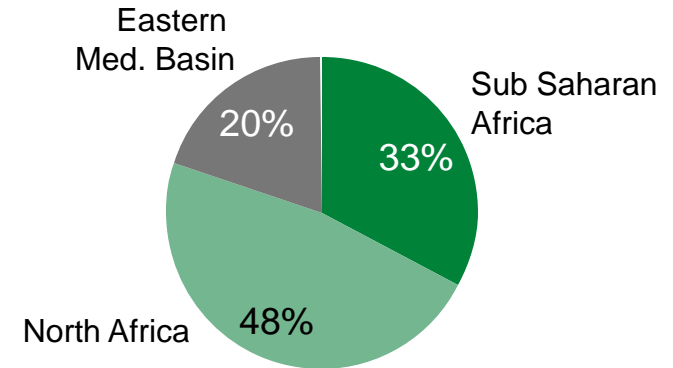
1) Incl. joint ventures

2) Proforma LTM rolling as of September 2016

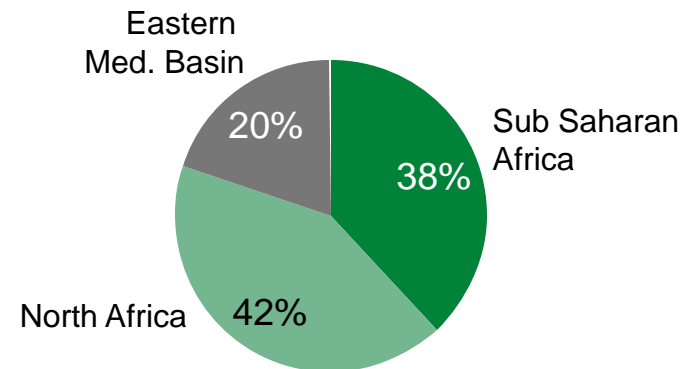
# ITC integration – Balanced product mix



## Revenue contribution



## EBITDA contribution

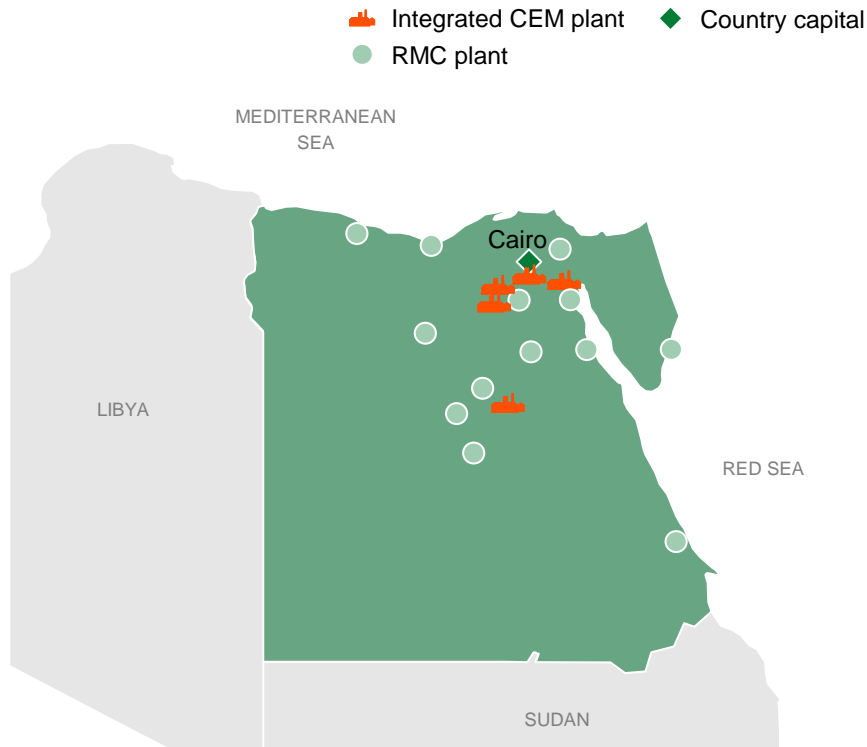


**Well-diversified portfolio across both industrialised and emerging markets with strong focus on vertical integration in the future**

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# Egypt – High potential operations



## Operations

- |                            |    |
|----------------------------|----|
| ■ Integrated Cement plants | 5  |
| ■ Ready-mix plants         | 20 |



## Strategic position

### Market position & strengths

- Largest player with 14.5mt production capacity
- Strong presence in megacity Cairo (>20m metropolitan population) with three plants
- Five integrated plants located along the most populated Nile area

### Market trends

- Robust demand growth expected to continue, especially in Cairo area
- Competition is expected to increase in mid-term due to new government licenses
- Strong GDP growth in mid-term (2016-2020: CAGR 5.0%)

### Opportunities

- High energy cost saving potential of up to USDm 20 p.a., by investing into coal mill to optimise fuel mix
- Potential future synergy savings on fixed costs
- Improvement of logistics network and export options

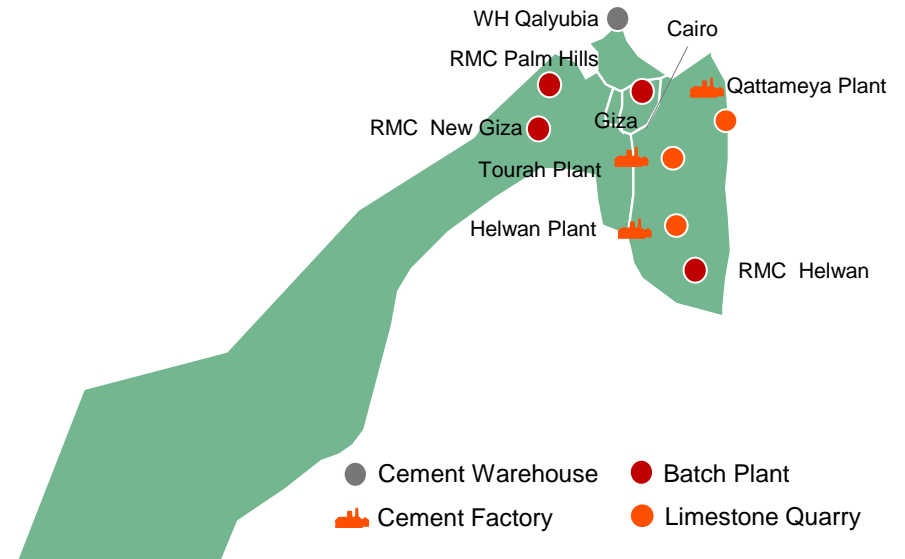
# Strong vertically integrated market positions in Cairo, Egypt

## Footprint

- Total capacity of 12mt of grey cement
- 3 grey cement plants in the heart of the city
- 1 warehouse located in Delta
- 20 batching plants, located around Cairo
- 1 white cement plant with 500kt capacity, 250 km from Cairo
- 2 bag factories with 300 mm bags capacity

## Market position

- Strongest player in Cairo and Egypt
- Extensive geographical footprint covering all main cement markets in Suez, Delta, Cairo and Minya
- Ready-mix company supplies to all the megaprojects and main infrastructure works of the country
- Strongest brand equity among competitors: Suez, Helwan and Tourah cement
- Integrated from quarry to market – including production of bags and transportation



# Morocco – Vertically integrated with excellent reputation

-  Integrated CEM plant
-  AGG plant
-  Country capital
-  Grinding plant
-  RMC plant



## Operations

■ Integrated Cement plants	3
■ Grinding plants	2
■ Aggregates plants	4
■ Ready-mix plants	26



## Strategic position

### Market position & strengths

- Largest player in southern Morocco
- Well-positioned in metropolitan areas (e.g. Agadir, Casablanca, Marrakech)
- Strong vertical integration across cement, AGG and RMC operations




### Market trends

- Government spending on large infrastructure projects will drive demand (e.g. highways, harbours program)
- Several major infrastructure projects about to commence
- GDP growth (2016-2020: CAGR: 4.5%)

### Opportunities



- Cost savings through use of alternative fuels
- Strengthen intercompany alliance with HC Trading to realise export potential
- Potential to improve logistics and sourcing

# Sub-Saharan Africa – Strong growth outlook

-  Integrated CEM plant
-  Country capital
-  Grinding plant



## Operations

-  Integrated Cement plants 4
-  Grinding plants 8



## Strategic position

### Market position & strengths

- Strongest player in majority of region
- Geographically advantageous position to supply megacities (e.g. Dar es Salaam, Accra)
- Local raw material reserves to cover future demand growth
- Strong local brands (e.g. Ghacem)

### Market trends


- Increasing cement demand due to high population growth rates
- Price pressure expected due to new local competitors and increasing overcapacities
- Oil prices are critical for growth
- GDP growth (2016-2020: CAGR: 3.7%)

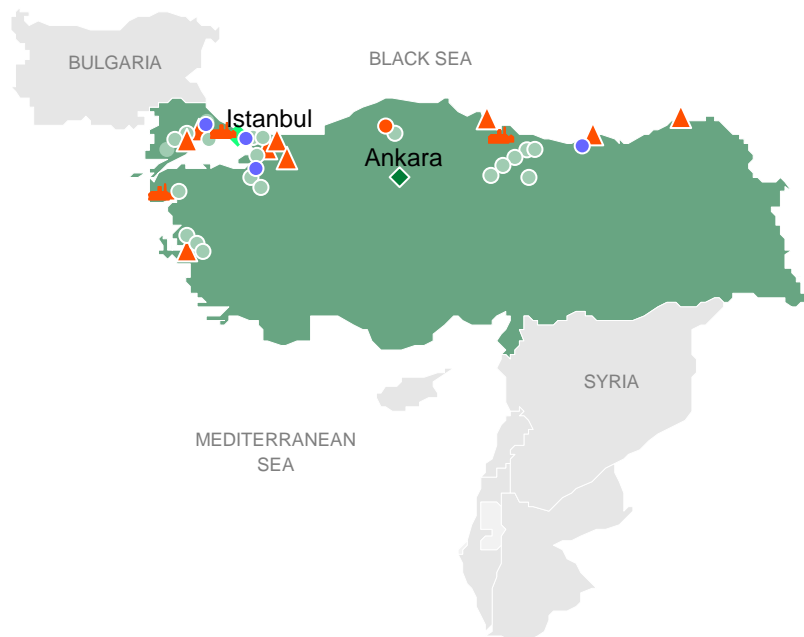
### Opportunities

- Cement consumption per capita is increasing from low levels <100 kg
- Critical need for infrastructure
- Synergy potential between neighbour countries to be evaluated (e.g. Shared-Service Centres)



# Turkey – Key market in Mediterranean basin

-  Integrated CEM plant
-  AGG plant
-  Country capital
-  CEM terminal
-  RMC plant
-  Major city
-  Grinding plant



## Operations

■ Integrated Cement plants	3
■ Grinding plants	1
■ Cement terminals	9
■ Aggregates plants	4
■ Ready-mix plants	38



## Strategic position

### Market position & strengths

- Strongest player in most populated areas (e.g. Marmara/Istanbul)
- Supplier of major projects (e.g. 3<sup>rd</sup> Bosphorus bridge, 3<sup>rd</sup> airport)
- Well established brand in local and export markets

### Market trends

- Residential sector is expected to grow significantly with a CAGR of 4.3% (2016-2020)
- Increasing competition from newcomers
- The government is spending on infrastructure
- Robust GDP growth (2016-2020: CAGR 3.2%)

### Opportunities

- Geographically positioned to supply future big projects (e.g. Canakkale bridge, Channel Istanbul)
- Additional export potential to supply clinker for operations in Western Africa and United States of America

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# Egypt is the largest cement market in Africa

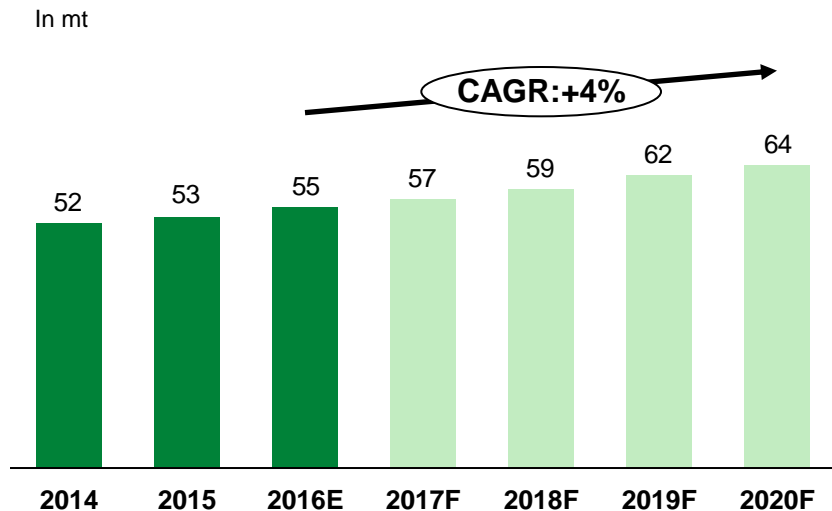
## Situation

- Established management with a strong track record
- Synergy savings from integration on target
- Investments in cost saving technology (e.g. coal mill) ongoing
- Well-diversified product portfolio (grey cement, white cement, sulphide resistant cement)

## Outlook

- Geographical advantage for supplying new mega projects (e.g. New Cairo)
- IMF deal expected to contribute to Foreign Direct Investments
- Cement demand is expected to continue its upward growth path

## Cement demand



# Population growth to increase cement consumption in Africa

## Situation

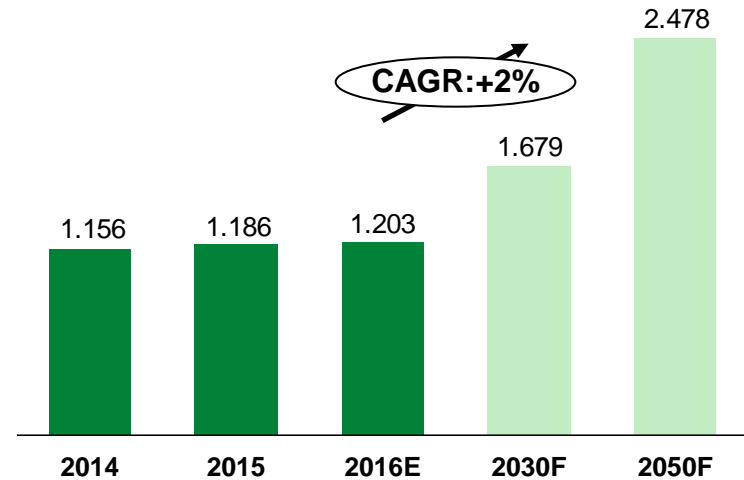
- Demonstrable correlation between cement demand and population growth
- Cost savings achieved from operational excellence (e.g. Group projects)
- Outperforming integrated plants in Western and Eastern Africa
- Increasing number of local competitors
- Volatility of local currencies
- Oil price decline affects overall demand growth

## Outlook

- Fastest growing population, expected to reach a population of ca. 2.5bn in 2050
- Trend for urbanization to be continued, from currently ca. 40% to > 55% in 2050
- HC expansion options in existing and new countries evaluated on continuous basis
- Consolidation of market players expected in short/mid-term
- No major impact on imports expected; development of freight rates is closely monitored

## Population growth

In m



# Africa-Eastern Mediterranean Basin

Hakan Gurdal, Member of the Board



**HeidelbergCement Capital Markets Day  
London, 10 November 2016**

# Driving Growth and Shareholder Returns

Dr Lorenz Näger, Group CFO



**HeidelbergCement Capital Markets Day  
London, 10 November 2016**

# Disclaimer

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 underlying assumptions. 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.

By their very nature, forward-looking statements and information are subject to certain risks and uncertainties. A variety of factors, many of which are beyond HeidelbergCements' control, could cause actual results to differ materially from those that may be expressed or implied by such forward-looking statement or information. For HeidelbergCement particular uncertainties arise, among others, from changes in general economic and business conditions in Germany, in Europe, in the United States and elsewhere from which we derive a substantial portion of our revenues and in which we hold a substantial portion of our assets; the possibility that prices will decline to a greater extent than currently anticipated by HeidelbergCements' management as a result of continued adverse market conditions; developments in the financial markets, including fluctuations in interest and exchange rates, commodity and equity prices, debt prices (credit spreads) and financial assets generally; continued volatility and a further deterioration of capital markets; a worsening in the conditions of the credit business and, in particular, additional uncertainties arising out of the subprime financial market and liquidity crisis; the outcome of pending investigations and legal proceedings and actions resulting from the findings of these investigations; as well as various other factors. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement or information as expected, anticipated, intended, planned, believed, sought, estimated or projected.

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

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# Delivering growth, performance and shareholder returns

## Strengthened profitability –

EBITDA margin of HC increased to 20% (LTM)<sup>1</sup>

**Synergy targets for ITC increased, implementation ahead of schedule**

**Growth of free cash flow** contributes to a strong financial base

Clear focus on reduction of **net debt & leverage** – **Solid Investment Grade rating**

Significantly improved **dividend payment** – **Share price outperformed DAX and peers**

**HC is standing  
on solid ground  
and is well  
positioned for  
the future**

<sup>1</sup>) HC stand alone without ITC

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# ITC acquisition highly exceeding expectations

## Acquisition of ITC completed – HC fully in control

- MTO successfully completed, ITC delisted, managing board restructured



## Disposals on track – proceeds exceed target by more than €m 100

- Disposal proceeds of €m 1,140 (previous target €m 1,000)



## Significantly higher synergy potential identified

- Synergy potential of €m 400+ validated (previous target €m 175)



## Realisation of synergies in 2016 ahead of schedule

- Reduction of 1,500 FTEs expected for 2016 (previous target 460)



## New organisational structures implemented

- Old ITC HQs closed by YE, remaining functions moved to other existing locations



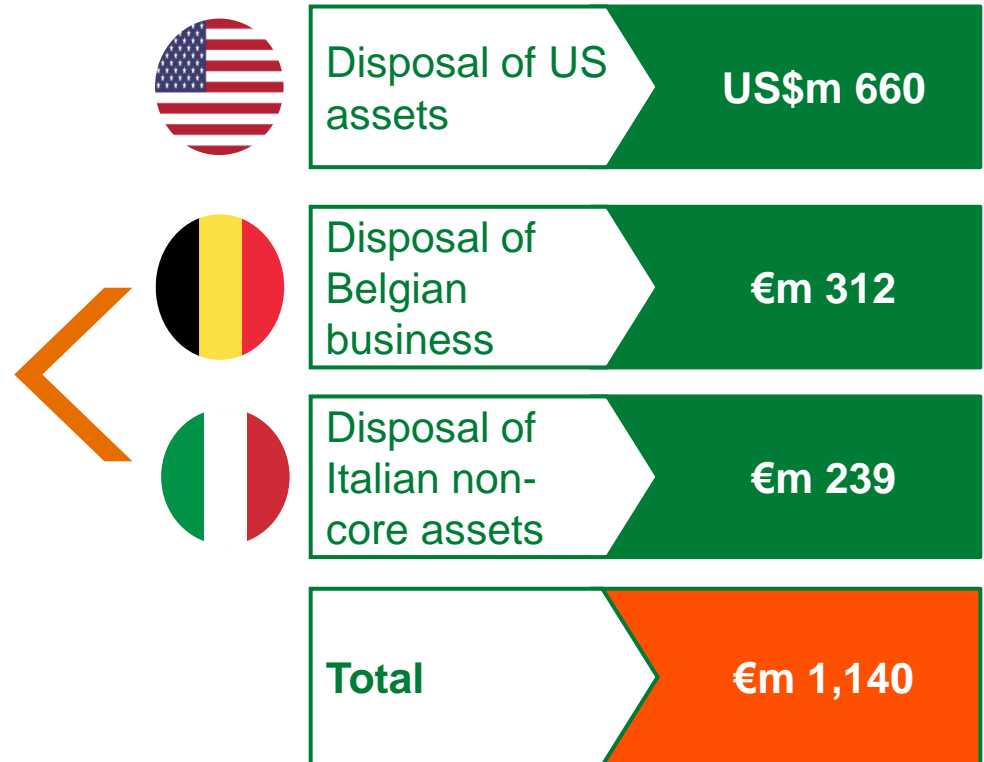
**ITC acquisition completed, more synergies identified with realisation ahead of schedule**

# Disposals on track

## Expectations at signing



## Actual disposal proceeds



Disposal proceeds exceed target by more than €m 100

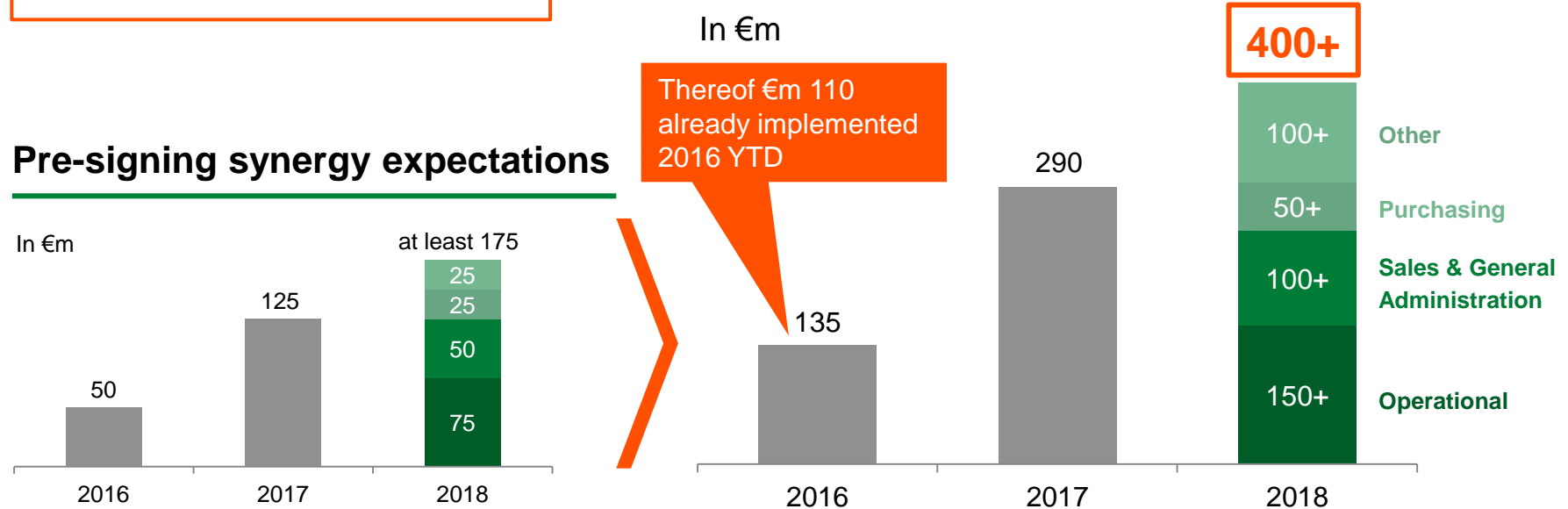
# Synergies of €m 400+ – Significantly more than expected

## Key Drivers

- Higher than expected synergies in initial categories (e.g. Operations, SG&A, Purchasing)
- Identification of additional synergies from Trading, Finance and Market

~10% of target revenue  
= best in class

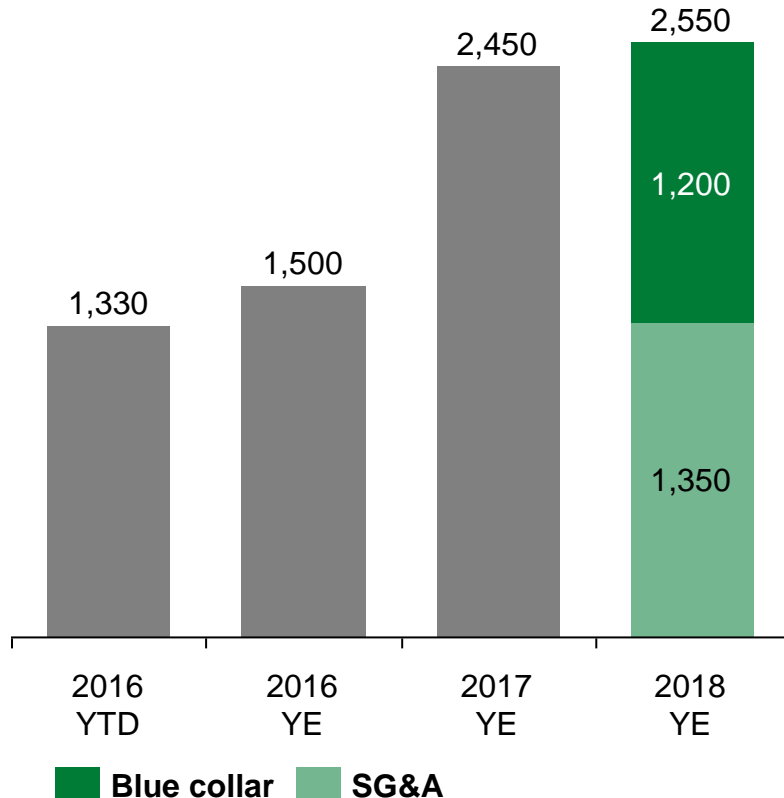
## Updated run-rate synergy expectations



**Status: All synergies substantiated with detailed implementation plans and 100% commitment of local owners**

# Staff reductions ahead of plan in time and numbers

## Expected staff reductions (FTE)



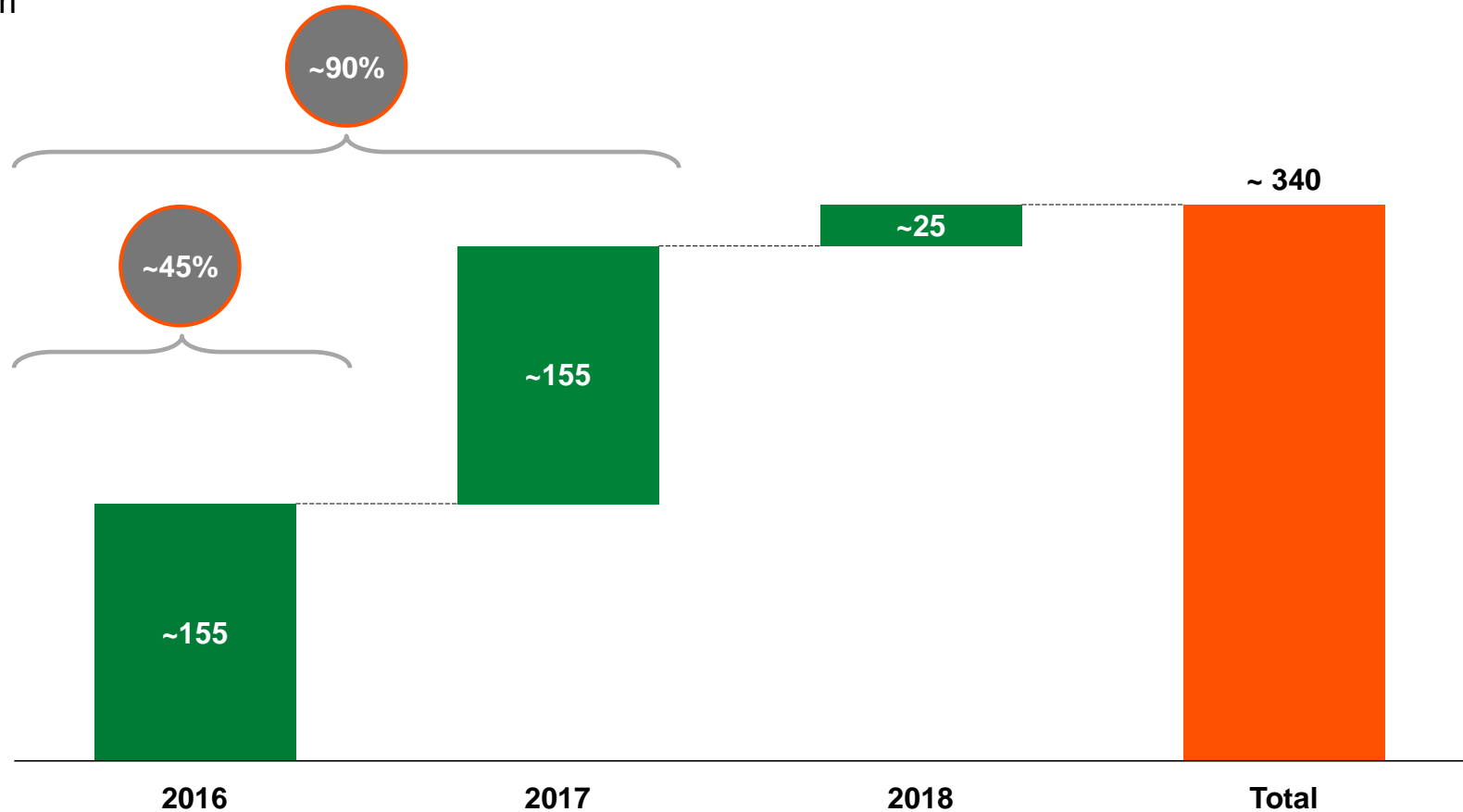
## Key levers

1. Closure of duplicate offices (HQ/local)
2. Benchmark-based adjustments
3. Reduction of external contractors

**SG&A / Blue Collar – First wave significantly faster than planned**

# Majority of implementation costs incurred in 2016 & 2017

In €m



Full synergy benefit from 2019



# Potential of new HC Group

Focus on ROIC and building shareholder value

Earn premium on WACC and continuously increase shareholder return

Identified additional synergy potential and raised target to €m 400+

Further reduction of OPEX resulting in an increasing EBITDA margin

Successful completion of ITC acquisition and on track with integration

Leverage capacity, Group know-how, resources and strengthen operational excellence

Solid financial basis

Further deleverage to support Investment Grade rating

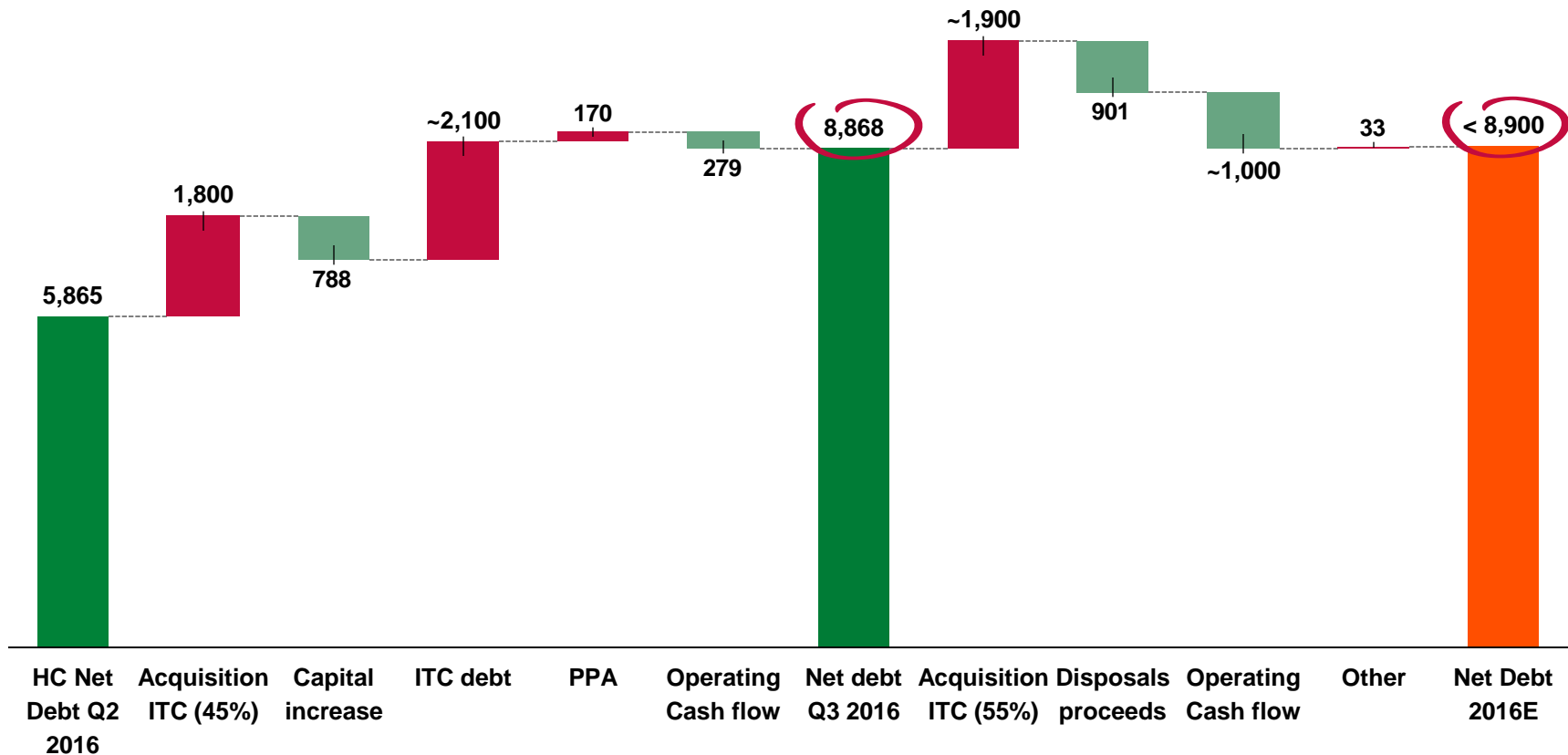
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# Acquisition related increase in net debt to around €m 8,900

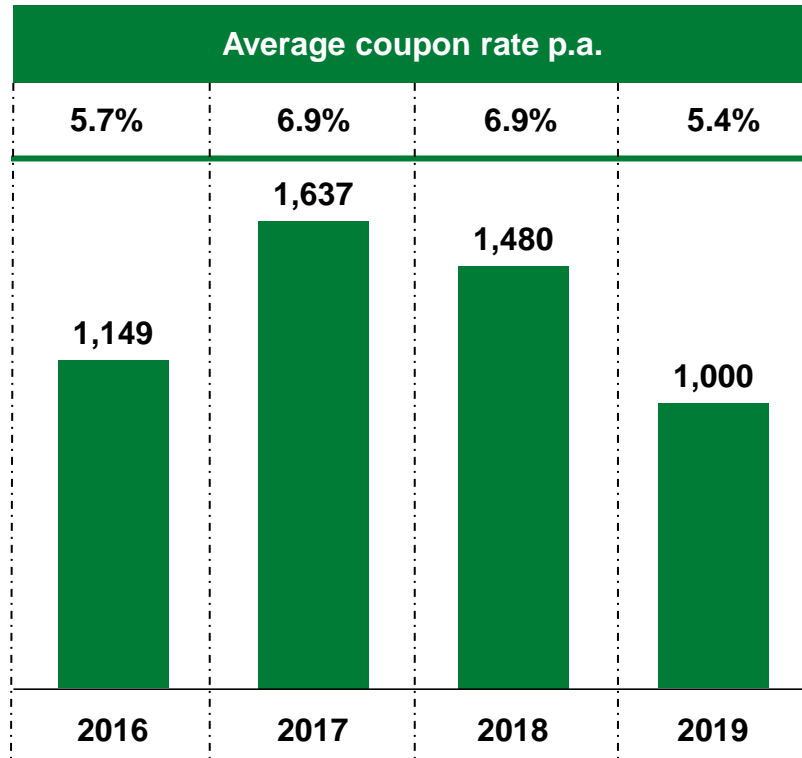
In €m



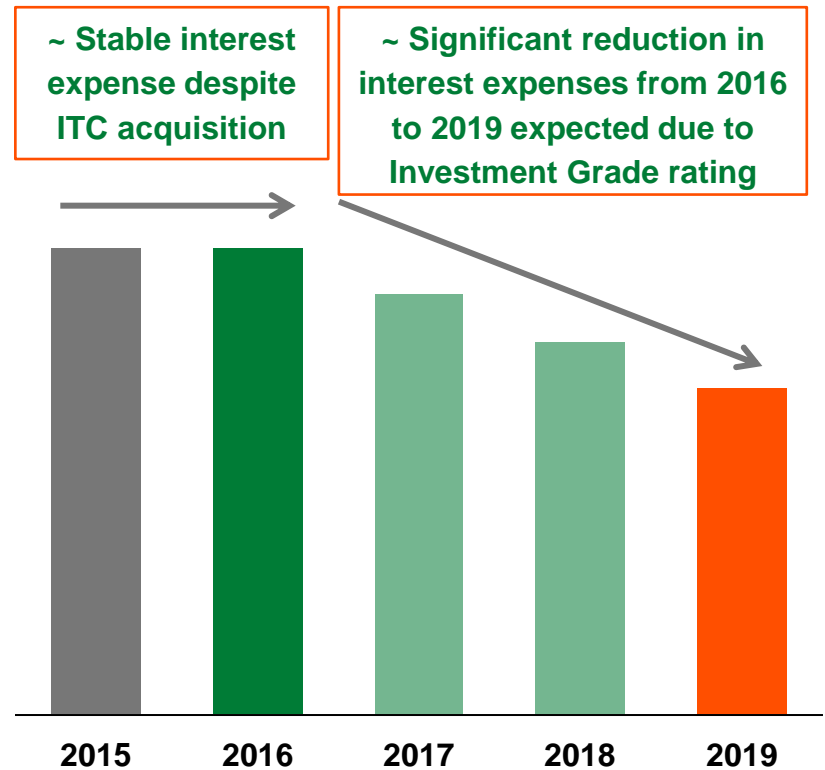
Development of net debt within expectations

# Refinancing at favourable market conditions

## Bond maturity profile (in €m)



## Interest expense<sup>1</sup> (in €m)

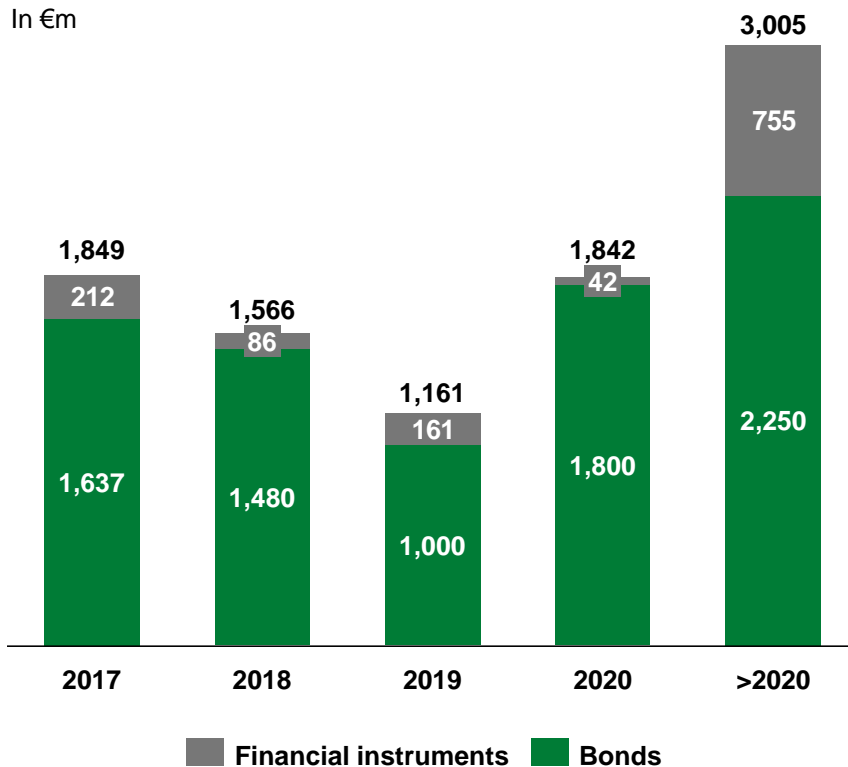


**Significant decrease in interest expense as HC pays back high coupon bonds and benefits from Investment Grade rating**

1) Exemplary calculation for bonds and debt certificates only; assumes refinancing of maturing bonds with a 2% coupon rate and deleveraging of €m 500 per year

# Upcoming refinancing in 2017

## Debt maturity profile<sup>1</sup>



## Refinancing plan

- Update EMTN Program in November
- HC bond of €m 1,000 due in Jan 2017
- ITC bond of €m 500 due in April 2017
- Looking for a window with favourable conditions
- Additional benefits from Investment Grade rating

**A well-balanced debt maturity profile ensures financial flexibility and provides room for refinancing at attractive conditions**

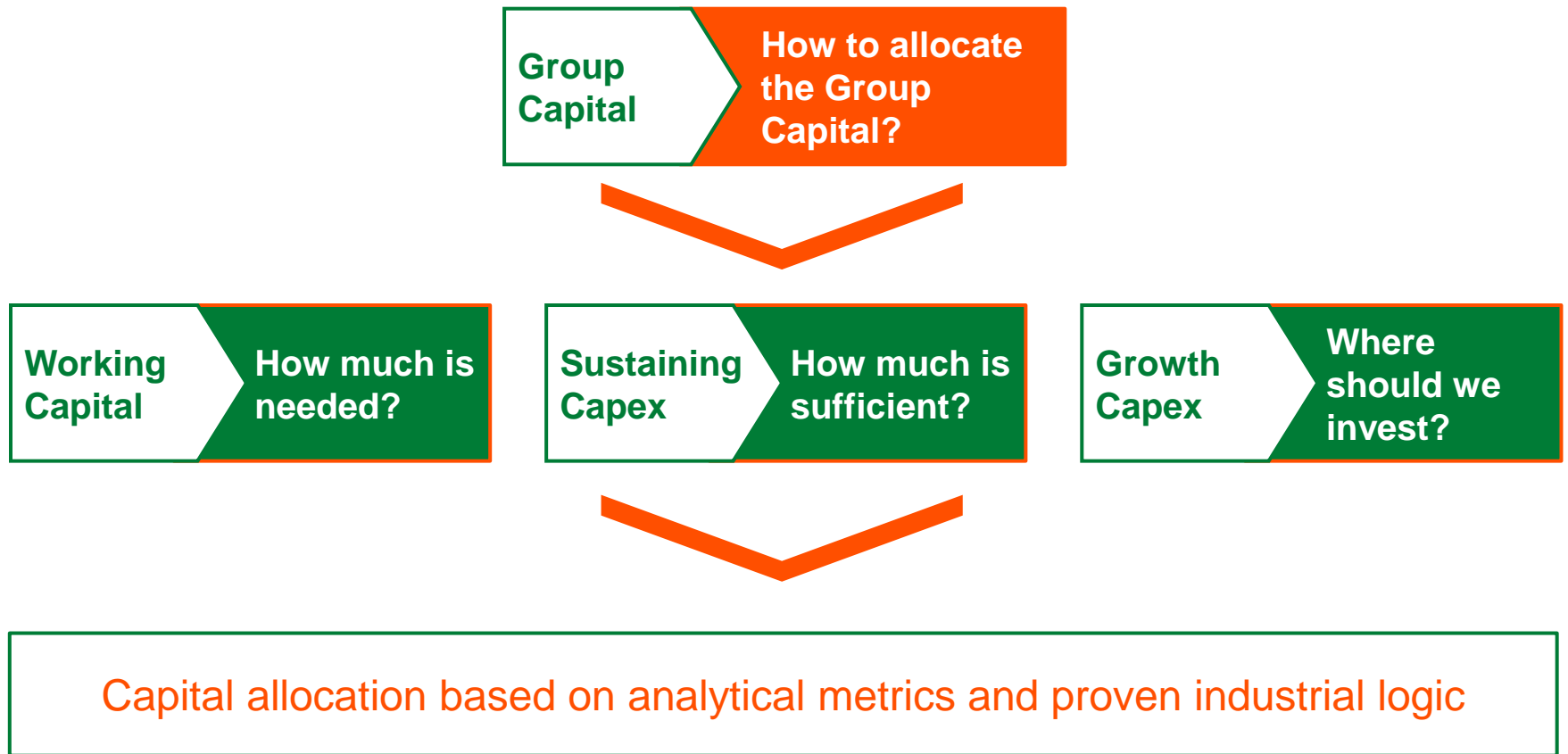
1) Excluding: reconciliation adjustments of liabilities of €m152; derivative liabilities of €m 75.8; puttable minorities of €m 85.7

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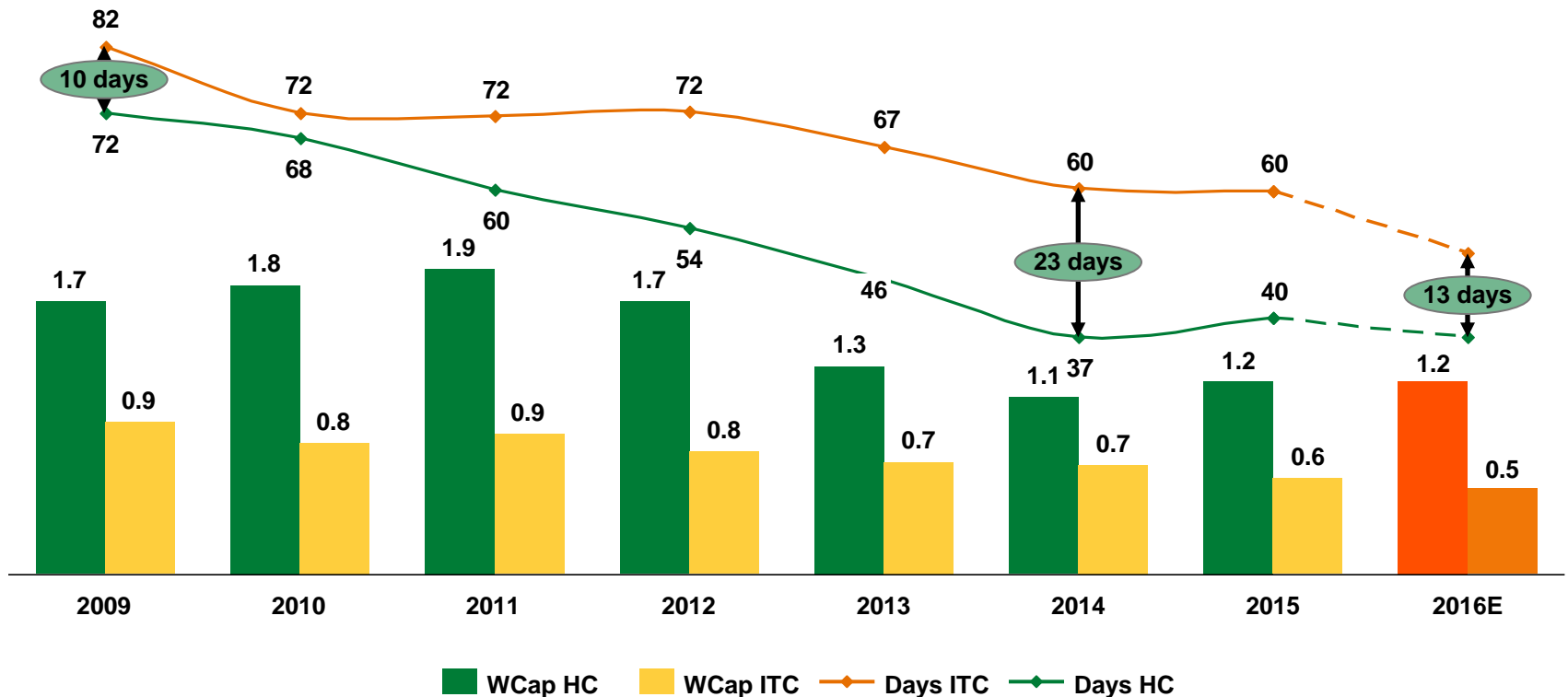
# How to achieve capital allocating in the Group



**A reasonable capital allocation is the basis for success**

# Strict working capital management

Working capital  
per quarter (€bn)

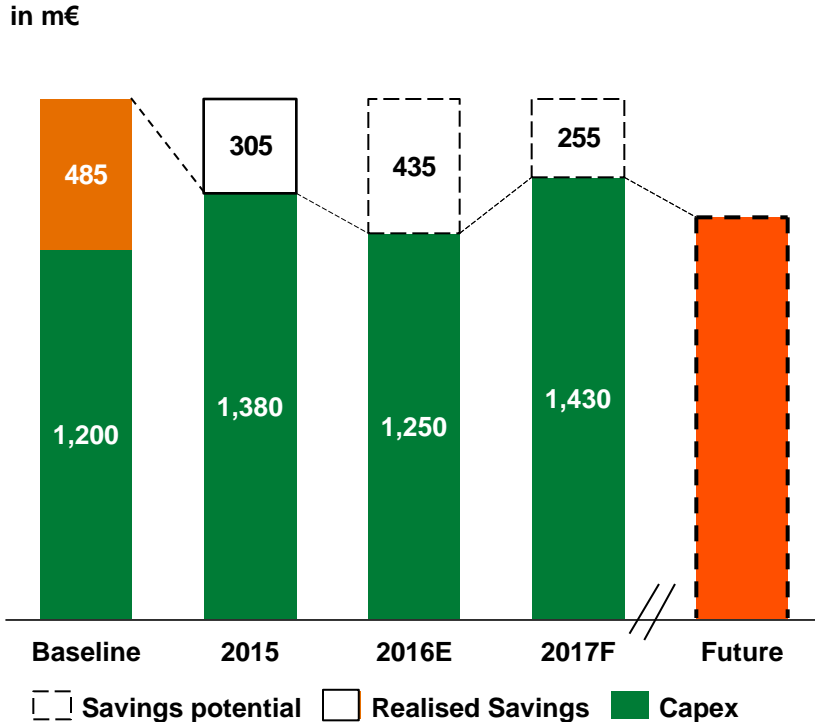


**First improvements at ITC visible, but there is still significant potential to free-up cash by strict working capital management**



# Reasonable and disciplined Capex spending

## Capex expectations<sup>1</sup>



## Key Points

Reduction of combined Capex to a level clearly below the combined level of HC and ITC before the acquisition

Goal is to **achieve the Capex saving targets of €bn 1.3** as announced when acquiring ITC

Definition of **clear investment criteria** and focus on **Capex projects** that **create value** for the company

**No planned deviation from disciplined Capex approach  
with positive impact on Cash Flow**

1) Combined Capex of ITC and HC

# Continuing to grow with selected projects

## Key projects

**Greenfield and Brownfield** projects with a focus on strengthening market position in growing markets

**Bolt-on acquisitions** in urban city centers to create integrated supply chain positions

**M&A** focusing on new markets to further balance and grow geographical footprint

## Investment Criteria

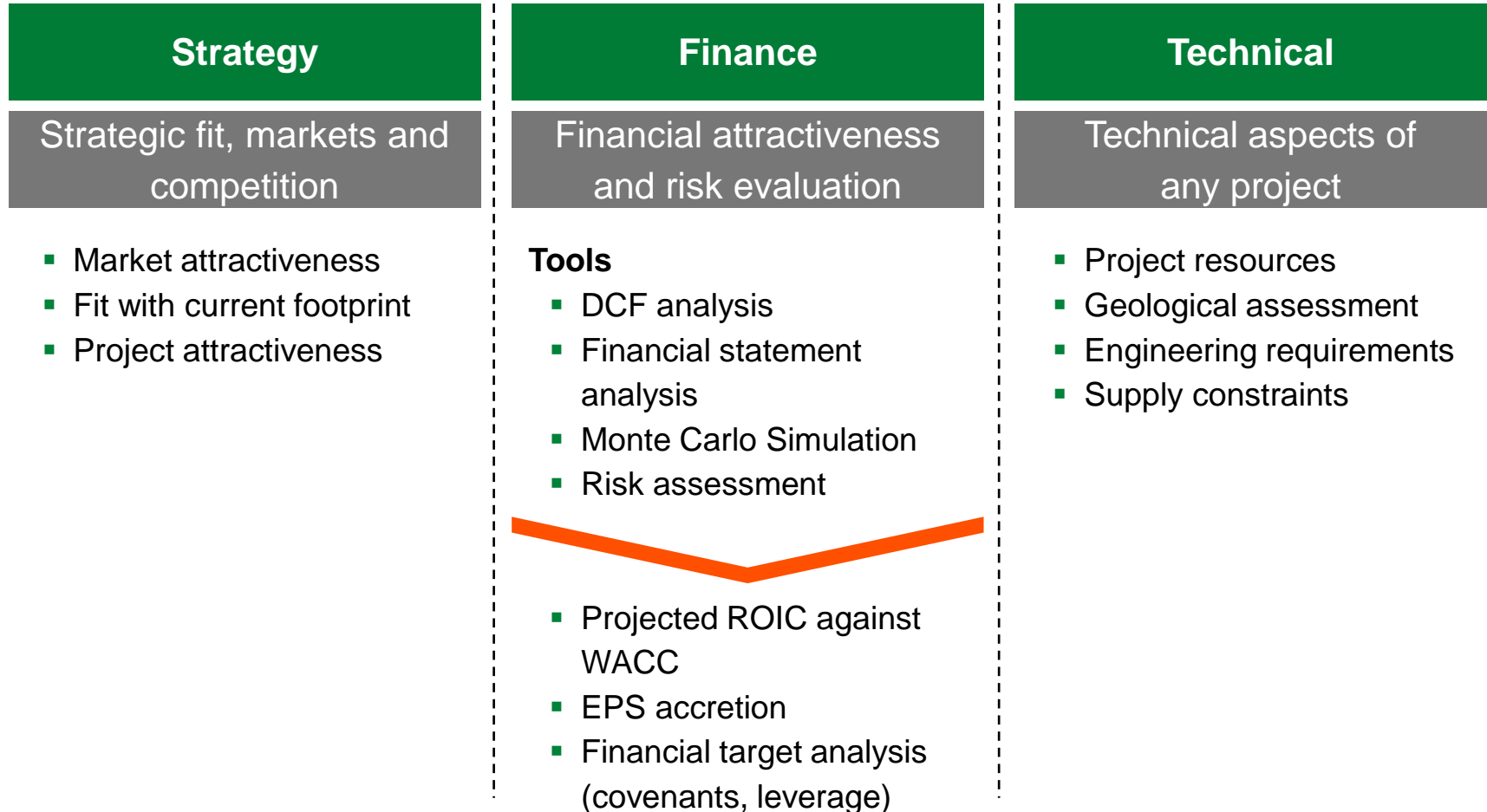
**ROIC > WACC by 3rd year of operation**

**Group net profit (accretive)**

**Strong free cash flow generation**

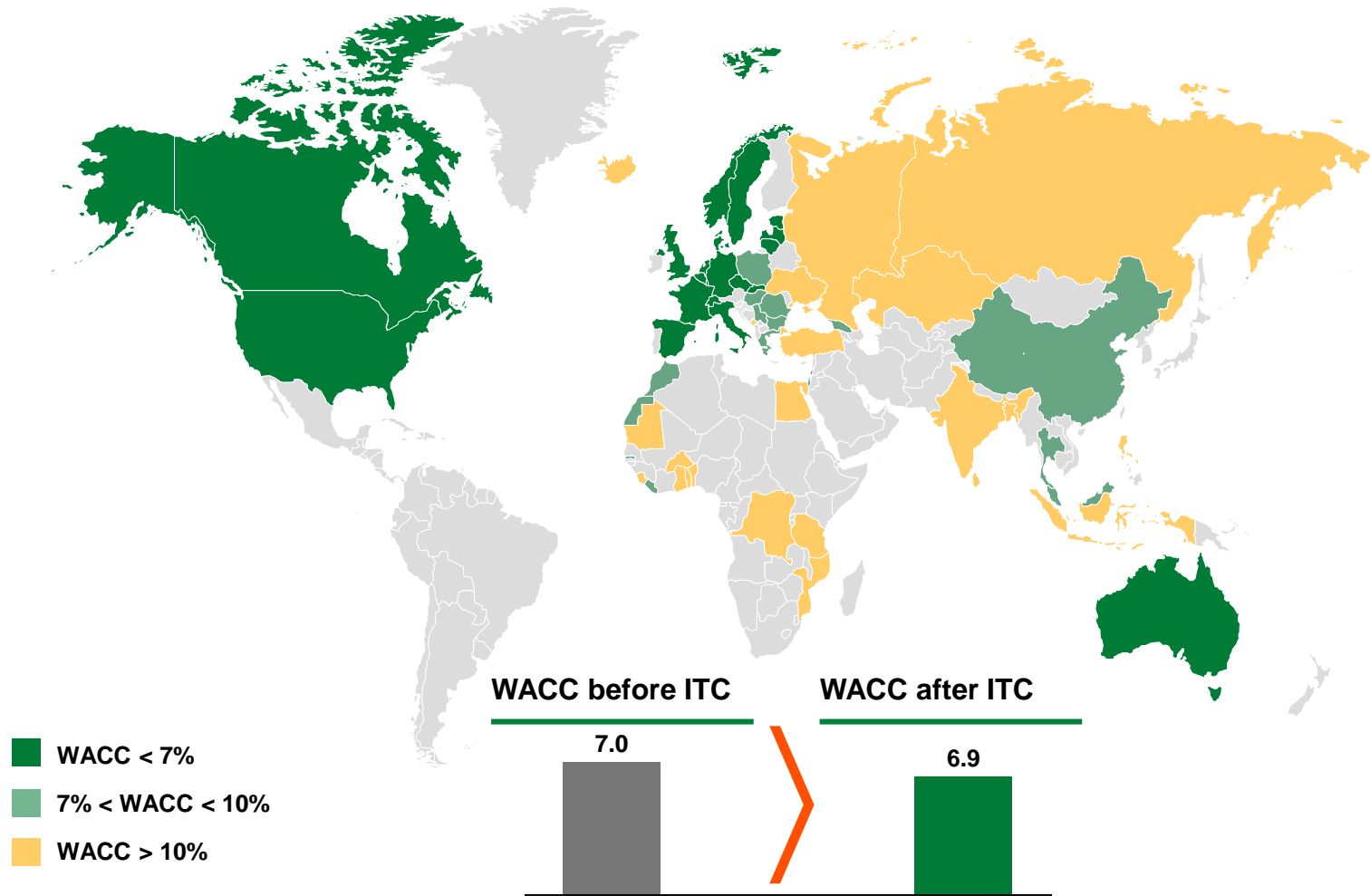
**Focus on value creation – disciplined Capex approach  
based on clear investment criteria**

# Targeted and disciplined approach to investment projects



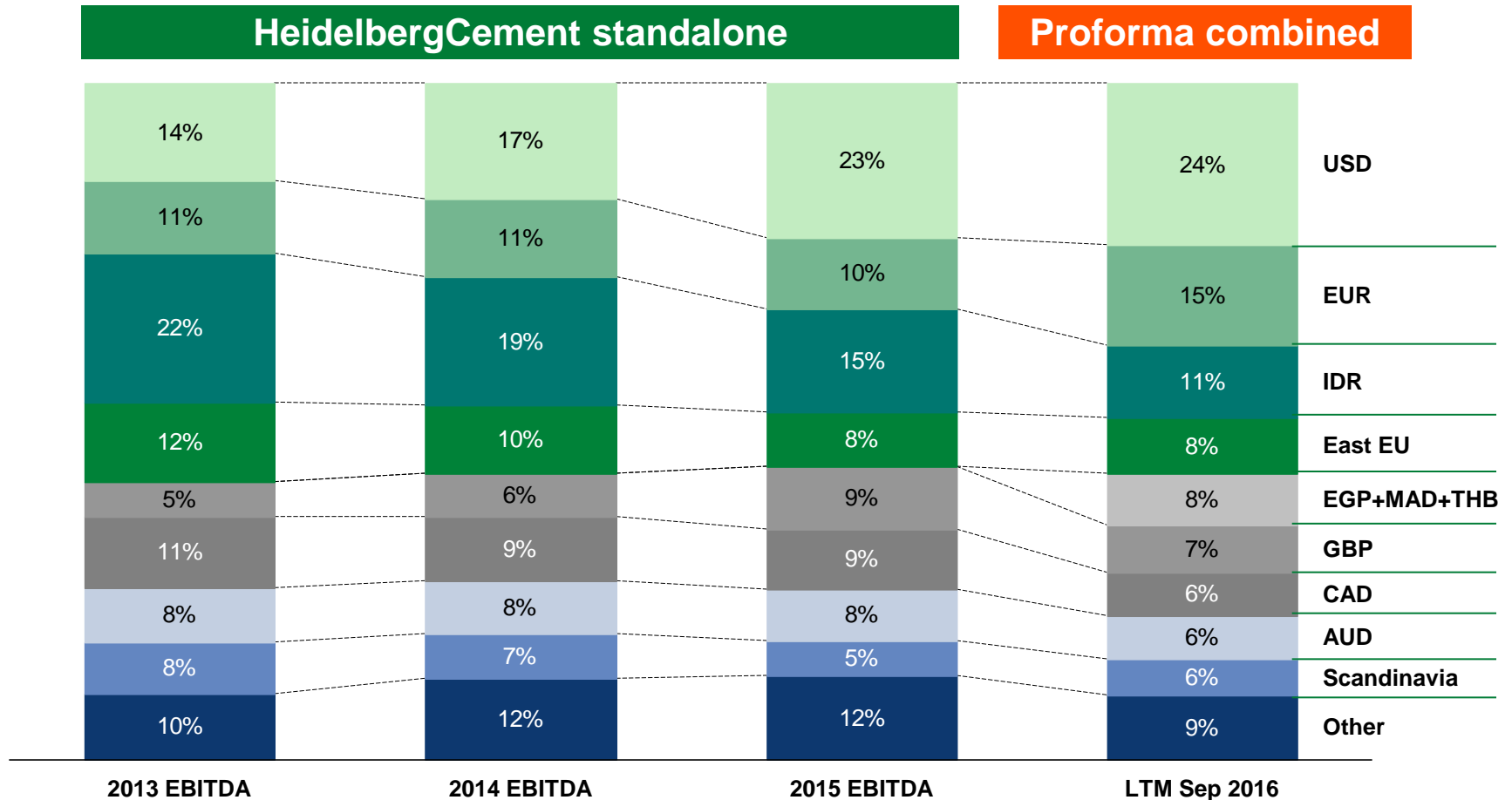
**A stringent analysis of all potential investments ensures that Capex projects meet targets**

# The ITC acquisition improves HC's geographical balance



The ITC acquisition strengthens HC's geographical footprint and balance by diversifying the risks and sources of income

# ... and better balances HC's currency portfolio



Well balanced EBITDA generation

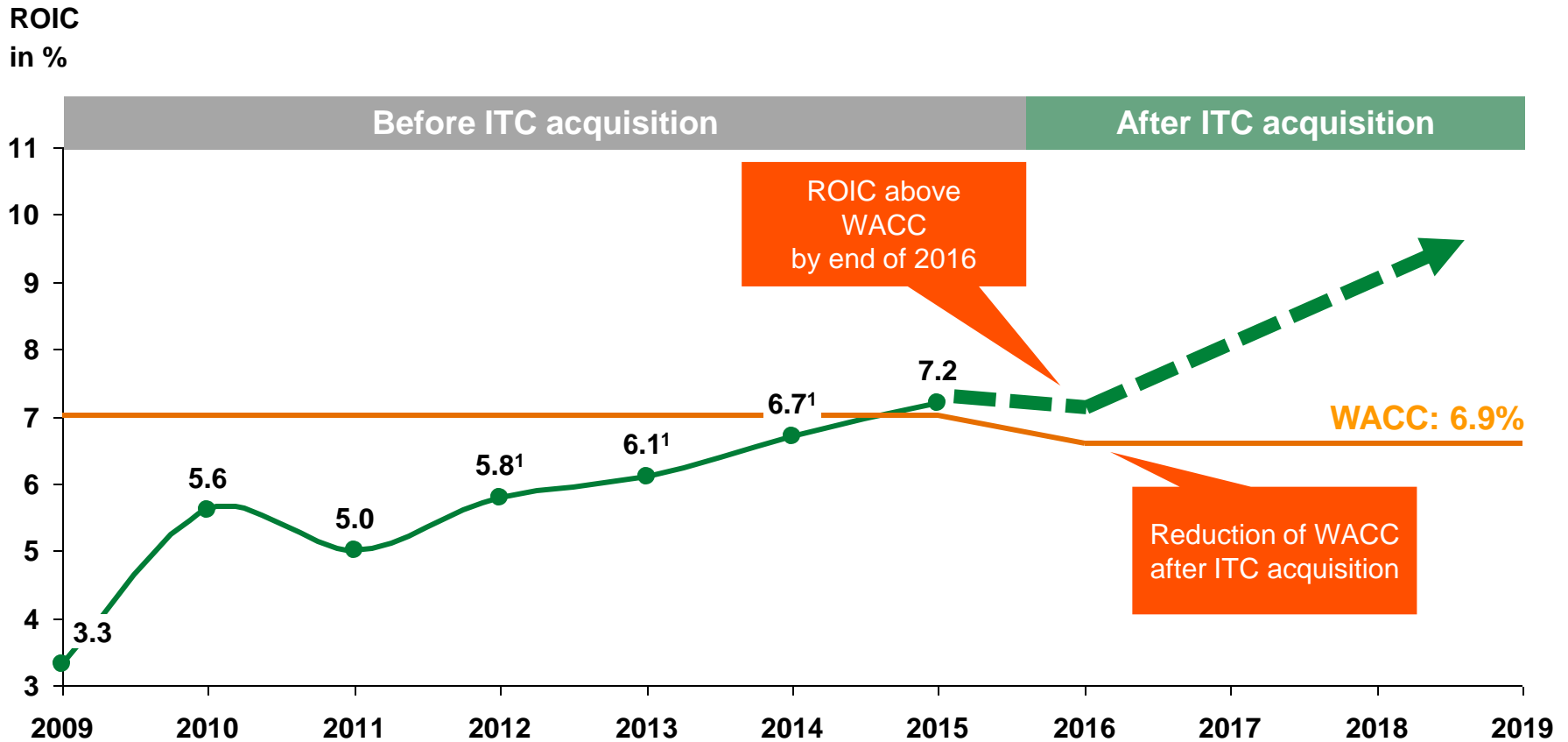
# Development of ROIC

	Dec 2012	Dec 2013	Dec 2014	Dec 2015	Sept 2016
<b>Invested Capital<sup>1</sup></b>	21,063	20,086	21,311	21,271	25,460
<b>Turnover</b>	14,020	12,128	12,614	13,465	14,319
<b>Asset turnover</b>	66.6%	60.4%	59.2%	63.3%	56.2%
<b>OPAT<sup>2</sup></b>	1,222	1,225	1,428	1,532	1,698
<b>EBIT margin</b>	8.7%	10.1%	11.3%	11.4%	11.8%
<b>ROIC</b>	5.8%	6.1%	6.7%	7.2%	7.0%

**A high asset turnover is a key lever to increasing the ROIC,  
even when the EBIT margin is stable**

1) Sum of Equity and Net Debt (at the end of the quarter) / 2) Operating profit after tax = sum of EBIT (excl. AOR) and tax payments (12 months)

# Creating value and earning cost of capital



Increasing the ROIC and earning a significant premium on our cost of capital is a main target for HC

1) Adjusted for exceptional items

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## Confirmation of mid-term targets 2019

Revenues

€bn >20

EBITDA

€bn >5.0

ROIC

>10%

Leverage ratio

1.5x – 2.5x

Earnings per share

€ ~11

Dividend payout ratio

40 – 45%

Delivering attractive returns to shareholders

# Mid-term targets 2019 unchanged

Revenue	EBITDA	ROIC	Leverage	EPS	Payout ratio
> €bn 20	> €bn 5	>10%	1.5 – 2.5x	~ € 11	40% – 45%

## Downsides

- Market pressure in Indonesia
- Increased competition in Africa

## Uncertainties

- Impact of the elections in US, Italy, Germany and France
- Consequences of Brexit

## Upsides

- US infrastructure program
- ITC / increased synergies
- New efficiency programs “CCR” & “Sales is a Science”
- Recovery in Europe

Balanced macroeconomic outlook

# Strong free cash flow generation

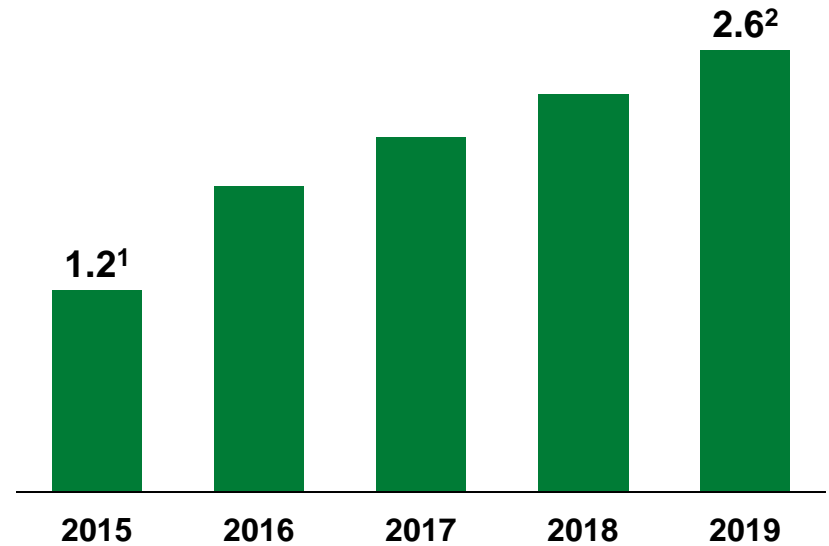
## Sources of cash

€m ~250 reduction in interest expense between 2014 and 2019

Total €bn 1.3 Capex savings in five years

Stronger operating cash flow generation

## Free cash flow generation in €bn



5 years cumulative FCF<sup>2</sup>

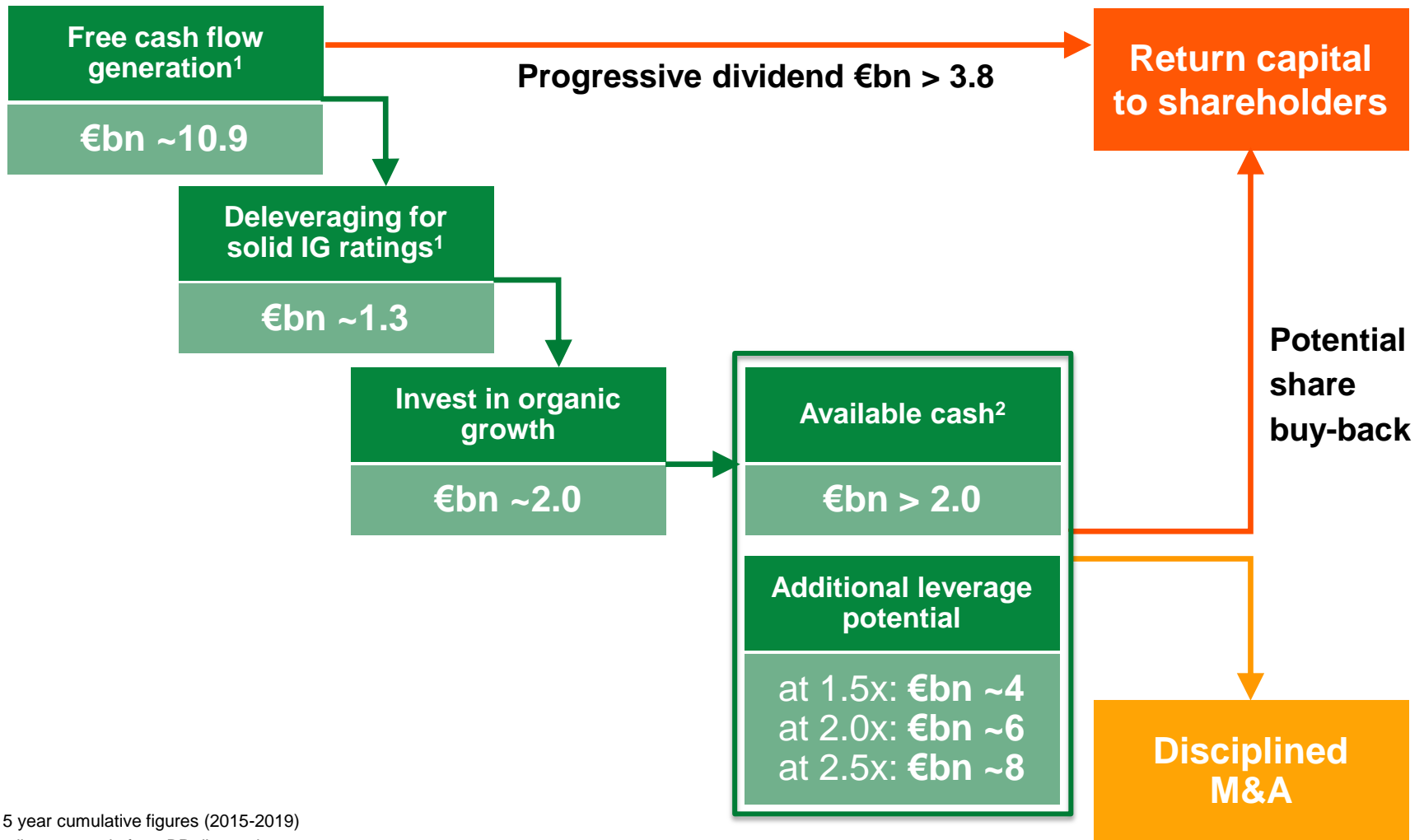
€bn >10

1) Excluding proceeds from Building Products disposal

2) Before growth Capex and disposals

# Shifting cash towards growth and shareholder returns

## Capital allocation strategy

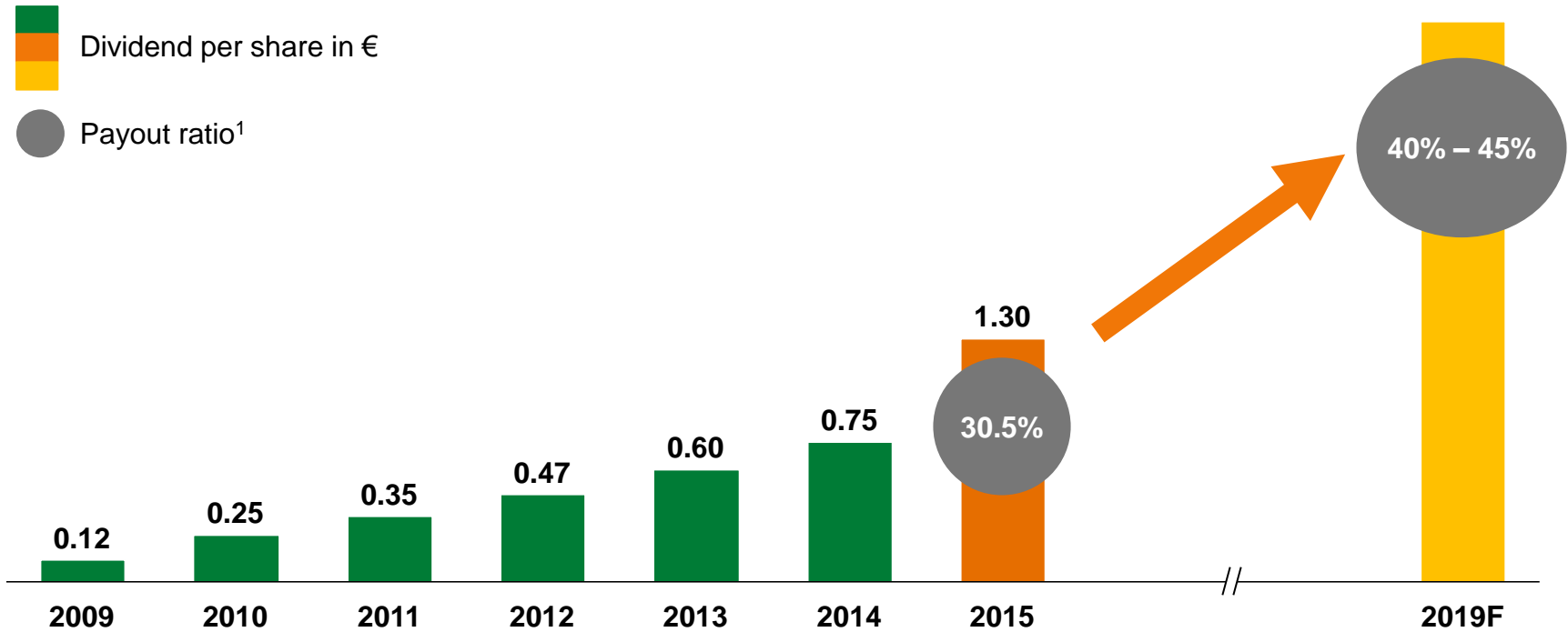


Notes: 5 year cumulative figures (2015-2019)

1) Excluding proceeds from BP disposal;

2) Cash available after minority dividend payments and excluding inflows from potential re-leveraging to target leverage ratio

# Sustainable dividend policy



**Stable dividend amount** → No decrease in absolute amount of dividend

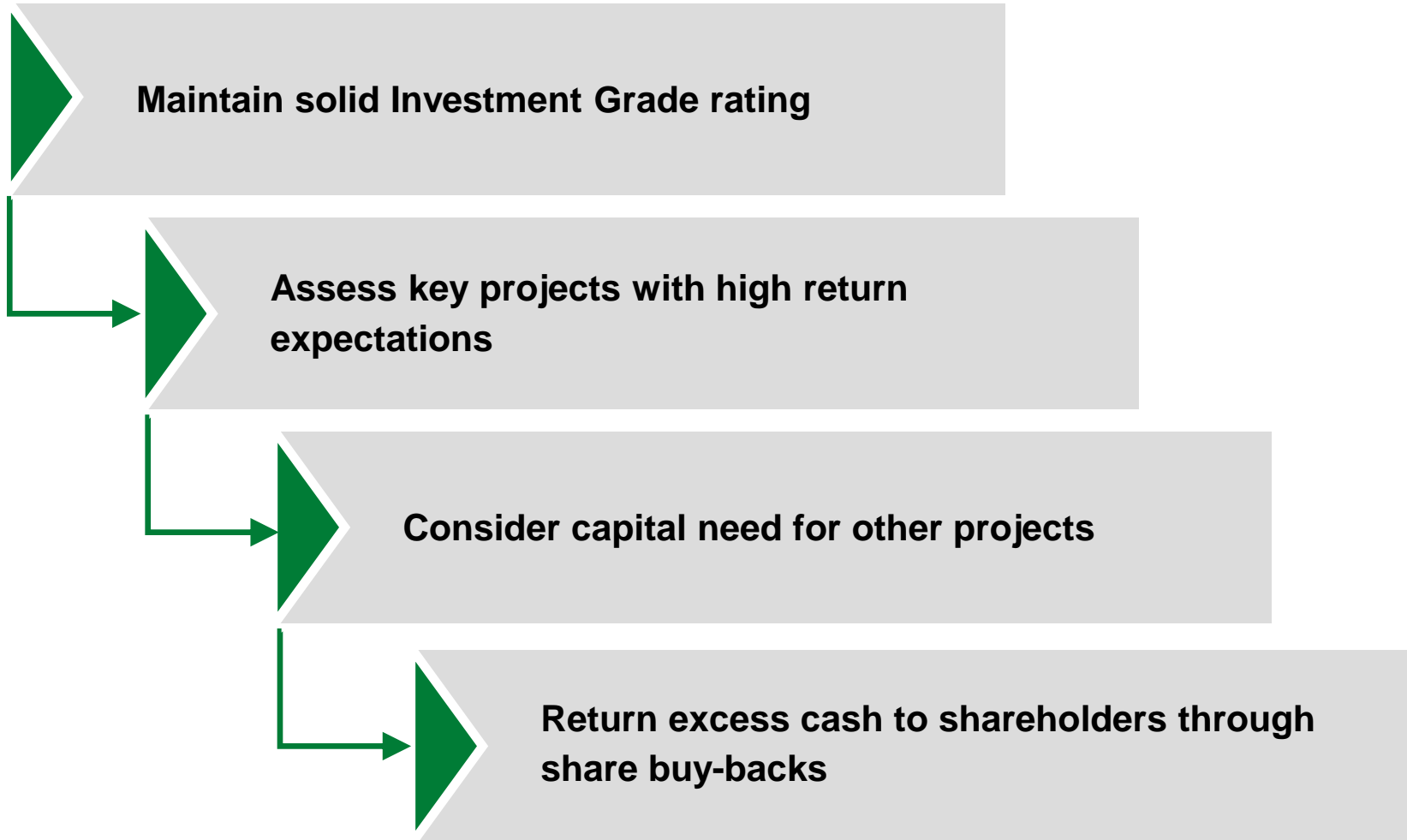
**Profit driven increases** → Increase in absolute dividend based on profit

**Achieve benchmark pay-out ratio** → Gradual increase in dividends to achieve target

**Dividends based on affordability and sustainability – We want our shareholders to take part in our success**

1) Payout ratio calculated based on clean EPS, excluding "Additional Ordinary Result"

# Share buy-back policy



# Driving Growth and Shareholder Returns

Dr Lorenz Näger, Group CFO



**HeidelbergCement Capital Markets Day  
London, 10 November 2016**