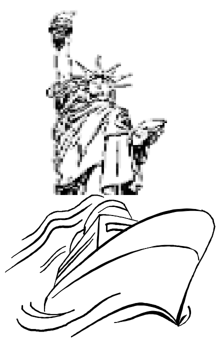
Equities

Exane BNP Paribas Building materials & Construction



“Impact of developments in the global cement industry on US imports”

December 2006

construction@exanebnpparibas.com

Nicolas Godet +33 1 42 99 52 06 nicolas.godet@exanebnpparibas.com

Arnaud Pinatel +44 207 039 94 67 arnaud.pinatel@exanebnpparibas.com

Construction and Building Materials European team

Arnaud Pinatel (London) :

✉ arnaud.pinatel@exanebnpparibas.com ☎ +44 207 039 94 67 / mobile : +44 77 95 528 372

Arnaud Pinatel, 40, graduated in Economics from the Sorbonne University in Paris and went on to gain the French SFAF qualification (French financial analysts' association). Arnaud began his career at Group Ciments Vicat (1992-1997) where he worked first as a financial controller and later as a strategic assistant to the Chairman of the Group. In 1997 he moved to Oddo Equities in Paris as an equity analyst covering the Building Materials sector on a Pan-European basis. Arnaud joined BNP Paribas in London in July 2001 and heads the European Building Materials and Construction team at Exane BNP Paribas.

Nicolas Godet (Paris) :

✉ nicolas.godet@exanebnpparibas.com ☎ +33 1 42 99 52 06 / mobile : +33 6 08 23 97 19

Nicolas Godet, 28, graduated from ESSEC in Paris in 2001. He started his career at Lazard Asset Management as a junior analyst covering small & mid-cap companies. He joined Exane's Midcap team in 2002 and then spent a year at the company's New York subsidiary covering S&P stocks. Nicolas joined Exane's Building Materials and Construction team in August 2003.

Steven Fernandez (Paris) :

✉ steven.fernandez@exanebnpparibas.com ☎ +33 1 42 99 25 17 / mobile : +33 6 08 35 86 18

Steven Fernandez, 31, received his BA in political science in 1997, and his MIA in international banking and finance in 2001, both from Columbia University in New York. He started his professional career working in Brio Capital, a New York-based venture capital firm, as an investment analyst. In 2002 he joined Exane's utilities team as a research analyst, and after 2 years moved to Grupo Santander in Spain where he covered both utilities and concessionaire stocks. Steven joined Exane BNP Paribas' construction team in August 2006. .

Summary:

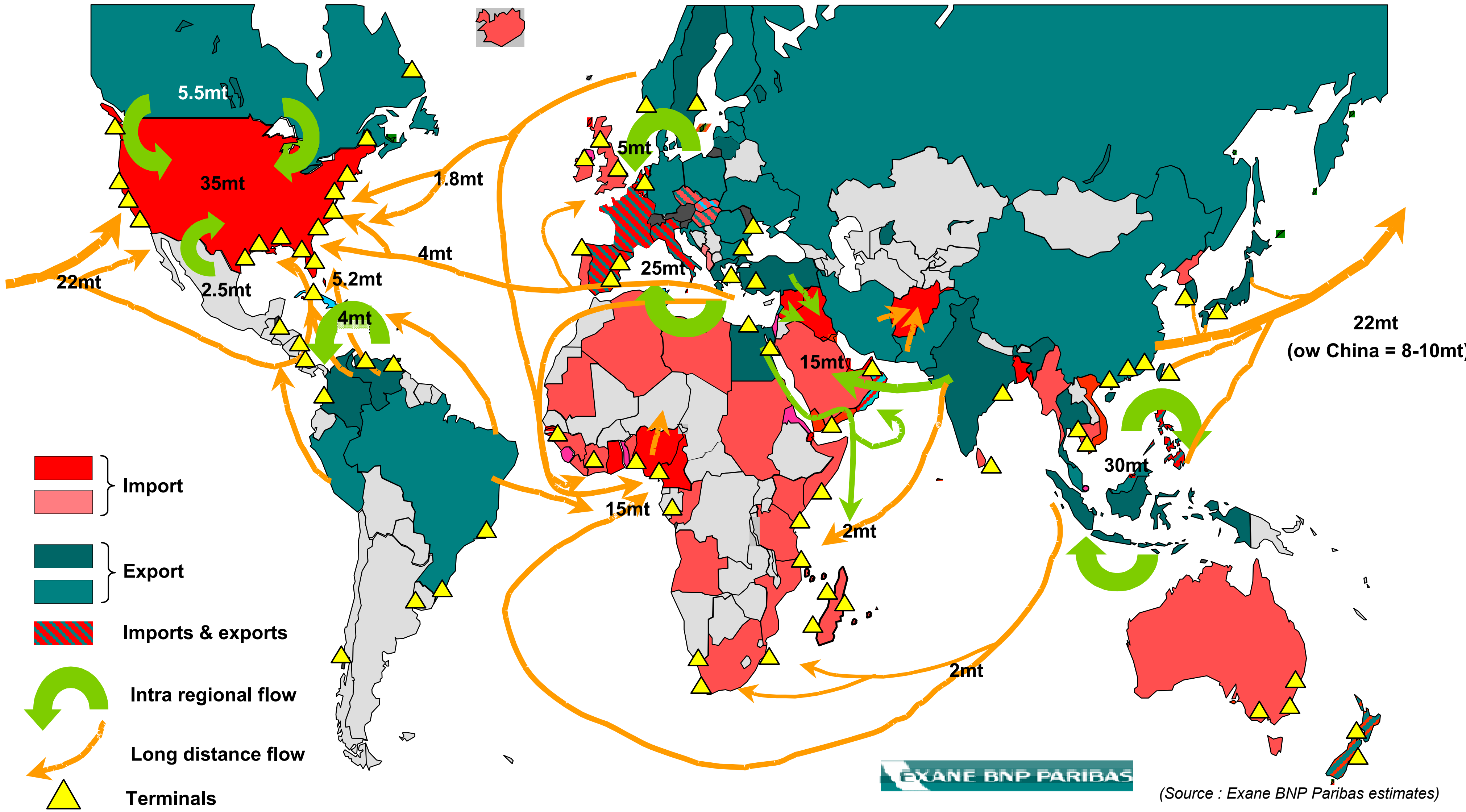
Impact of developments in the global cement industry on US imports

Equities

World cement trading

5% of the world production is traded

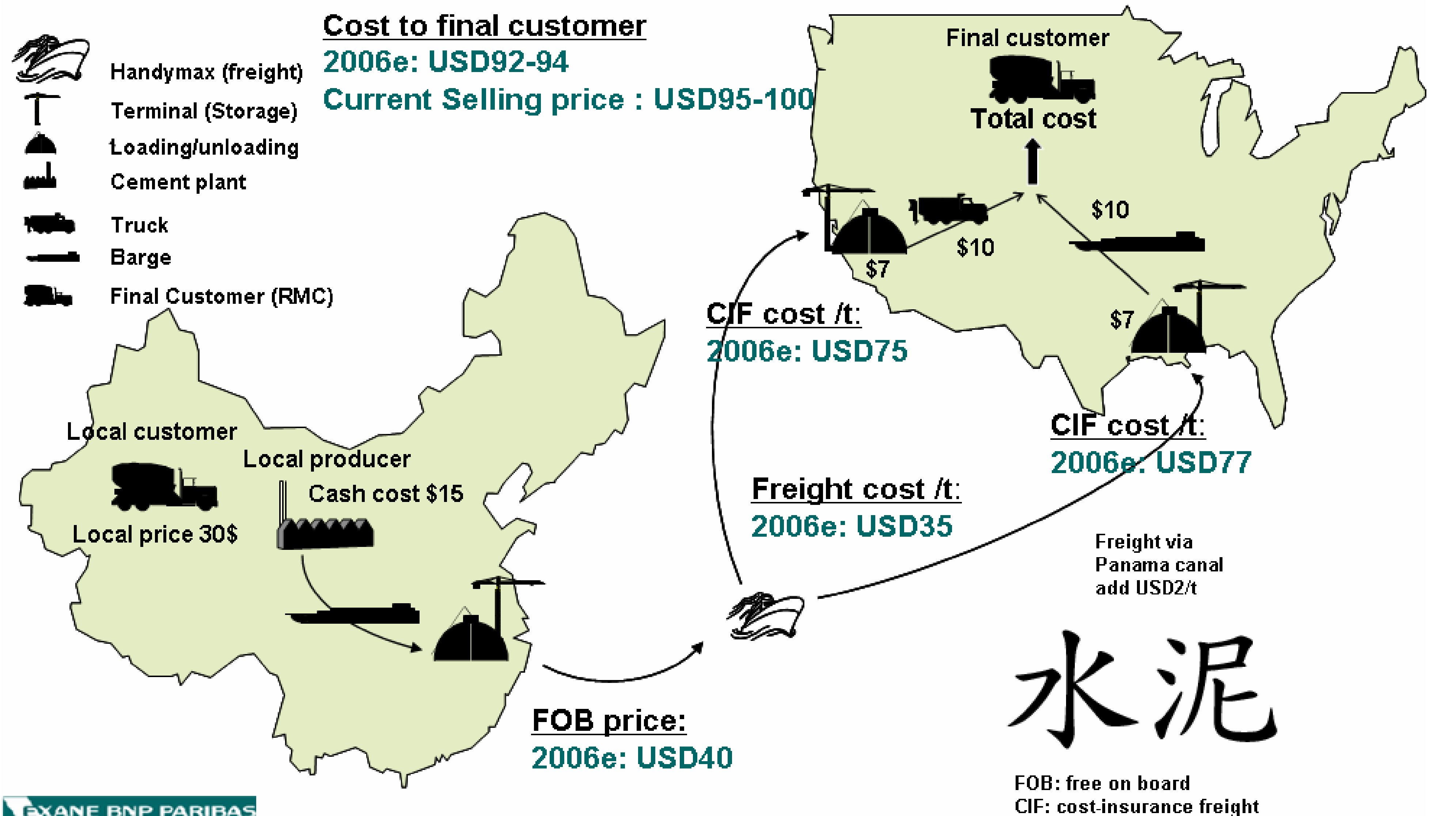
- Main importers: US (30%), Spain (9%), GCC (9%),Vietnam/Nigeria (5% each), Bangladesh (4%)
- Main exporters: China (28%), Thailand (10%), Japan(9%), India (7%), Egypt (6%), Taiwan (5%), Indonesia (5%)



(Source : Exane BNP Paribas estimates)

Economics of imports:

Value chain of 1 tonne of cement exported from China to the US



Equities

Thank you for attending my presentation !

Summary:

Impact of developments in the global cement industry on US imports

Introduction on the cement trading market

World trading map and economics of imports

1. US imports and global cement trends depend upon one another

Imports are critical to the US cement industry…
…and the global cement industry is critical to US imports
2007: still a favorable environment in the US…
… but exporters to the US may suffer from the US slowdown

2. Global picture: increasing export availability, decreasing import needs

Global 2007 volumes and price trends
A new wave of capacity in several regions
Both imports and exports markets are increasing their capacity
The global supply/demand ratio will depend on China

5. New price differentials lead to new exports strategy

The global map of cement prices has changed
Numerous players target the US import market
Focus on Cemex offer on Rinker

6. What reaction from US cement players? Vertical integration!

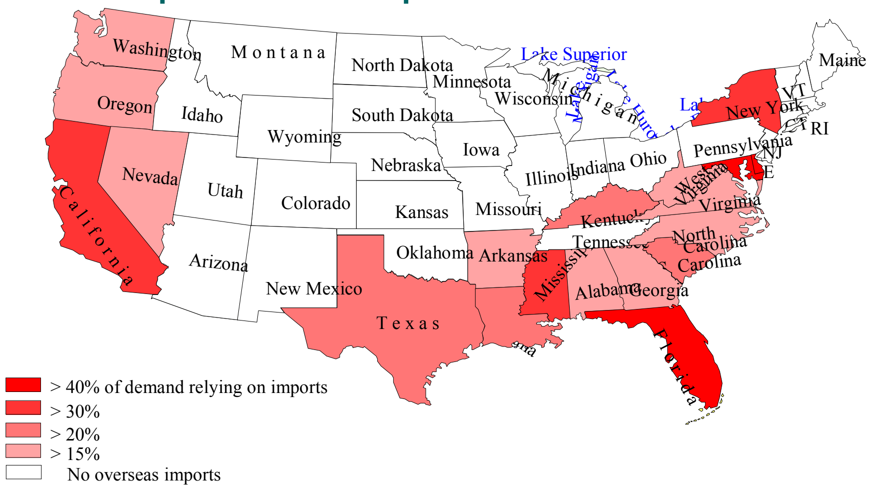
The rationale of vertical integration
Several triggers for further vertical integration

Conclusion

Imports are critical to the US industry…

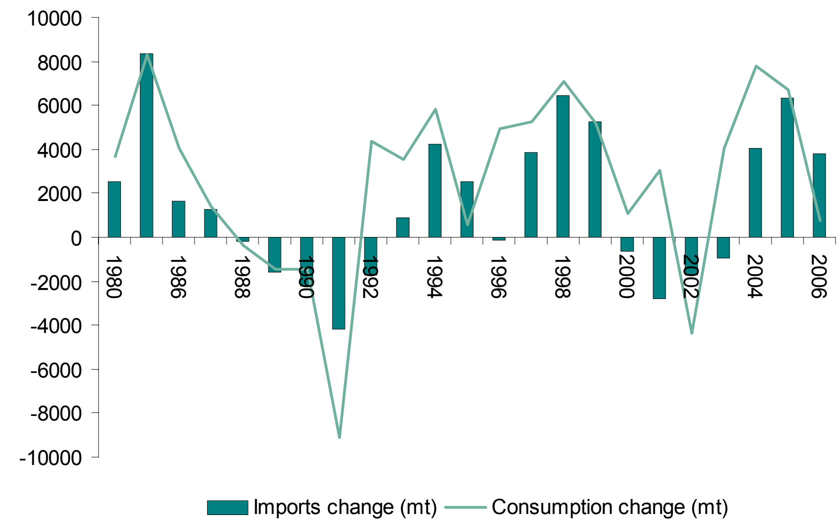
1) 30% of US consumption is imported – imports are mainly controlled by domestic producers
2) Several states import much more than the US average
3) A swing factor on volumes in case of downturn
4) The main source of imports is Asia

Dependence on imports in the US

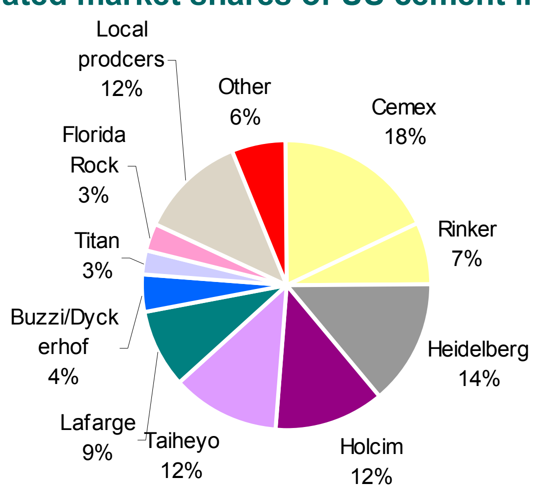


Source: Exane BNP Paribas estimates

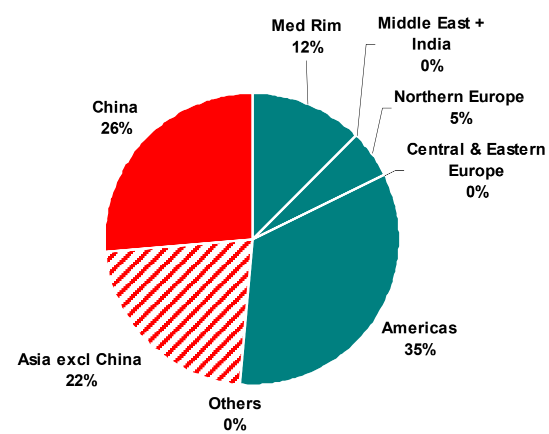
Evolution of US imports versus US cement consumption



Estimated market shares of US cement imports



Main sources of US cement imports



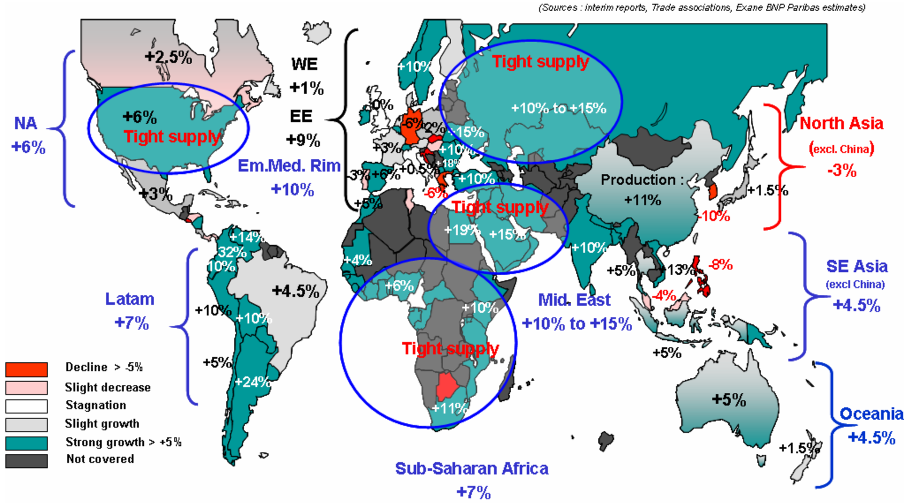
Equities

The global industry is critical to US imports (1)

1/ Consumption has risen globally
2/ Demand for imports has boomed
3/ Little additional capacity has been commissioned recently
⇒ Consequently, the industry has been saturated and pushed domestic and export prices

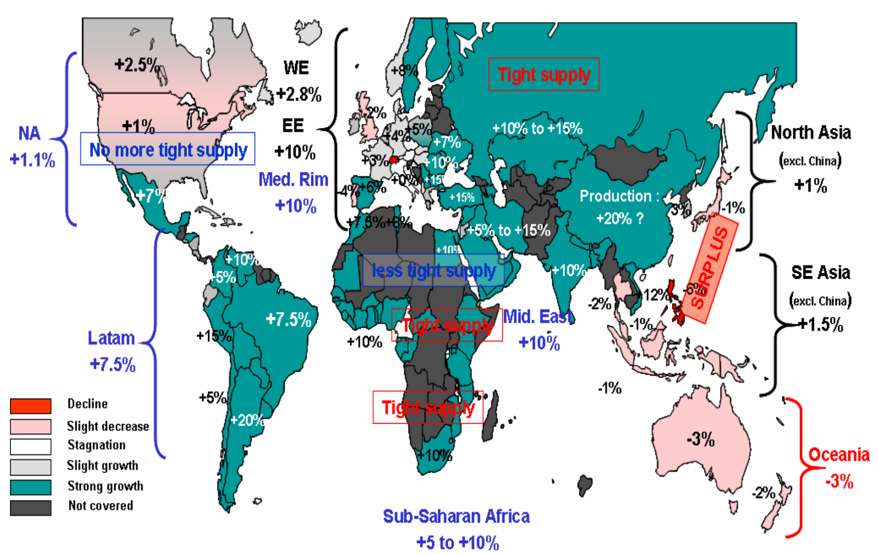
EXANE BNP PARIBAS

Cement Volume growth in 2005 : +4%e (excl. China)

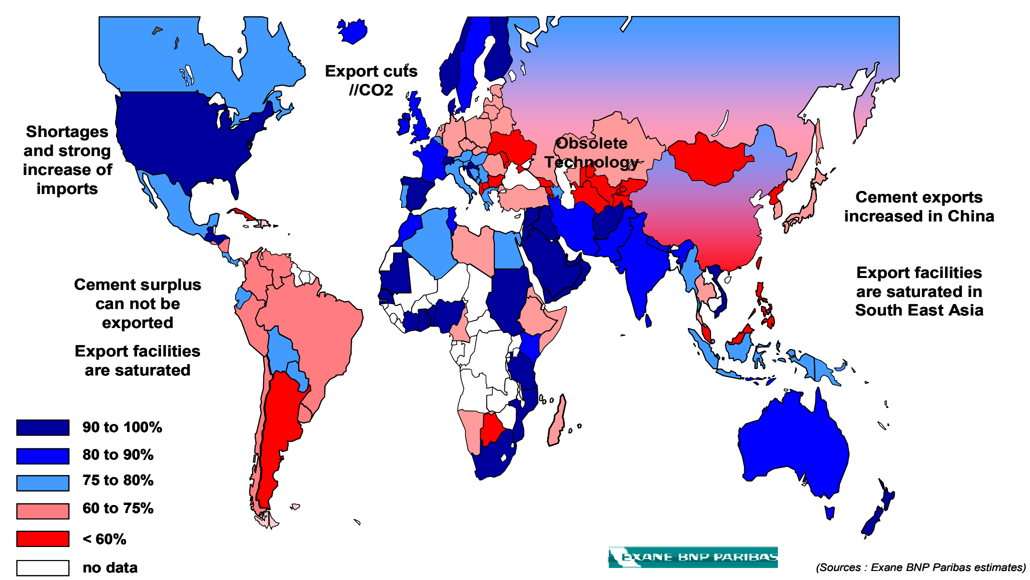


USA cement imports have increased (mt) …

Cement Volume growth in 2006 : +5%e (excl. China)



Cement Capacity Utilization rates (2005)

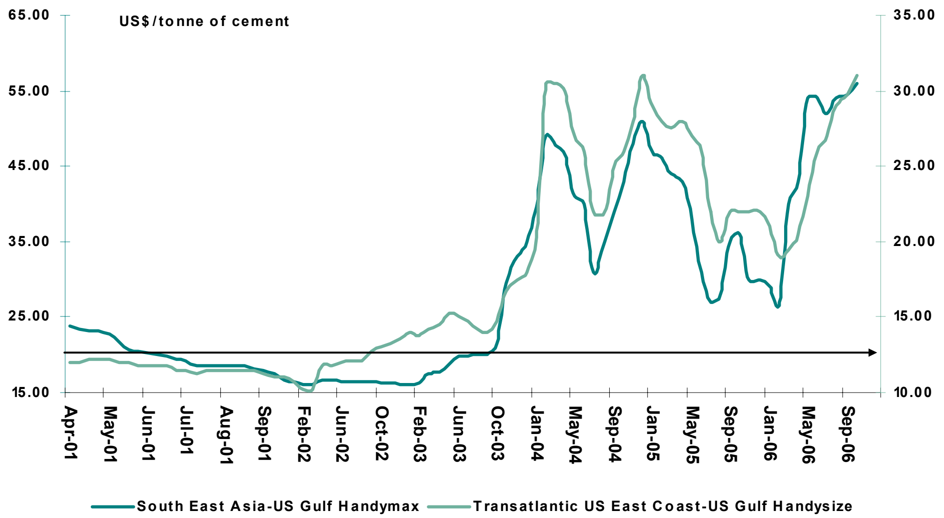


(Sources : Exane BNP Paribas estimates)

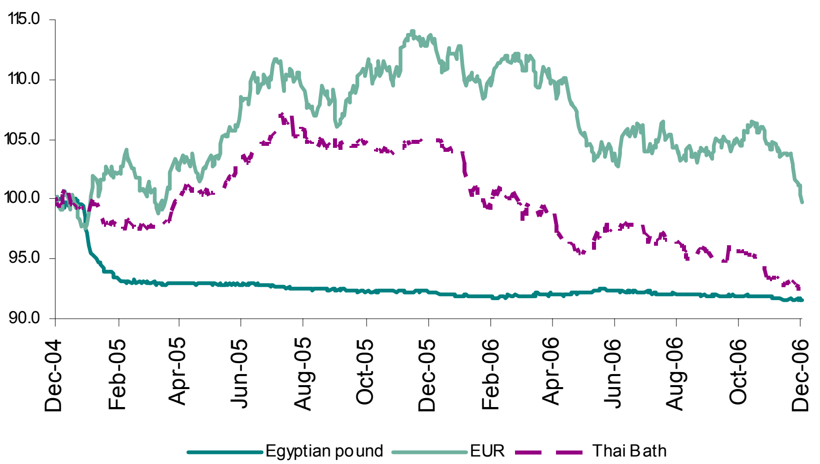
The global industry is critical to US imports (2)

4/ Freight rates have soared
5/ Importing countries' currencies have appreciated versus the dollar
5/ US Import prices and US domestic selling are correlated
=> US prices are depending on global industry trends (= FOB + CIF)

Maritime Freight spot prices (USD/t)



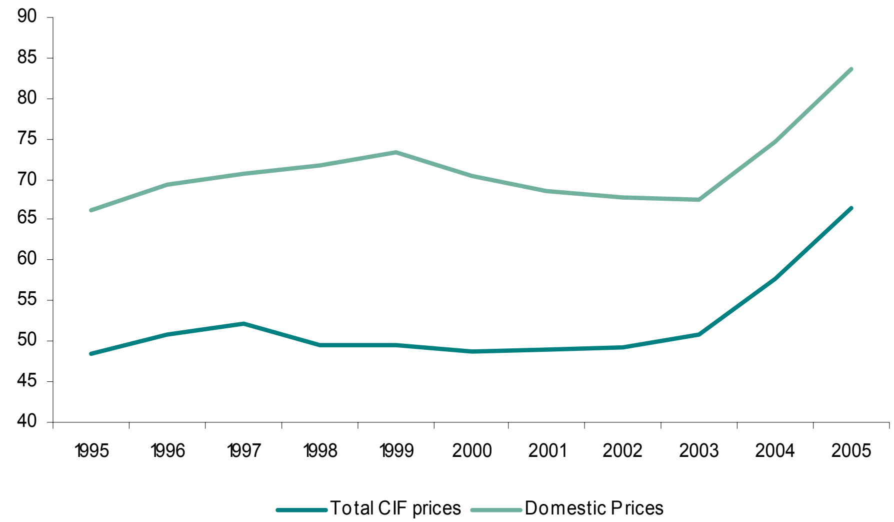
EURO, Thai bath, Egyptian pound rate versus USD



US cement prices (USD/t) :

Parity between imports and domestic prices

Components : FOB+ Freight=CIF



⇒ US cement price effect:+

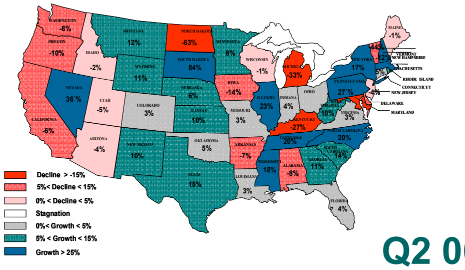
- + 12% to +18% in 2005
- + 15% in 2006e
- +10% announced for 2007

PCA 2007 volume scenario for the US cement

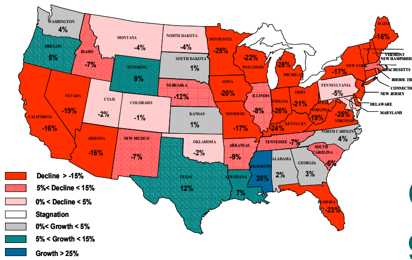
1) PCA expects flat volume in 2007 due to higher cement intensity
2) We understood that cement intensity could represent a 2% impact in 2007

Housing Permits

Q1 06: +5%



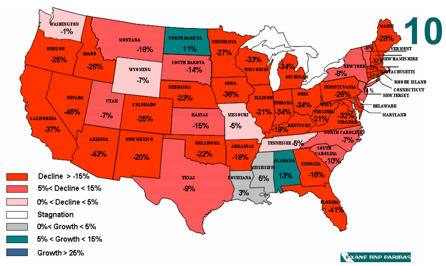
Q2 06: -10%

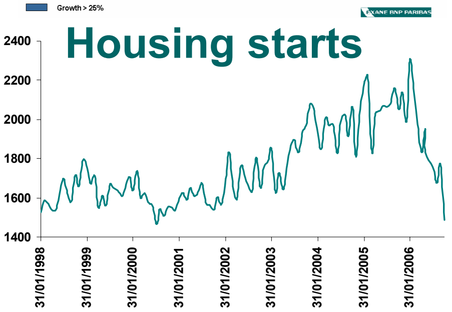


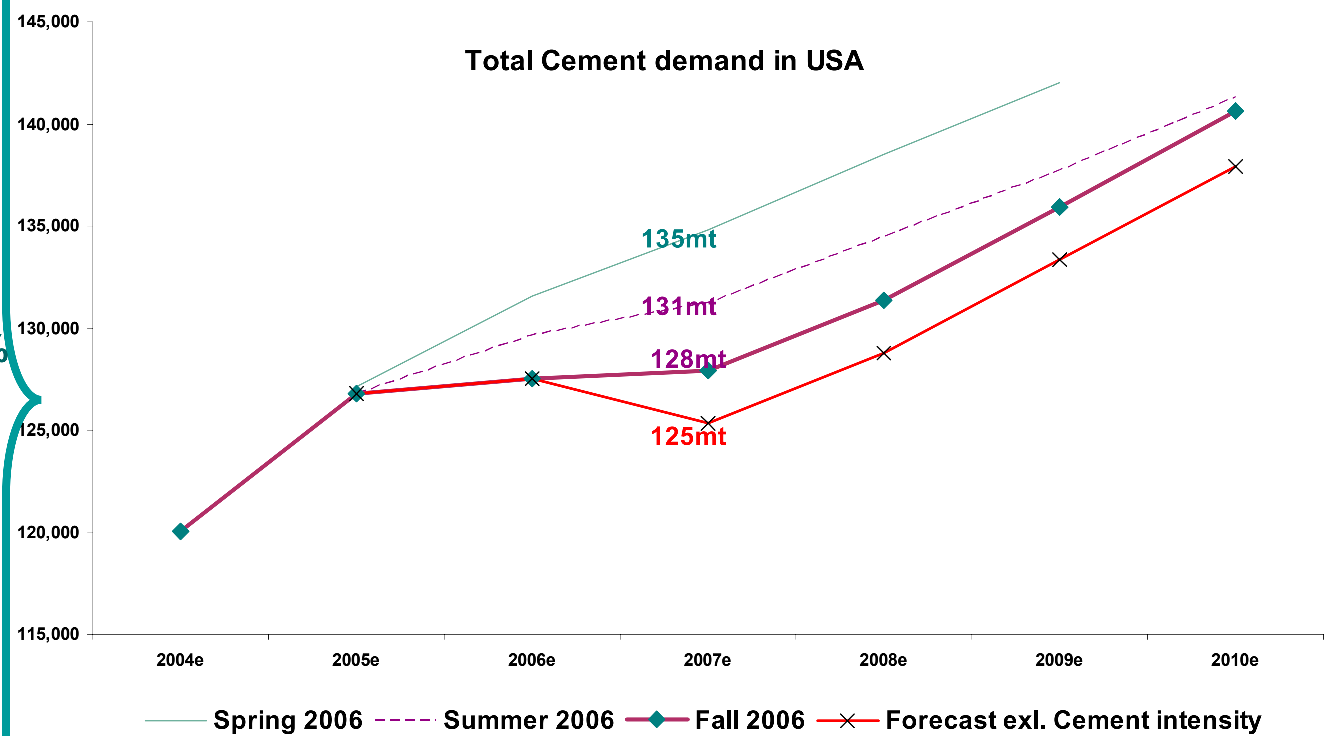
Q3 06: -24%

9m: -11%

10m: -12%







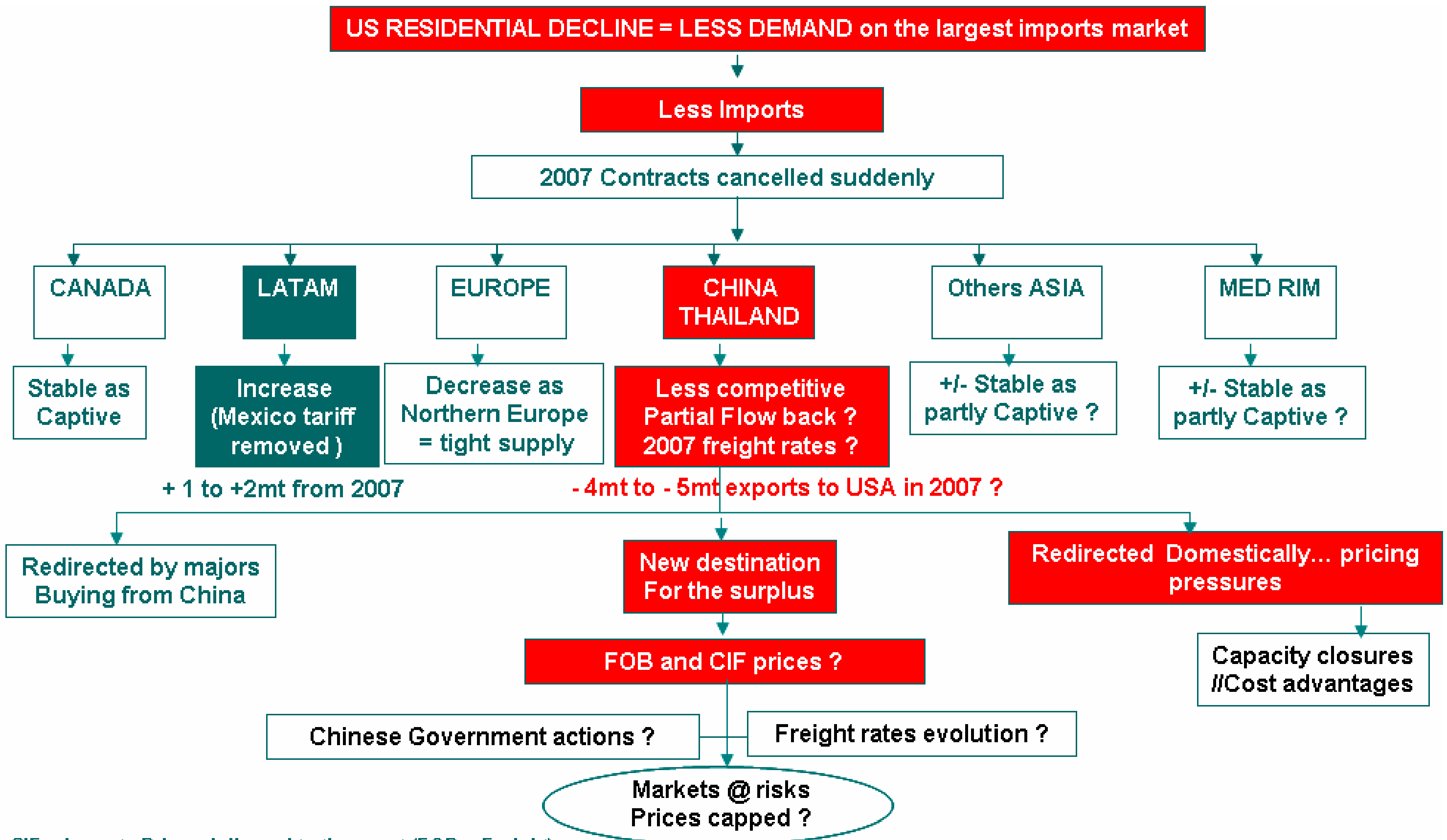
(Source : Exane BNP Paribas estimates)

Impact of US slowdown on global export flows

1/ US slowdown should lead to decreasing imports
2/ European, Canadian and Mexican imports are captive; Mexican imports should increase
3/ Consequently Asian imports, mainly from China and Thailand should be redirected
Note: Even flat volumes would lead to decreasing imports

EXANE BNP PARIBAS

China and Thai cement imports should be cut



NB: CIF = imports Prices delivered to the coast (FOB + Freight)

Domestically = potential pricing pressures in Thailand and China, as they are both potentially the most impacted markets.

Internationally : In some markets (Africa, Middle East, Asia-Oceania Spain…), prices could be capped or under pressure , but high freight rates are still a "firewall" in 2007 ?

Equities

Thank you for attending my presentation !

EXANE BNP PARIBAS

Summary:

Impact of developments in the global cement industry on US imports

Introduction on the cement trading market

World trading map and economics of imports

1. US imports and global cement trends depend upon one another

Imports are critical to the US cement industry…
…and the global cement industry is critical to US imports
2007: still a favorable environment in the US…
… but exporters to the US may suffer from the US slowdown

2. Global picture: increasing export availability, decreasing import needs

Global 2007 volumes and price trends
A new wave of capacity in several regions
Both imports and exports markets are increasing their capacity
The global supply/demand ratio will depend on China

5. New price differentials lead to new exports strategy

The global map of cement prices has changed
Numerous players target the US import market
Focus on Cemex offer on Rinker

6. What reaction from US cement players? Vertical integration!

The rationale of vertical integration
Several triggers for further vertical integration

Conclusion

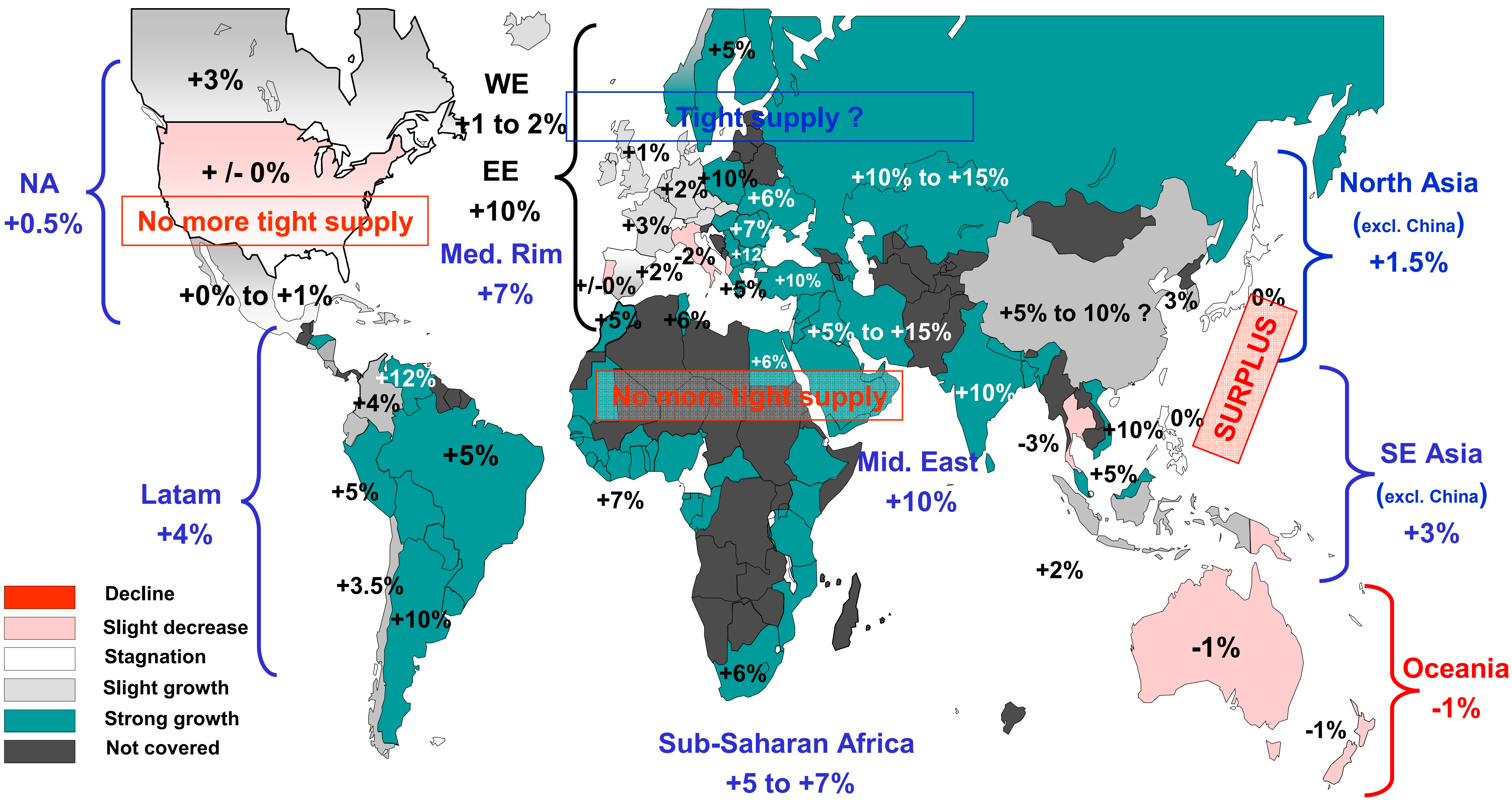
Cement Volume in 2007 : our scenario +3.5% to +4% excl. China

Equities

1) Worldwide tight supply should have disappeared // surplus in Asia due to US imports cuts
2) Stable volume in Europe and in USA (US Housing permits // PCA)
3) Growth in most emerging markets (oil/commodities)
4) Weakness in Asia Oceania

EXANE BNP PARIBAS

(Sources : Exane BNP Paribas estimates)



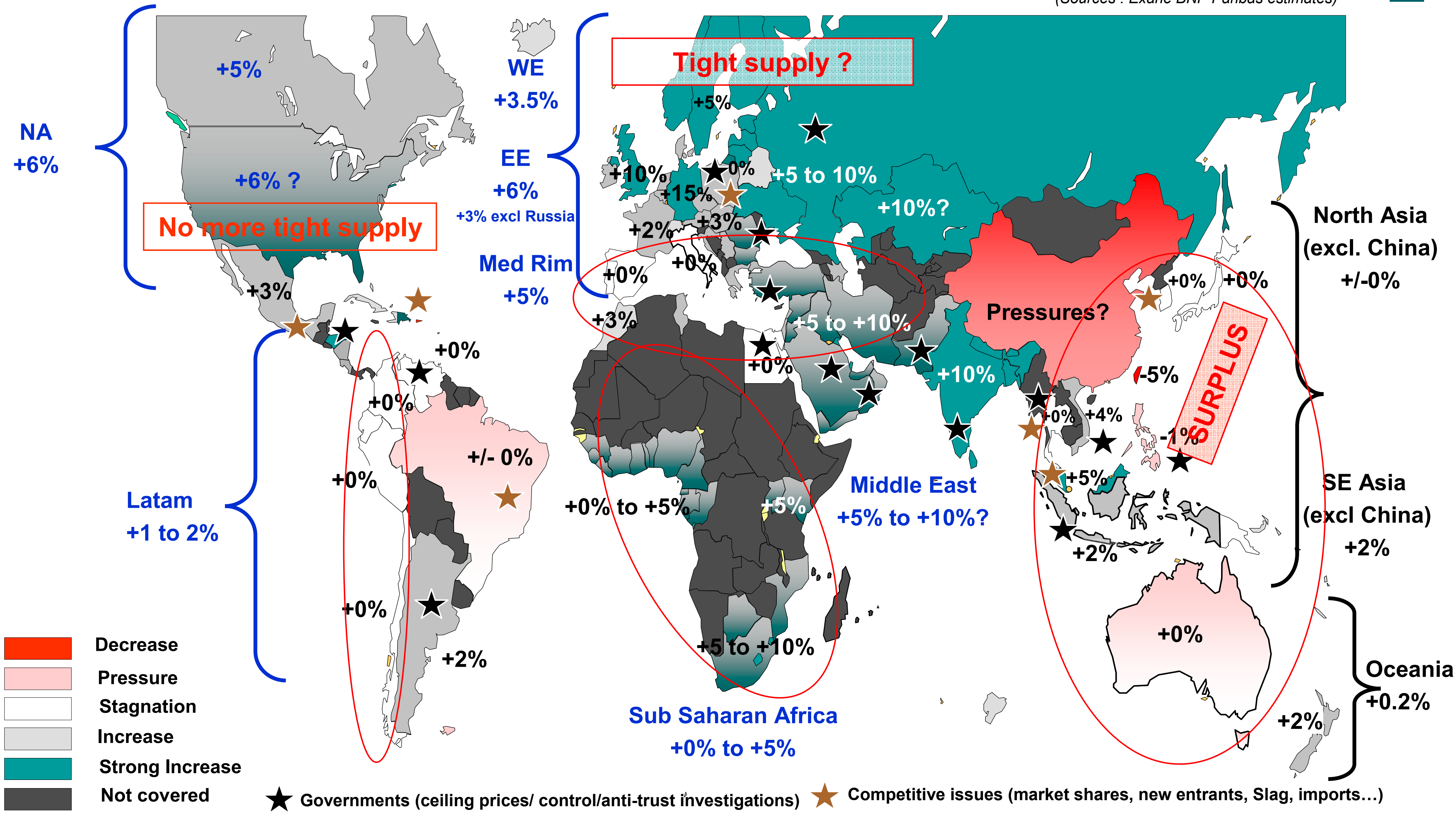
*** China : no statistics for consumption that we estimate below production trend

Equities

Cement Prices in 2007. Our current scenario : +3% to 4% excl.China

1) Price increases in USA if freight remains high
2) Weakness in China and Asia Oceania (flow back)
3) Moderate price increases in Africa, Latam and Middle East
4) Northern Europe recovery (tight supply) + stable Southern Europe (if Spain slows down)

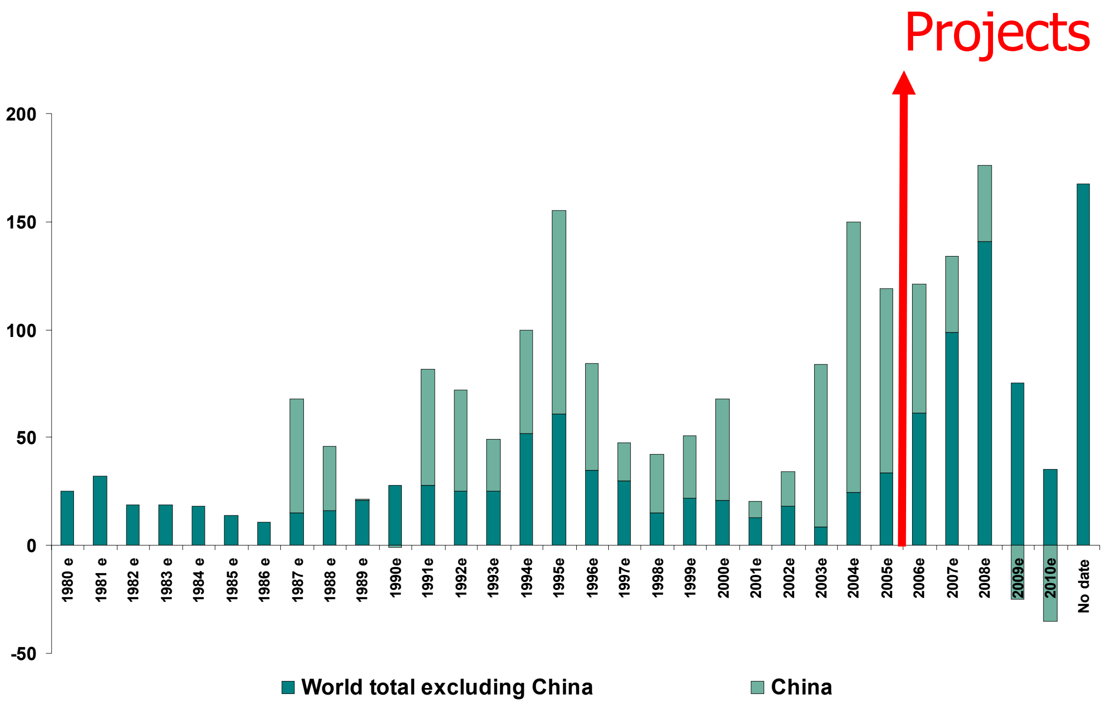
(Sources : Exane BNP Paribas estimates)



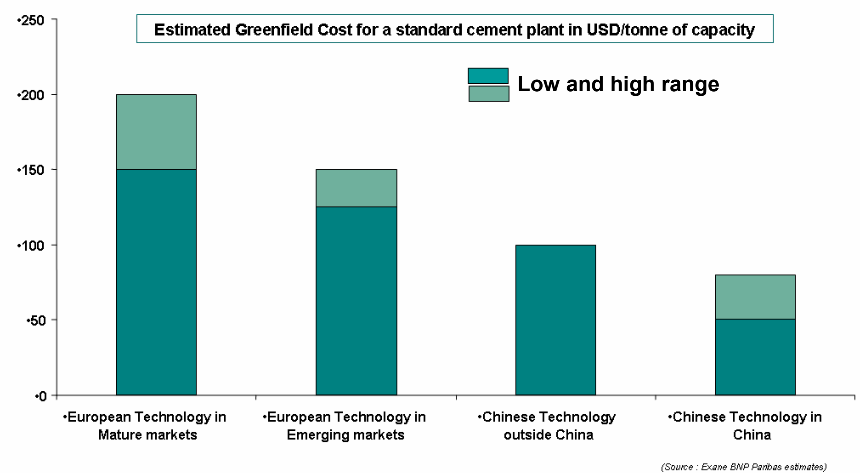
A new wave of capacity

1) Acceleration of capacity addition since 2001 in China and outside China after 2004
2) More projects are announced between 2005-2010, and not only in China
3) We have listed roughly 770mt of which 170mt without any precise date of commissioning
4) Lower barrier to entry (i.e lower cost of equipment) is an incentive to see more capacity addition
5) Do we have to expect a surplus in the short term even if long term growth will absorb the capacity?

World cement capacity addition 1980-2010 (e)



Chinese technology = Lower "Greenfield" Cost (e)



- Lower barrier to entry is an incentive to see more capacity addition. Chinese technology is 30 to 50% cheaper.
- Economics of cement could change (Price/ROCE) if this trend was accelerating .
- With this cost advantage, some producers could be tempted to develop long term exports strategies

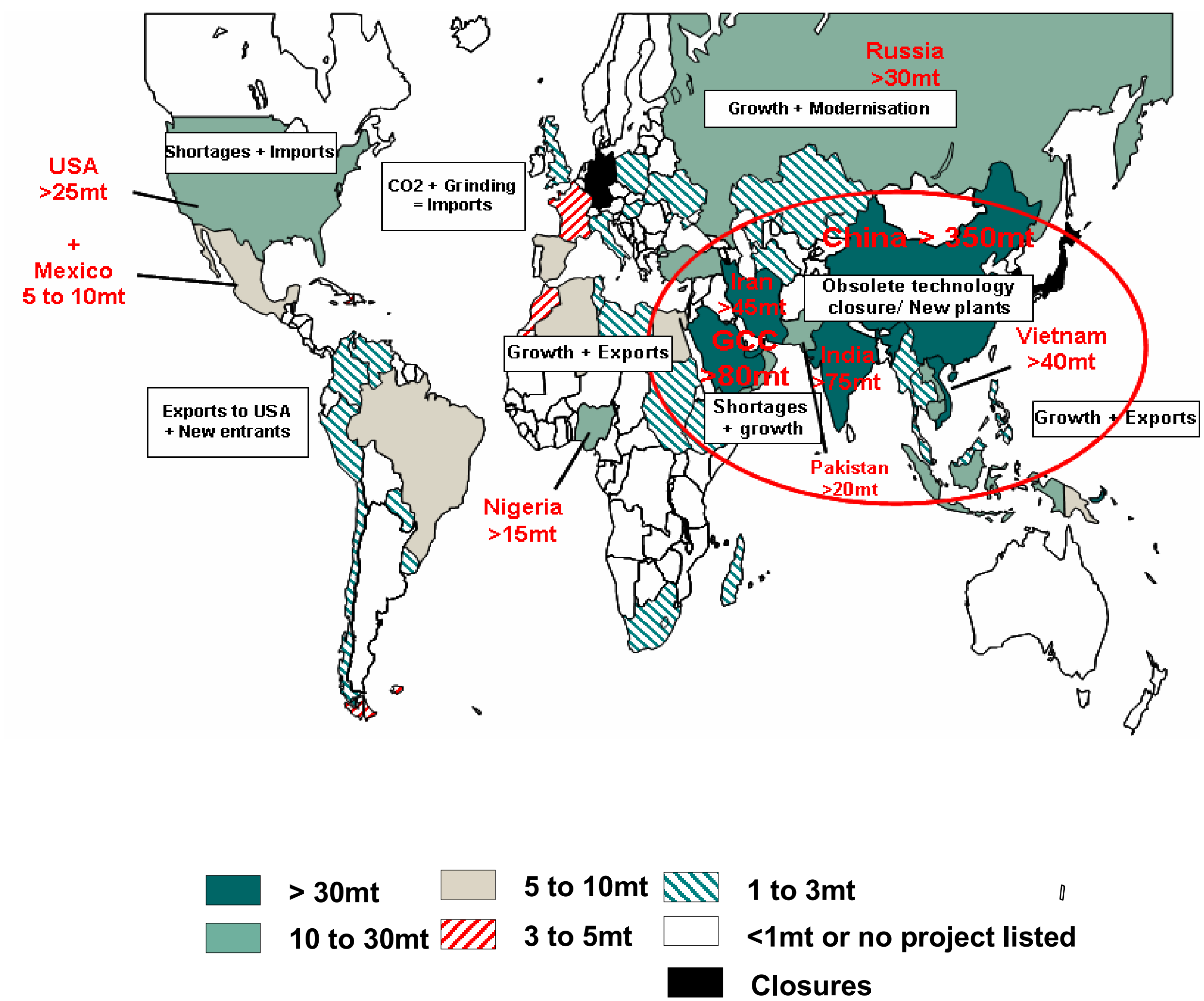
(Source : Exane BNP Paribas estimates)

Equities

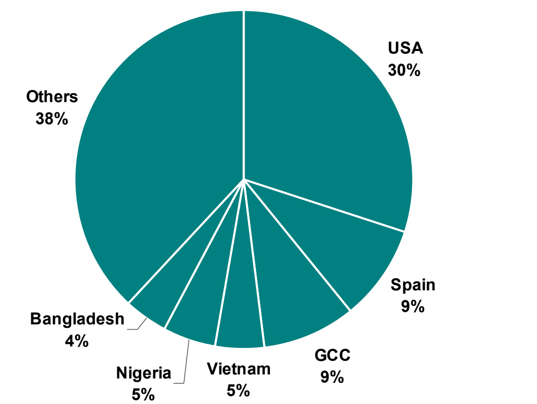
Both imports and exports markets are adding capacity

1) Exports availability could increase in the future with new capacity
2) Significant projects on exports markets (India, Iran, Pakistan, Russia , Mexico and Turkey …but also on imports markets like GCC, USA, Nigeria, Vietnam
3) China should build more capacity to supply an estimated 1.4Bn tonne by 2010 , especially if China is closing 250mt of obsolete technology

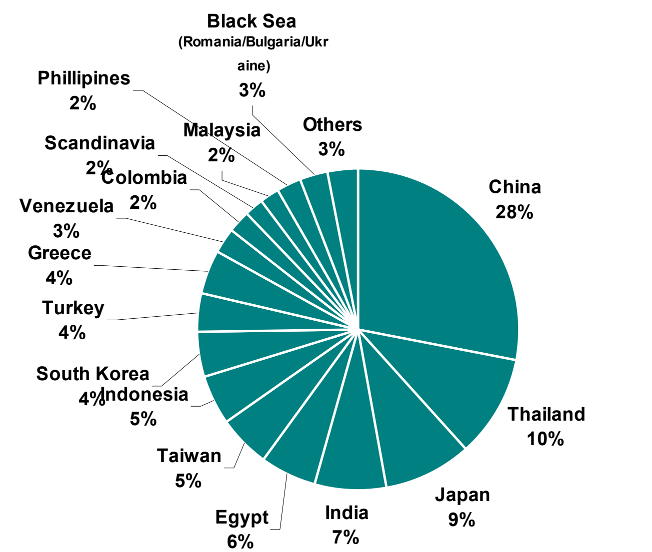
New Cement Capacity addition 2005-2010



Main Seaborne imports markets in 2006



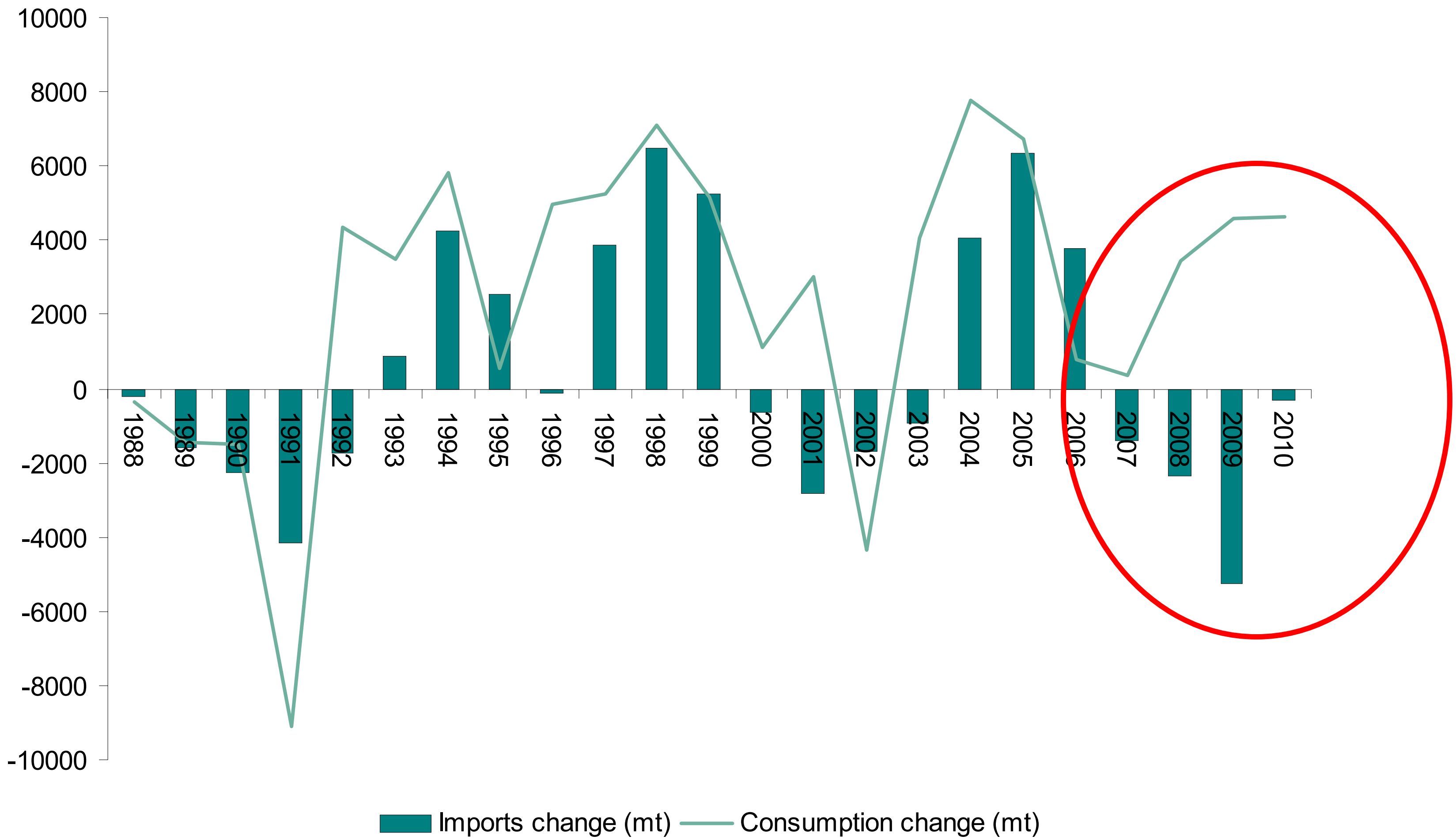
Main Seaborne exports markets in 2006



Decreasing import needs: the US example

Additional capacity and imports of slag may weigh on the need for US imports
=> 22mt of additional capacity projects over 2006/2010
=> Some players develop cementitious products imports

Evolution of US consumption versus imports (mt)



Source: Exane BNP Paribas estimates

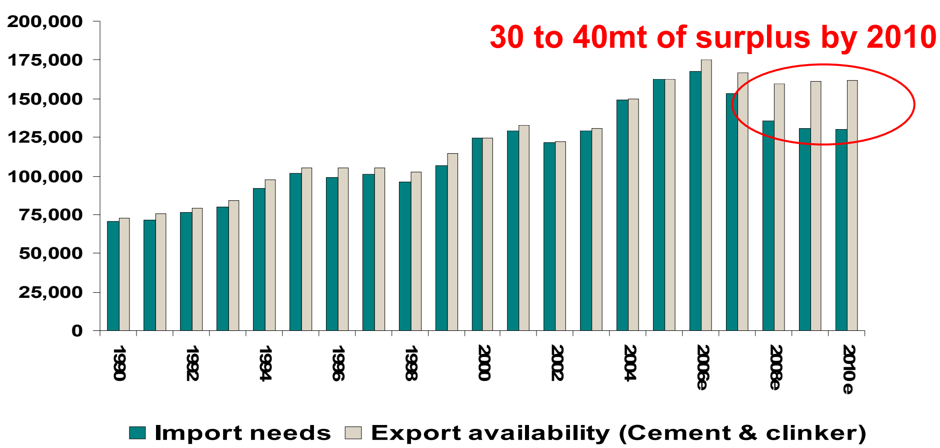
Equities

The global supply/demand ratio will depend on China

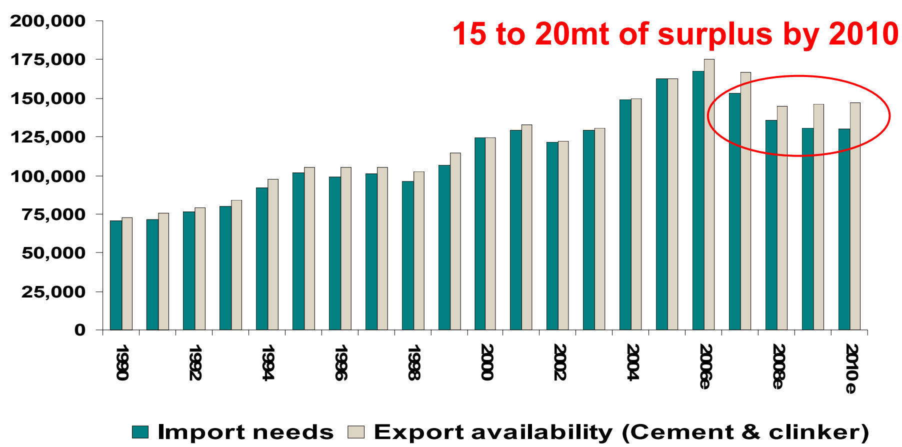
1) Chinese producers could be tempted to find new destination for their exports
2) However, several actions were approved by the Chinese government to limit export flows
3) Depending on Chinese exports flows, the world surplus will be more or less visible by 2010

- According to the Chinese cement association, demand for cement in China will be 1.4Bn t by 2010 . It implies +7%e average growth p.a. between 2005 and 2010 . It is a lower rate than in the past.
- There is overcapacity and exports have surged from 5mt in 2004 to 35-40mt in 2006 (China received 40mt of orders).
- The government is acting : (i) By announcing 250mt of potential closures (ii) By eliminating credit tax on cement exports in the next 3 years. (iii) By confirming that it does not make sense to import energy to export cement .
- The government has also called for regional government agencies to strictly control new projects to curb the excessive growth in fixed-asset investment.
- The government will restructure the industry by supporting selected producers (10 supported by central government and 30 to 40 by local governments) and encourage them to consolidate the industry. New capacity is also more controlled.

World Surplus if China = 35mt of exports p.a.



World Surplus if China = 20mt of exports p.a.



Thank you for attending my presentation !

EXANE BNP PARIBAS

Equities

Summary:

Impact of developments in the global cement industry on US imports

Introduction on the cement trading market

World trading map and economics of imports

1. US imports and global cement trends depend upon one another

Imports are critical to the US cement industry…
…and the global cement industry is critical to US imports
2007: still a favorable environment in the US…
… but exporters to the US may suffer from the US slowdown

2. Global picture: increasing export availability, decreasing import needs

Global 2007 volumes and price trends
A new wave of capacity in several regions
Both imports and exports markets are increasing their capacity
The global supply/demand ratio will depend on China

5. New price differentials lead to new exports strategy

The global map of cement prices has changed
Numerous players target the US import market
Focus on Cemex offer on Rinker

6. What reaction from US cement players? Vertical integration!

The rationale of vertical integration
Several triggers for further vertical integration

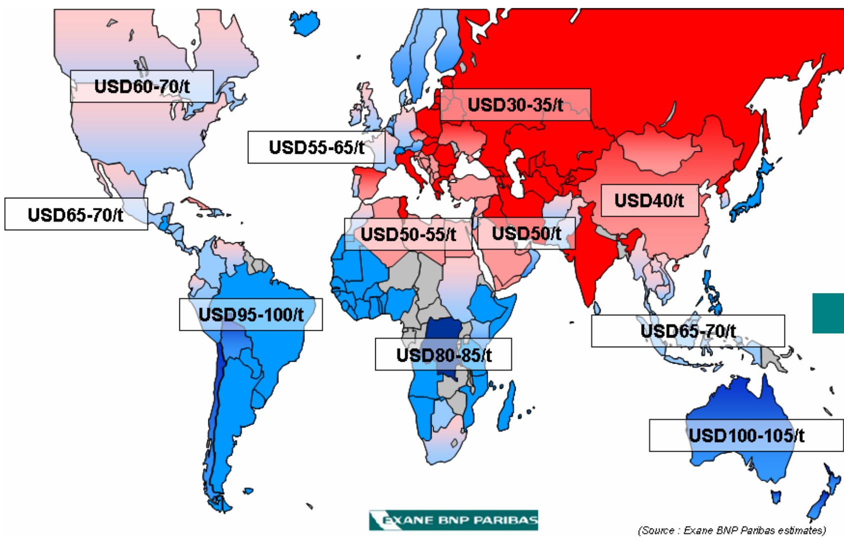
Conclusion

Equities

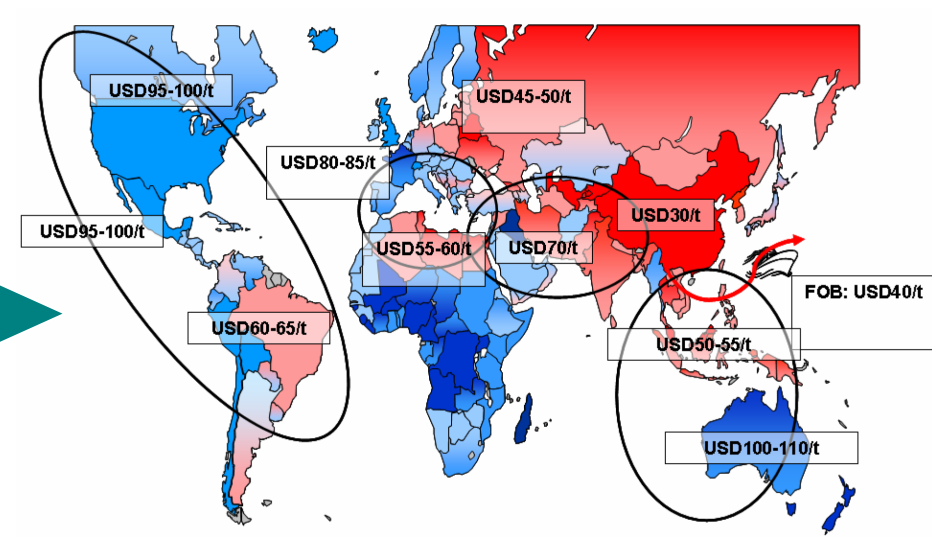
Relative prices have changed from 1995 to 2005

1) North American prices are now above South American ones
2) Med rim: clear differential between the North and the South
3) Asia: clear differential between Australia and South East Asia
4) Middle East: clear differentials within the region

Cement prices in 1995



Cement prices in 2005



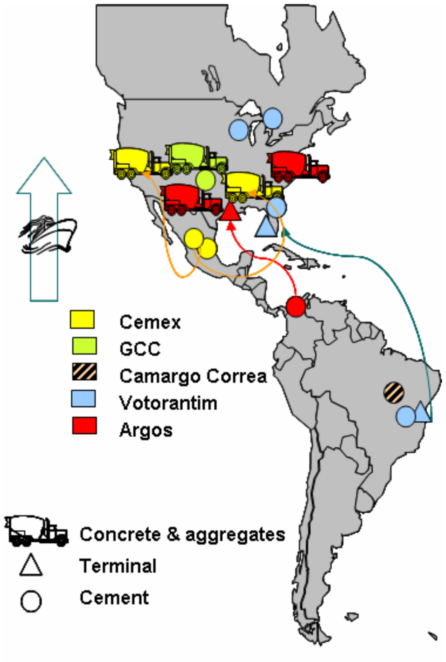
- > 130 USD/t
- 110 -130 USD/t
- 90-110 USD/t
- 80-90 USD/t
- 70-80 USD/t
- 60-70 USD/t
- 50-60 USD/t
- 40-50 USD/t
- 20-40 USD/t
- No data

Emerging markets players develop new exports strategies

1/ Latin American players are more ambitious than in the past; They are targeting the USA (cost and pricing differentials)
2/ They are developing exports strategies, based on captive market shares due to vertical integration into concrete and aggregates and own imports terminals
3/ More and more independent US ready-mix players may also wish to control their own import flows

EXANE BNP PARIBAS

LATAM producers Export strategy to USA



Votorantim invested in a terminal and is exporting from Brazil to USA

Cemex and **GCC** are planning to export more volume to USA since USA removed tariffs on cement imports from Mexico. Significant capacity addition announced by Cemex in Mexico.

Grupo Argos, which acquired ready-mixed concrete and an import terminal in North America targets 12% market share of US imports by 2010 and is increasing clinker capacity in Colombia. June 2006 “We have our own logistics network of ports and fleets , and can source cement (to USA) from different countries like Colombia, Venezuela, and Panama”

Camargo Correa, Lima and **Tupi** are reviewing the opportunity to export to USA. USA

The Cemex deal on Rinker:

- **We were expecting a vertical integration deal from Cemex**

⇒ On 14 Sept 06 we wrote: “Does Cemex need more aggregates in the US?”

- **Cemex has moved on Rinker (concrete, aggregates and cement producer, with 80% of sales in the US, o.w >50% in Florida)**

- **Our understanding of the deal – if completed – is that it will:**

⇒ Replay the very successful integration of RMC (synergies, FCF accretion)

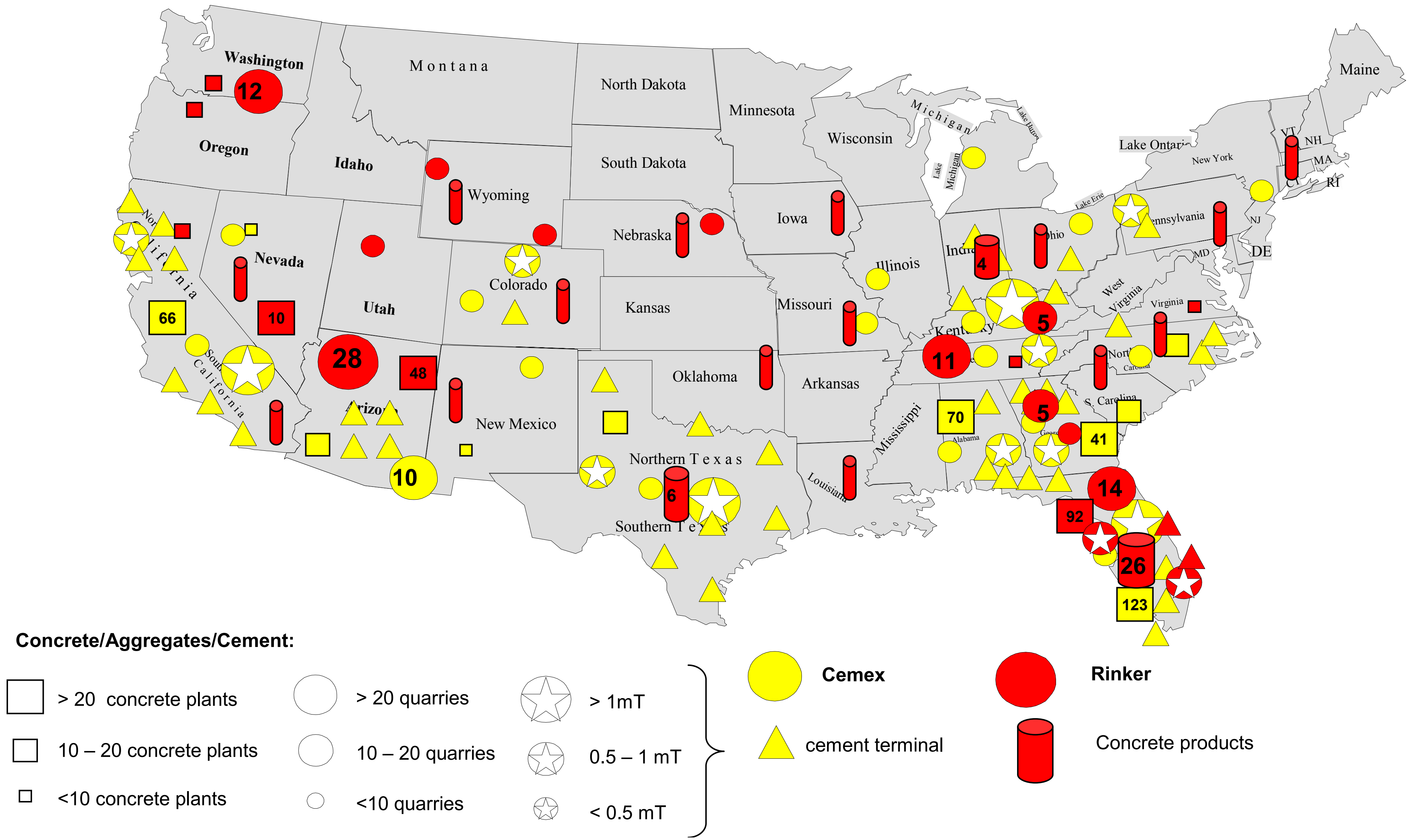
⇒ Create additional captive cement market share through concrete, at a time when Cemex could increase Mexican exports

⇒ Allow Cemex to further protect its US cement market share by increasing its vertical integration

⇒ Reinforce exposure to fast-growing markets like Florida, Arizona and Nevada

⇒ Increase the medium-term financial fire-power of Cemex, in the wake of the consolidation

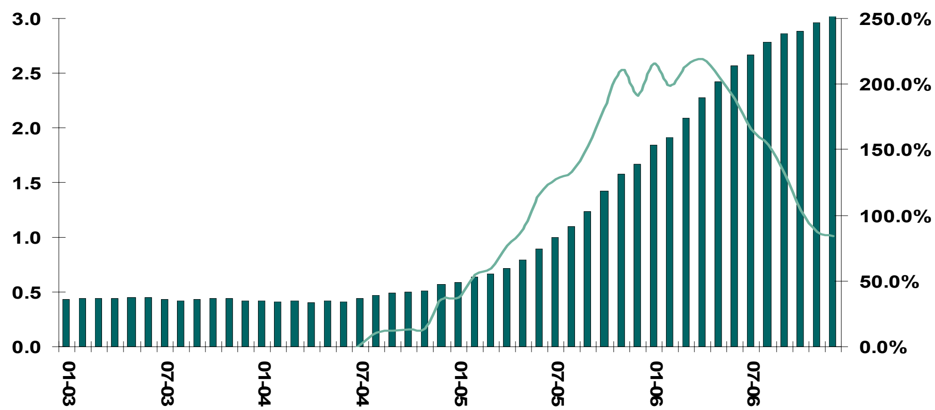
Cemex/Rinker
Cement + Aggregates + Concrete



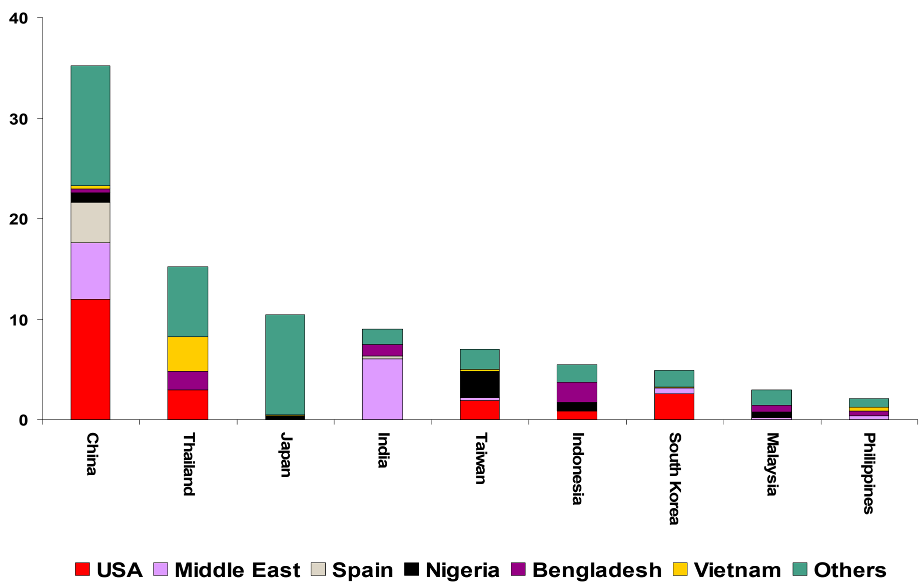
What strategy for the mainland China and Taiwanese players?

1/ Chinese producers have been relying more and more on exports
2/ Their main export markets have been the US, the Middle East and Nigeria, which import needs are set to decrease
3/ We believe they could try to find new markets AND to secure some market share by vertical integration

Chinese exports: fast growth



Asian cement markets main exports destination (mt estimated)



1st example Taiwan Cement : TCC is applying for EU certification to export to Eastern and southern Europe by 2007 thinking : (i) that CO2 emissions legislation is creating opportunities (ii) that European prices are higher than in USA.
(iii) that U.S. import market situation should be reassessed due to the removal of tariff on Mexican cement.

2nd example Chia Hsin: Encouraged by the recent rise in international cement prices and **a significant increase in its earnings coming from its exports**, **Chia Hsin Cement** Corp (Taiwan) is planning to export 100% of its output from its two plants in mainland China beginning from 2007 .

嘉新水泥（中國）控股股份有限公司
Chia Hsin Cement Greater China Holding Corporation

May 2005 "**By comparison with the China market, export markets yield higher profit margins, and so many China cement suppliers have shifted their focus towards supplying overseas markets**. Industry players with international sales experience and superior product quality possess a definite advantage, especially those operating with private jetties.."

Impact of developments in the global cement industry on US imports

Introduction on the cement trading market

World trading map and economics of imports

1. US imports and global cement trends depend upon one another

Imports are critical to the US cement industry…
…and the global cement industry is critical to US imports
2007: still a favorable environment in the US…
… but exporters to the US may suffer from the US slowdown

2. Global picture: increasing export availability, decreasing import needs

Global 2007 volumes and price trends
A new wave of capacity in several regions
Both imports and exports markets are increasing their capacity
The global supply/demand ratio will depend on China

5. New price differentials lead to new exports strategy

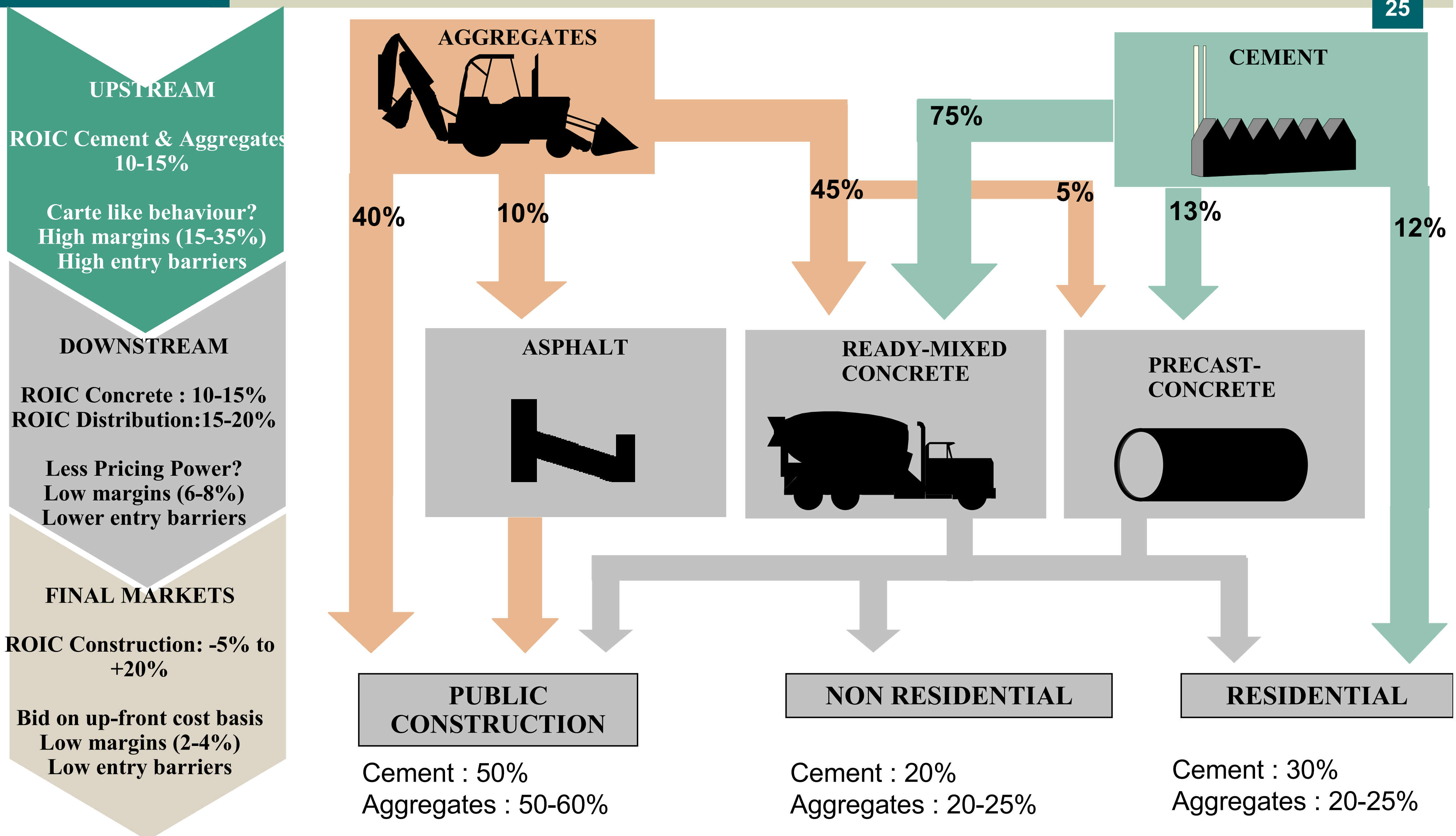
The global map of cement prices has changed
Numerous players target the US import market
Focus on Cemex offer on Rinker

6. What reaction from US cement players? Vertical integration!

The rationale of vertical integration
Several triggers for further vertical integration

Conclusion

Vertical integration : the Concrete Value Chain => an efficient answer to imports



Several triggers for further consolidation

If Cemex is successful on Rinker, the vertical integration process could accelerate in the coming months, as:

1. The cement industry currently has a huge FCF generation and is willing to reinvest it
2. The Cemex deal would create a gap between Cemex's FCF and peers
   - ⇒ Cement producers may want to close the gap with Cemex in terms of FCF generation
3. Cemex is becoming more and more a client of cement competitors.
   - ⇒ Cement producers will likely integrate further to rebalance the situation
4. Some will likely want to increase vertical integration to protect their market share versus imports
   - ⇒ Especially the ones with limited downstream exposure
   - ⇒ Big majors have expressed their wish to increase significantly their exposure in US aggregates
5. Cement producers have 2 other incentives to accelerate their vertical integration:
   - ⇒ Local concrete/aggregates players could arbitrage in favor of external growth instead of share buy-back programs
   - ⇒ The continuing process of vertical integration by cement exporters from Latin America today and potentially from Asian producers tomorrow: will Chinese and Taiwanese invest into import units and concrete in the US to sustain their long term export strategy?

Thank you for attending my presentation !

Summary:

Impact of developments in the global cement industry on US imports

Introduction on the cement trading market

- World trading map and economics of imports

1. US imports and global cement trends depend upon one another

- Imports are critical to the US cement industry…
- …and the global cement industry is critical to US imports
- 2007: still a favorable environment in the US…
- … but exporters to the US may suffer from the US slowdown

2. Global picture: increasing export availability, decreasing import needs

- Global 2007 volumes and price trends
- A new wave of capacity in several regions
- Both imports and exports markets are increasing their capacity
- The global supply/demand ratio will depend on China

5. New price differentials lead to new exports strategy

- The global map of cement prices has changed
- Numerous players target the US import market
- Focus on Cemex offer on Rinker

6. What reaction from US cement players? Vertical integration!

- The rationale of vertical integration
- Several triggers for further vertical integration

Conclusion

Conclusion

1. Import flows are critical to the US industry; consequently, the US industry is depending upon the evolution of the global supply/demand ratio.
2. In 2007 the global balance between supply and demand could be impacted by the slowing demand in the US which implies lower imports needs. Asian exporters will probably have to find new outlets outside the US.
3. The global surplus should be more visible in 2008 and 2009 with the decline of imports needs and the increase of exports availability (slowing demand + increasing capacity in importing markets; additional capacity in exports markets). The order of magnitude of the surplus will depend on the success of Chinese government actions to contain exports.
4. Exporters developing a long term exports strategy may also try to secure captive market share in importing countries, by integrating the distribution channel (acquisition of downstream assets and imports units). Latin American producers have already implemented such a strategy, whereas Asian exporters could decide to do so.
5. The Cemex offer on Rinker – if successful - would increase the captive market share of the group in the USA. Cemex would also become a major client of its competitors. Last this deal would increase the gap between Cemex and other majors in terms of FCF generation.
6. Consequently we see this deal as a trigger to see more consolidation in the USA through the acceleration of he vertical integration of the industry.
7. We are expecting the consolidation of US downstream assets (ready-mixed concrete and aggregates) to pursue actively. More vertical integration should reinforce the position of the industry (control of the end user) and bring more pricing power in front of independent importers.

If you would like to receive our research , please just contact me during the conference (or by e-mail after) and provide me your e-mail details

Important notice: Please refer to our complete disclosure notice available on www.exane.com/compliance

This research is produced by EXANE SA and / or EXANE LTD (“EXANE”) on behalf of themselves. EXANE SA is regulated by the "Autorité des Marchés Financiers" (AMF) and EXANE LTD is regulated by the "Financial Services Authority" (FSA). In accordance with the requirements of FSA COB 7.16.7R and associated guidances “Exane’s policy for managing conflicts of interest in relation to investment research" is published on Exane’s web site (www.exane.com). Exane also follows the guidelines described in the code of conduct of the AFEI (Association Francaise des Entreprises d'Investissement) on "managing conflicts of interest in the field of investment research". This code of conduct is available on Exane’s web site (www.exane.com).

This research is solely for the private information of the recipients. All information contained in this research report has been compiled from sources believed to be reliable. However, no representation or warranty, express or implied, is made with respect to the completeness or accuracy of its contents, and it is not to be relied upon as such. Opinions contained in this research report represent Exane's current opinions on the date of the report only. Exane is not soliciting an action based upon it, and under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy.

While Exane endeavours to update its research reports from time to time, there may be legal and/or other reasons why Exane cannot do so and, accordingly, Exane disclaims any obligation to do so.

This report is provided solely for the information of professional investors who are expected to make their own investment decisions without undue reliance on this report and Exane accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report may not be reproduced, distributed or published by any recipient for any purpose. Any United States person wishing to obtain further information or to effect a transaction in any security discussed in this report should do so only through Exane Inc., which has distributed this report in the United States and, subject to the above, accepts responsibility for its contents.

BNP PARIBAS has acquired an interest in VERNER INVESTISSEMENTS the parent company of EXANE. VERNER INVESTISSEMENTS is controlled by the management of EXANE. BNP PARIBAS’s voting rights as a shareholder of VERNER INVESTISSEMENTS will be limited to 40% of overall voting rights of VERNER INVESTISSEMENTS.

Exane BNP Paribas research is also available on the website (www.exanebnpparibas-equities.com) as well as on Bloomberg (EXAA), First Call and Multex.