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23–25 May, 2007

## Europe Materials Developing Regions

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CRH

# Developing Regions

## *CRH Development Strategy*

- Initial focus on Cement
  - Proven entry point for CRH in emerging economies (e.g. Poland, Ukraine)
  - Meaningful first presence in industry with improving market practices
  - Leverage CRH technical & commercial knowledge
  - Strong platform to grow downstream CRH businesses
- Two principal market entry strategies for Cement
  - Pursue opportunities in attractive regions to build a substantial regional presence
  - Partner with larger groups with strong existing regional/national knowledge
- Move cautiously into downstream businesses over the medium-term
- Europe Materials pioneering CRH developing regions efforts

# Turkey

## Country Overview



- Large geographic area
  - 2x size Poland, 785K km<sup>2</sup>
  - 73M people, growing at 1.4% p.a.
  - 50% of population under 25 years
- Strong economic growth
  - Among highest in OECD
  - GDP growth +7% CAGR since 2002
  - Continued reform, outlook positive
  - FDI of US\$20bn in 2006
- Secular, democratic republic since 1923
  - Commercial and civil law based on Swiss/German systems, independent judiciary



# Turkey

## Construction Market Overview

- Strong recent construction growth

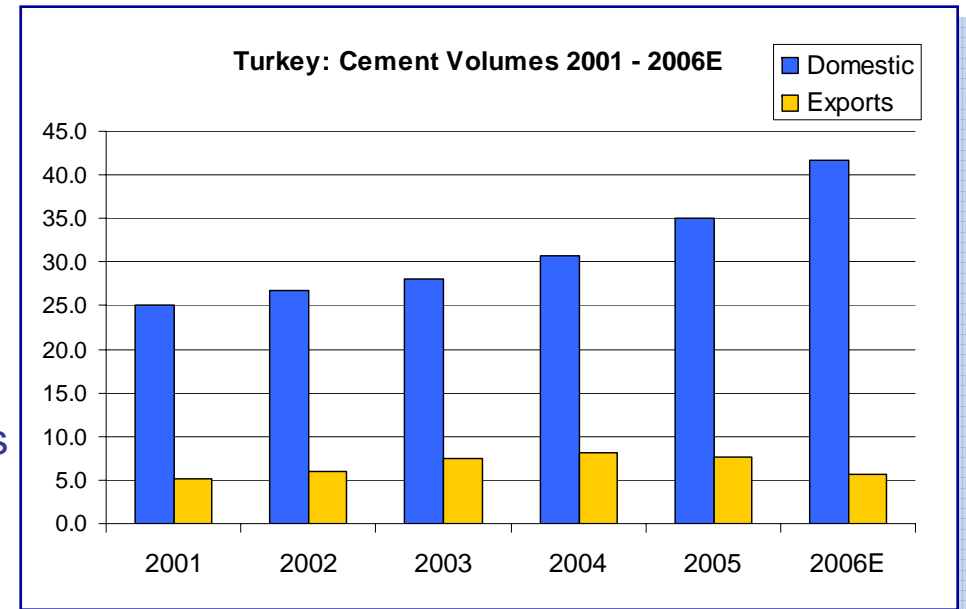
- Linked to strong economic growth.....
- .....still accounts for only c. 6% GDP
- Lower interest rates & new mortgage system driving Res. construction

- Europe's 3rd largest cement market

- Cement Consumption of 41.6 m tonnes
- 2006 demand increase of 20% y-o-y
- 570kg/person ..... lower than other Mediterranean countries

- Good medium-term growth potential

- Shortage of residential housing
- Large Civil/Infrastructure backlog
- Reducing household sizes & increasing internal migration/urbanisation



# Turkey

## *Aegean Region*

- Located along Southwestern coast
  - Higher growth rates than the rest of Turkey
  - Growing industrial/manufacturing base
  - Expanding centre for tourism
- Key Market Area for Denizli:
  - City of Denizli, population of c. 0.5 m
  - Population of c. 13M within 200km radius



● Denizli Cement Plant

▲ Denizli Readymixed Concrete

# Turkey

## *Denizli Cement*

- Acquisition of 50% of Denizli Cement
  - Completed April 2007
  - Integrated cement & readymixed concrete business
  - Market leader in Aegean region
  - First-class partner & management team
  - Joint management control
  - Pre-emption rights
- Excellent Assets
  - Modern cement plant, 1.8 m tpa
  - Limestone reserves 100+ million tonnes
  - 13 R'mixed Concrete plants, 1.3 m m<sup>3</sup>
  - Packing plant in Cyprus
- Strong base for further development over the medium-term



*Denizli Cement, Turkey*

# China

## *Country Overview*



- Population of 1.3 billion
  - Concentrated in south & east
  - Growing to 1.5 billion by 2050
  - 100+ cities with over 1 m people
- A rapidly changing society
  - 39% urban to 50% by 2010
  - 15 m moving to cities each year
  - Reducing household sizes  
(1993: 4.1 persons, 2003: 3.4)
  - New “middle class” of 100 m by 2010  
(income \$9,000+ p.a.)

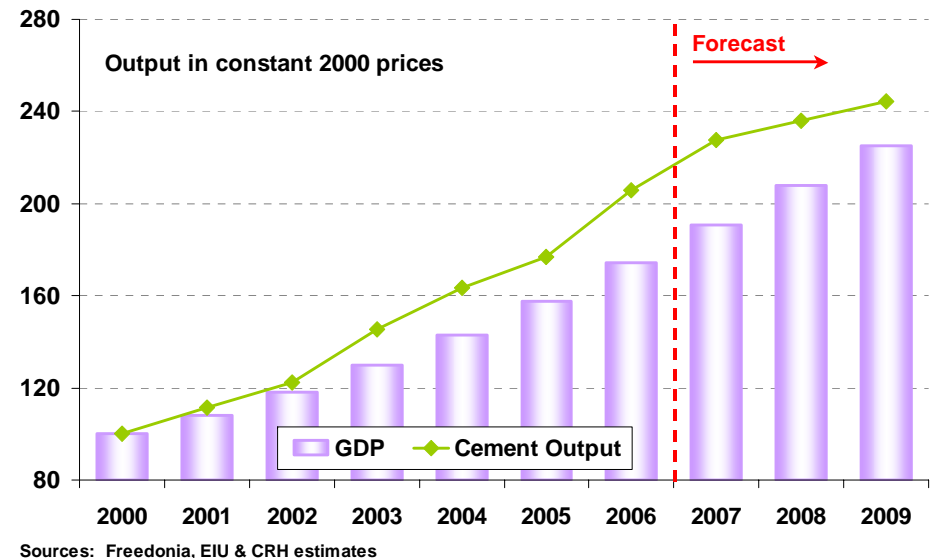


***.....A long-term growth opportunity for CRH.....***

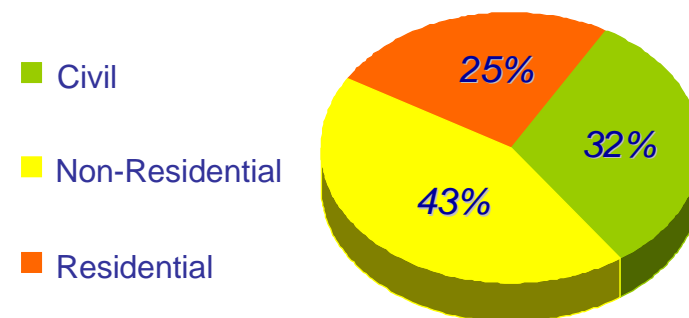
# China

## Construction Market Overview

- World's largest cement market
  - 1.2 Bn tonnes, 50%+ of global total
  - Volume growth of c.16% in 2006
  - 950kg/person (US:400kg, India:150kg)
- A fragmented industry
  - Top 10 players c.15% of production
  - Many regional markets
  - Over 5,000 cement plants, 60% of capacity in small/inefficient VSKs
- Challenges & Opportunities
  - Overcapacity & low prices evident in many markets
  - Ongoing consolidation
  - Continued acceptance of low quality



Total Construction Market €309Bn (18% GDP)



# China

## *Regional Strategy*

- Regional Strategy
  - Reviewed China's 32 provinces over a 2-year period.....
  - .....to identify the most suitable regions and cement market(s)
- We identified a number of provinces that satisfied key criteria
  - Economic & construction growth
  - Market structure
  - Development opportunities
- Locate specific opportunities.....decision to focus initial efforts on Northeast
  - Heilongjiang, Jilin & Liaoning combined population of 108 million
  - No significant waterway access
  - Good natural resources (oil, coal, timber, etc) with an expanding industrial base



# China

## *Focus on Northeast China*

- Northeast China
  - Heilongjiang, Jilin and Liaoning
  - 1950s industrial heartland
  - “Northeast Revival”....govt. commitment to modernise infrastructure & industry
- Heilongjiang Province
  - Pop. 38 m, largest city Harbin (9 m)
  - GDP growth +10% p.a.
  - Cement demand c. 12 m tpa
- Jilin Province
  - Pop. 27 m, largest city Changchun (8 m)
  - GDP growth +10% p.a.
  - Cement demand c. 14 m tpa
  - China’s #1 auto output (VW, Toyota, etc)



# China

## *Harbin Sanling Cement*

- 100% Asset Acquisition
  - Completed February 2007
- Plant located 45km from Harbin
  - 2 modern dry-process kilns
  - Includes a new line (installed 2004)
  - Cement Capacity of 0.65 m tpa
- A solid first step for CRH in China
  - Strong regional market growth
  - Good local management team
  - Stable, improving pricing environment



*Harbin Sanling Cement, China*

***.....Action Research for CRH.....***

# China

## *Next Steps*

- Continue focus on Northeast cement.....Jilin Yatai
  - Regional cement leader in Northeast China (Top 10 in China, c. 9 m tpa)
  - Signed LOI in October 2006 to acquire 26% equity, option to go to 49%
  - .....ongoing negotiations
- Other Regions
  - Identify & pursue individual cement opportunities in attractive regions
  - Cautious movement into downstream businesses when/where appropriate
  - Continue to develop over the medium-term
- Large Groups
  - Target partnerships with larger cement groups with a strong regional/national presence
  - Good relationships & ongoing dialogue with a number of groups
  - Continue to develop over the medium & longer term

# New Regions

## *Potential Further Development Fronts*

### ○ Russia

- A number of “clusters” in focus:
  - Southern Federal District
  - Yekaterinburg area, Kazakhstan, etc
  - Far-eastern Russia.....Vladivostok
- Heavy Building Materials .....cement, lime, etc.

### ○ India

- Large, growing market
- Cement demand c. 150kg/capita
- Early consolidation
- Increasing Asset prices.....but opportunities still available

