HeidelbergCement

2019 Third Quarter Results

7 November 2019

– Presentation –

Christoph Beumelburg: Good morning, everyone! Welcome to HeidelbergCement's Q3 Earnings Call. Thanks for joining us a little earlier today than in our previous calls. This is due to the schedule; we are today meeting investors in London. As usual, we have Dr. Scheifele and Dr. Näger as our speakers today. They will both guide us through the presentation. Also in the room we have Dr. von Achten, our Deputy CEO, and the IR Team with Ozan and Piotr.

With that little introduction, I hand over to you, Dr. Scheifele.

Dr. Bernd Scheifele: Okay, Mr. Beumelburg, thanks a lot. – Hello, good morning here from London! Thanks a lot for joining us for our Q3 Call. As usual, I will lead you through the operational results and Dr. Näger will concentrate on the financial report.

I start with the overview on Chart 3. If you look at Q3, what are the key issues? – The company continues to grow. Top-line growth of Heidelberg is strong; that is good. The operational result is up.

If you look at the regions, obviously, it is a little bit a mixed picture. I think we have done very well in Western/Southern Europe. We have done a good job in Northern Europe and Eastern Europe. Also Asia was good, Africa clearly improving and we were a bit short in North America – for good reasons; I will explain that.

Important for us is that the quality of earnings has clearly improved and continues to improve. Our cash conversion is significantly up versus last year. The operating cash flow went significantly up and that is why we have upgraded our net debt target before IFRS 16 that we come down to a level of about 7.4. So the company is well on track to reach its targets which we announced at the last Capital Market Day: that we want to get our net debt level by end 2020 down to 7 billion. In that respect, we are clearly ahead of our schedule.

If you look then at Chart 4, that shows you the key messages. Also on the disposals, we are on our way. We have reached about € 400 million. In Q3, we sold off two cement plants in Italy to Buzzi and we sold one of the sand-lime businesses in Germany. We are going to continue with the disposal strategy in Q4 and also next year.

Chart 5 gives you an overview on our key numbers. Maybe I spend shortly a little bit of time on the volumes because that gives you then also finally the results. If you look at the cement volume, you see: In absolute numbers our volumes are down by about 2.7 million tons per September versus last year. The question is: Where does that come from?

That is very simple. About 900,000 tons come from disposals. As you know, we have sold our Ukraine business and we have also sold cement plants in Italy. That in total per September is about 900,000 tons. Then, in Europe, we stopped exporting in Europe mainly from Spain and Northern Europe, which is a loss of about 500,000 tons. We stopped exports due to the CO_2 pricing.

Another key issue is Egypt. As you all know, in Egypt the market is negative this year, per September about minus 6%. Our volumes are down by about 700,000 tons. Then, in Asia, we are down by more than one million tons, mainly in two countries, first of all India. The market was weak due to the election campaign and heavy rain. We focused clearly on price increases, especially in the region South. Our prices in India are up more than 10%, so in India we lost about 700,000 tons volume. The other one is Indonesia where the market was also per September still negative and where our volumes are down by about 300,000 tons.

If you look at the second business line, Aggregates, you see that in Aggregates the volumes are more or less flattish. We talk about a difference of about maybe 350,000 tons. What is that? If you look at the big Aggregates countries of Heidelberg, we talk about four countries. Two are down, one is up, one is flat. Flat is UK. US is up by about 3.5 million tons. Australia is down due to the drop in residential in Sydney and in Brisbane especially, by about 2.2 million tons. Also Canada, Western Canada, is down due to the downturn in the Prairie Provinces by about 1.2 million tons and the rest is more or less a washout.

Then you see: Group share of profit is down. That has to do with the sale of our Ukraine business which triggered a loss, mainly accounting-driven, due to IFRS, of about 140 million euros. That is the main item.

The profit bridges of Charts 6 and 7, I think, are more or less self-explanatory. You see that prices, especially if you look at Chart 7, are clearly up. Here you see: Prices, especially in Europe, are up, by and large between 5 to 15%. There you see the clear impact of the increased CO_2 price which is now reflected also in the prices in the market. All European countries have more or less increased prices quite significantly.

Chart 8 shows you the profit bridge for Q3. You see that for us the comparison base was especially in North America a difficult one because in North America, last year there was included the sale of an exhausted quarry with about € 25 million, and, in the Nordics, we have sold land in our Kunda plant which we are about to close now in Q1 2020. That is the wet plant in Estonia. That was about € 50 million.

Energy is down; you see that from Chart 9. That shows you the energy bill of our Cement division. We have two different developments; coal and petcoke are clearly down, whereas electricity is up. In-between we still have a positive reduction of about € 29 million.

We expect this trend to continue in Q4 because in Q4 we are using now the coal and petcoke which we have typically bought in May until July/August. We made purchases at a very low level.

On CO_2, obviously a key issue now for the industry: You see on Chart 10 our reduction target on the CO_2 emissions per ton of clinker. What is the message? As you know, we are part of the European Trading Scheme and the current trading period ends 2020.

By the end of that period, Heidelberg will be long roughly around close to 5 million tons. We are covered until 2022, mid or end 2022.

We have set up now a master plan for CO_2 reduction at plant level with very detailed measures, clear responsibility and have incentivized plant management, country management and also the Board to get CO_2 emissions down after 2022, with the target that the allocations which we will get in the next trading period are sufficient to cover our CO_2 emissions, so that we do not have to buy additional certificates.

We think we are well on track with that target. We concentrate mainly on three areas: increase of alternative fuel rate, decrease of clinker content. There we have a stagnation, especially in Europe, over the last years. We can do better. Thirdly, that we use more and more carbon-free raw material in order to avoid process emissions in the kiln.

Chart 11 shows you the development of the CO_2 price. We think we will benefit from that development because we are long until 2022. Some competitors are already short nowadays; others run out earlier. Secondly, you see that pricing, especially in Europe, is clearly influenced by the rising CO_2 price. Furthermore, we expect capacity consolidation.

If we go now to the areas, let's look at Chart 13. If you look at Chart 13 at the volumes in North America, you see that volume was growing slightly. For us, we had two areas which went well, with good growth rates around 5%; that is our region North and South, South especially, Texas, Alabama, Florida, whereas Canada, Western Canada and especially also California were very weak. Especially in California the cement market is down for the first nine months, I think, 8%. Western Canada is also down, at least 3 to 5%. That led overall to a small increase.

If you look now at the operational result, you see that the result is like-for-like down. That has mainly three reasons. In Canada, which is for us a very profitable region with very high margins, volumes were clearly weaker. There the result is clearly negative.

The same applies to the region West. In California, the result is clearly down, whereas the result is up mainly in the region North and slightly down in the South, but that has more to do with production scheduling which we will recoup by inventory gains in Q4.

So the main message is: Canada was weak, market is weak in the Prairie Provinces; California was weak.

If you look at the volumes, you see that volumes are up, 6.4%, and then the result is down. What is the problem? The problem is that the mix of our business has changed. We lost business and volumes in markets with high margins, like especially in Western Canada, whereas the growth was typically in the South of the US and in the North, where the margins are smaller. In the South also partially the cement sales are covered by imports into Florida, where obviously the margin is significantly lower than on our cement sales in Edmonton or Calgary. So the mix effect plays quite a significant role.

If you look at margin on Aggregates, you see very clearly: Last year the margin was obviously influenced by a land sale, 43.2%. This year we are at 35.4% which is still a very good one. That explains the numbers.

We go to Western and Southern Europe; that is Chart 14. Let's first look a little bit at the volumes. If you look at cement, you see volumes are slightly down. What is the reason? One is export stop in Spain from our Málaga plant; that is about 300,000 tons. Secondly, we sold in Italy cement plants, especially to Buzzi, which is about 400,000 tons. Then you see that the other markets were all positive.

From a result point of view, result is significantly up. All countries except UK have done clearly better. Germany is clearly up. Italy is clearly up, France is clearly better, Bene is better, all countries by a relatively solid volume growth. Especially France was good with more than 4%. But pricing in all countries was strong and energy cost were flattish or down. The only problem: UK was a little bit down by maybe one million against last year. But all the countries have been okay.

You see that also in the cement margin. The cement margin went up close to 5 percentage points. There you see the clear impact of pricing.

If you look at Northern and Eastern Europe, let's first have a look at the volumes. You see the cement volumes down by close to 700,000 tons. What is the reason? First of all, deconsolidation of Ukraine; it is about 500,000 tons. Then also in Sweden we stopped exports due to CO_2 cost, which is about 200,000 tons. Then we lost also volumes in the Polish market. The market was relatively flattish or weak. A main reason is that we have led a price increase in Poland this year of about 15% and had a clear pricing-first policy which has cost us some volumes.

The other markets in Eastern Europe are very strong. Romania is good, Czech Republic is good, Hungary is good, Kazakhstan is good, even Russia is coming back. If you look at the result, EBITDA is slightly down, but that is explained by the missing sale of land in Kunda last year which had an impact of about 15 million. If you take that, then it is overall flattish on a high level.

We have a market weakness in Norway and in Sweden. In Norway, it is mainly that the big tunnel project in Oslo has finished and we are getting new work, a big infrastructure turnpike project in Oslo next year. In Sweden, residential is weak. That slowdown in result in the Nordics is compensated by clear result improvements in Eastern Europe.

If you look at Asia Pacific, let's look at the volumes, Chart 16 also. You see volumes are down close to 700,000 tons. That has mainly to do with two countries. As I mentioned earlier, India is down and also Indonesia is down. Both countries had elections, whereas the volumes e.g. in China are okay and Thailand is close to be flattish.

If we look at the results, you see results are up in Asia. We have one country where results are clearly down; that is Australia. In Australia, the residential sector, especially in Brisbane, but mainly also in Sydney, is clearly negative with a volume growth of minus 10 to minus 15%. That has impacted the results negatively, whereas we have a significant result improvement especially in Indonesia.

If you look at the first nine months, our results in euro terms in Indonesia have more than doubled. Very clear, pricing is up 10%. India is also clearly up, pricing up 10%. China is strong and also Thailand has a very strong recovery. All this more than overcompensates the market weakness in Australia.

If we go to East Africa/Eastern Mediterranean, also here you see that the cement volumes are slightly down. That is driven by the Egyptian market which is weak. Also in

Ghana the market is down, 5%. So in both markets we are in total down by about a million tons, whereas the other markets, especially Togo, but also Benin, Burkina Faso, Kongo, Tanzania and whatever, are growing.

From a result point of view, I think, that's a very good result for Africa. Our result is up by 20 million euros, even when the market was very negative in Egypt and Turkey, where our results are significantly down versus last year. But good performance in our other African countries has more than compensated the result weakness in Turkey and Egypt.

Then you see also in cement that the margin is clearly up. That has to do with the good market in Togo and also our new kiln line in Congo clearly contributes now to a very positive result development.

On Group Services, Trading, what you see is: The result of this quarter is zero. Why? We have taken a cautious position on a doubtful receivable from a Trading business which has cost us about 7 million euros. If you look at the normal activity, we see that the trading activity overall is going down.

If we look at clinker, then we see that clinker price in the Mediterranean due to the overcapacity and weak market in Turkey is coming down below 30 dollars per ton, whereas at the same time the clinker price at Shanghai goes clearly up because China is importing this year about 40 to 50 million tons. That is why clinker in Asia is short and clinker prices in Asia are up, whereas in Europe they are under significant pressure.

Chart 19 sums it up. We stick to our guidance. We have increased our saving targets for SG&A to 130 million euros. We have already achieved our 100 million euros and cash flow is very strong. That is why the net debt guidance has been reduced to 7.4 billion euros. That means we will clearly reach our 7 billion euros target which we announced at the last Capital Market Day ahead of schedule.

With that, I hand over to Dr. Näger for the financial report.

Dr. Lorenz Näger: Thank you very much, Dr. Scheifele. – Good morning from my side to all participants! I will lead you through the financial messages.

We will start on Slide 21. If we look at our Group Share of Profit, if we adjust it for the Additional Ordinary Result, we are in line with prior year. So we'll reach 827 million euros as of end of September. We have below the Operating Result some accounting effects which weigh on the result. In the Additional Ordinary Result, this is the foreign exchange rate loss from the sale of the Ukraine business with 140 million euros. These are exchange rate losses during our operation of the Ukraine business between 2005 and 2019. This can only be booked when the whole business is deconsolidated. That now came into our accounts.

The financial result is hit by a decrease of discount rates for provisions, which makes about 20 million euros, and secondly the reclassification of the interest portion of the lease under IFRS 16. This makes another 23 million euros. This explains the increase of our net financial result, of our net financial expenses by roughly 40 million euros.

The pure interest payment, as you know, went down by roughly 30 million euros due to the reduction in the interest rates of our new bonds and maturing of our expensive old bonds.

Tax expense increased to 340 million euro in the first nine months which is up roughly 80 million euro. This is primarily due to a higher tax base in the current year and the release of the tax provisions in the previous years. So, that makes around 80%. We maintain our guidance towards the tax rate by end of this year of 25%.

If we look to the cash flow, we see a significant deleveraging. The free cash flow increased significantly to 1.7 billion euros. Net debt, on the other hand, reduced by 1.1 billion which is a great achievement, based on the strong free cash flow, a high cash conversion rate and a very strict CapEx discipline especially in the area of growth CapEx. That contributed to a very favorable development of our net debt position.

Our portfolio optimization continues. We have done another 103 million euro in the third quarter and we are well under way to reach our target of 1.5 billion euro over the three years 2018, 2019 and 2020.

Based on this favorable development, we have taken down our net debt target from 7.7 to 7.4 billion euro by end of this year and the figure is before IFRS 16.

On Slide 22, you can see the income statement. If we start below results from current operations, you see: Additional Ordinary Result turns from a positive 94 million euro to a negative 74 million euro. I explained it; it is the Ukraine FX effect. Financial result 289, coming from 244, predominantly accounting effects and income taxes, higher tax base and a release of provision of previous year coming from the US-American tax reform.

This brings us to a Group share of profit of 752 m€, compared to 915 m€ in previous year. Adjusted for Additional Ordinary Result, that’s 827 m€, compared to 821 m€, an increase of 1%.

If you look at the cash flow statement on Slide 23, you can see that we have two main areas of improvement. This is the operating cash flow which is up roughly 400 m€. This benefits by roughly 200 m€ from IFRS 16. This is because we do not show in 2019 the lease payments as part of the operating cash flow, but it is now in the financial cash flow. So, that has a certain contribution, but even if we take that out, we have a very, very favorable development here. Cash conversion rate has really increased.

The second main element is strict CapEx discipline. We spent 762 m€ in total cash investment, compared to 1.2 billion € in the same period of the previous year. You remember that previous year included two major acquisitions which were Italcementi and Alex Fraser, an asphalt and aggregates recycling business in Australia. That drives the development in the cash flow.

Slide 24 reviews the portfolio optimization. We have now reached 961m€ from our target of 1.5 billion €. We are down 21 months from the 36; so we are well underway and we are very confident to achieve our target of 1.5 billion € divestment. Just for your memories, I would like to remind you that almost all of these divestments have no impact on the EBITDA or the operating result because it is predominantly assets which are not required to do our core business.

Sorry, I have a problem with my computer. – Thanks.

Then we can move to Slide 25. On Slide 25, you can see the net debt bridge. You can see on the horizontal green line the development of our free cash flow. This is operating cash flow minus a stay in business CapEx. This goes drastically up 1.65 billion €, coming from 1.1 billion €. As I said earlier, the IFRS 16 effect in that is roughly 200 m€. Taking that out, we still have a very nice improvement of our free cash flow.

On the growth CapEx: We have spent very small amounts and have a very disciplined approach here. Our disposals in the last twelve months exceed our growth CapEx spend. So we have a positive balance of 62. This allows us to pay down 1.1 billion € in debt over the last twelve months. For dividends, we spent 417 m€ for HeidelbergCement and 174 m€ to non-controlling interest shareholders of our subsidiaries.

Slide 26 shows you the net debt bridge. We started in the accounts in last year's third quarter at 9.518 billion €, IFRS 16 at 1.3 billion €, a bit more than we initially expected. We thought it should be 1.1 to 1.2 billion €. The reason predominantly is that the interest rates have dropped and are now lower than we expected; that increased the net present value of our leasing payments, so it came out at 1.3 billion €, bringing the total net debt like-for-like post-IFRS 16 in September to 10.830 billion €.

We have added in the last twelve months 120 m€ in new leasing contracts. We paid down the free cash flow, 1,651 m€, and we have dividends, net growth CapEx and the small accounting items, which brings us now down to 9.8 billion.

As we are roughly 300 m€ ahead of our plan and we do not believe that this will change until end of the year, this brings us to tighten the target for our net debt position by end of the year to 8.6 billion€. That you can see on Slide 27. Our mid-term target which we announced in the last Capital Market Day two years ago, 7 billion € net debt pre-IFRS 16, translates into 8.2 billion € post-IFRS 16. We are very confident that we will complete our journey to reduce debt and solid leverage ratio earlier than initially expected.

Slide 28 shows you the balance sheet; that's more for reporting purposes. Fixed assets go up by 2.1 billion €. This includes the 1.3 billion € IFRS 16 right-of-use assets; that is the main driver. The remaining 700 million € are predominantly exchange rate changes. The euro has strengthened, predominantly against the US dollar, and that is reflected in another 700 m€ of increase in fixed assets.

That's it in substance from the financial part and I would like to hand over to Dr. Scheifele.

Dr. Bernd Scheifele: Dr. Näger, thanks a lot. – The outlook: We can keep it very short. The outlook is unchanged. We stick to our targets. We have upgraded our net debt target. From a result point of view, we are okay with the consensus and think that we are going to reach also our result targets this year.

Okay, that's it from my side and I hand back to Mr. Beumelburg in order to manage now the Q&A session. – Thanks a lot.

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Q&A Session

Paul Roger (Exane BNP Paribas): Good morning everybody! Just two questions to start, please. The first one is on Western European volumes. You mention that you are basically exporting less due to CO_2. Could you remind us how much you still export in Europe and whether those exports that you are still doing will fall further? That's the first question.

The second question is more specific on CO_2. If we look at Slide 10, you very helpfully provide today an emissions reduction bridge. That … seems to include things like new products such as green cement or carbon capture. Could either of those help you cut emissions further? Or is that potential quite limited?

Dr. Bernd Scheifele: Mr. Roger, hello! Thanks a lot. As a general policy, we have stopped exporting from Europe because the CO_2 price is too high and our two export plants were mainly the hub in Malaga, so in the South, and then, from the Nordics, you know that typically, traditionally Scancem – – They have always supplied North America for us, our Brooklyn terminal in New York and also in Florida. We have stopped these exports and we have switched them to our Turkish operation in Çanakkale. So at the moment no exports from Europe. And for total Europe, if you take – – You know that's different from our competitors. We have Western, Southern Europe – that's Spain 300,000 tons – and in the Nordics it's 200,000 from Norway and Sweden. So Europe in total is about down half a million tons. That's the message.

The second one on CO_2. You are right: The picture on Chart 10 shows you only the messages that within the next trading – – The message is that short-term Heidelberg has not a problem. The second message is: We think we can manage the next trading period until 2030, with the clear target to come more or less to a zero position as far as purchase of additional allocations is concerned.

And you have to bear in mind that the numbers which are flying around – – There was also a report out last week or yesterday from UBS. This assumes always that the economy in Europe continues like it is. If there is a recession, the position on CO_2 allocations for the industry and also for Heidelberg would again, obviously, improve because we are long in quite a lot of countries which we acquired from Italcementi because there the recession was very deep and they have not recovered yet, like Italy or like Spain, partially also Eastern Europe where we have allocated, whereas in the Nordic countries where the economy is already back, like in Germany or now Poland or Nordics, we are short. Overall, we are long.

And now the question is: Beyond 2030, what can we do in order to reduce CO_2 emissions further? Here we have clearly said out in public that we as Heidelberg have the vision of a carbon-free concrete by 2050 and we are working mainly in two areas. The one area is called carbon capture storage. That means we separate and capture the CO_2 which is created in the process of cement production and then we can either reuse the CO_2, e.g. in order to press oil out of oil fields – that's a project which we do in Edmonton. And the other one is the famous Northern Lights project in Brevik where we are with our cement plant Brevik together with Statoil and Arcelor Mittal where we want to set up an amine project and where we are going to capture 50% of the CO_2 emissions of our Brevik plant, which is about 400,000 tons. That's the carbon capture exercise.

We are running also two projects in Germany, one in Lengfurt in our plant together with Linde, where we do a carbon capture trial project with the target to capture about 70,000 tons and then we have a different technology which is Oxyfuel where we have set up a joint venture together with Schwenk, Vicat and Buzzi in order to test that technology. The other area where we are working is by using in future more CO_2-free raw material in the production process and that has to do with recycling, meaning we want to recycle concrete. If you recycle concrete, you get grapple, stone, you get sand. And if you recycle very fine, as a third product you have what we called concrete paste. That's a mixture of cement, obviously, chemicals and some very fine sand.

This concrete paste is chemically only CaO, without CO_2, and this material we can use in the kiln again instead of limestone. And then in the process itself there would be no CO_2 created anymore. And we are working also on this recycling piece.

So long-term we think we can produce concrete in a carbon-neutral way. That's the clear message. That's on CO_2. That was a bit long, but I think it's important to understand between the trading scheme and what we are doing on research beyond in order to realize the emission of a carbon-free concrete.

Sven Edelfelt (Oddo BHF): Hello, thank you for taking my question. The first one is on Europe. I would like to better understand the cost dynamic between North and South. Looking at cement volume, it seems that the cost inflation has been lower in the South than it has been in the North. Is it a fair assessment? Is it linked to a price/mix effect or to the export volume?

Especially, I think, you closed down a plant in Sweden. Has there been any cost that you might have incurred?

The second one is on Indonesia. The local press has been reporting a fire at your Citeureup plant early October. Can you confirm this is only linked to a conveyor and therefore your production has not been impacted?

Dr. Bernd Scheifele: On Indonesia: I was there with Dr. von Achten on our trip around the world end of October. There was a fire on our conveyor belt from the quarry to our plant. But we settled this issue immediately. We did not stop production. We could handle that in a relatively – – within one or two days. That was not a problem.

In the Nordics, you talk about the cost structure. You are right. We have booked all Degerhamn closure cost already in the first nine months. And that effect will help us now in Q4. So the cost base will come down. I think we had an additional burden of

Degerhamn closure cost between 8 to 10 million which we have booked already because the Degerhamn closure was, I think, in April and that will phase out now in the next quarter.

Tobias Wörner (MainFirst): Good morning, gentlemen! Thanks for taking the questions. Two questions if I may. Number one: You kindly show this year in your presentation in the Q3 EBITDA bridge the breakdown between costs and other, minus 17, minus 76 respectively. Probably a question for Dr. Näger: Could you kindly also break that down for the previous year Q3 – last year you put them together into minus 165 – just to see the respective impacts, how they diverge. That's number one.

Number two: Please, with regard to Canada, Western Canada and California, just remind us of their respective exposures or percentage profits contribution in North America. And what do you expect from those two regions going forward into 2020, please?

Dr. Bernd Scheifele: Mr. Wörner, hello! On Canada and California, just to give you an idea: Our Canadian result per September on RCO level in euro terms is about down close to 28 million. That's quite significant. And also the Western region is down around 12, 13 million euros and that has been compensated by better performance in the region North and okay in the region South. That shows you a little bit that our North American result is significantly impacted by Canada and by our exposure in California.

And if you compare our numbers to our competitors', which we obviously also do, you have to look a bit at the footprint. We have quite a little bit of a unique position with three cement plants in California where others are not present. And our Western Canadian position is also very significant.

And what's the way forward? California: I personally was disappointed. Everybody who knows the North American market: It was clear that residential in California are under pressure. Housing starts are on a clear downward trend. But I would have expected that the infrastructure program of the State of California would have a much bigger impact. But that roll-out came a little bit slower than expected. For Western Canada, I would expect that also next year the market in the Prairie Provinces, Saskatchewan will not really turn positive. I would expect that to stay sluggish.

Dr. Lorenz Näger: Mr. Wörner, I have checked it, but we don't have the split here with us of the previous-year figure. I would guess that the split – but that's really a guess – is completely different because last year we faced a strong energy cost inflation, especially in Q3.

But I really have to check it and we'll come back on you.

Arnaud Lehmann (Bank of America): Good morning, gentlemen! I have three questions if I may. The first one is on your debt target. As you said, you targeted 7 billion euros of net debt a couple of years ago. On the other hand, in the last couple of years, you could argue, the macro risks have gone up, the trade war, the Brexit situation etc. and maybe in the meantime your EBITDA didn't grow as much as you hoped two years ago. Are you happy with this 7-billion target or would you consider pushing it a little bit lower? That's my first question.

My second question is just a follow-up on CO_2. You mentioned that you expected potential capacity closures from some of the smaller competitors. Can you be a bit more specific about in which countries you expect that to happen, maybe Italy, Spain or Germany? On your side, would you also consider closing capacity or just not produce if the cost of CO_2 goes up too much? That's my second question.

And lastly, could you give us a feel for your pricing outlook for 2020, especially for Europe? I guess we're seeing, as you mentioned, a more stable trend on the cost side. CO_2 prices have been more or less stable in the last months. Is that good enough to support further price increase in Europe next year? Thank you.

Dr. Bernd Scheifele: Okay. Mr. Lehmann, to talk about pricing next year is a little bit early for two reasons: First of all, we haven't had our budget meetings yet. And, secondly, I could put out now a very steep number and look to my colleague Mr. van Achten and say: Hey, you just deliver! – But we do not work that way in Heidelberg.

What I would say on Europe: What you see what is very positive and you see that clearly in our numbers: that the price trend in Europe this year was really good. If you look now per quarter for example, prices in Germany are up close to 5%, Bene more than 5%. Even France which has seen downward trends in cement prices over the last years, is up by more than 4%. Italy is up close to 10%. Even UK in a difficult market is up. Pricing was clearly strong in Poland. We are up 15%, we are up in Romania 8%, Czech Republic 8%. So we had a very strong pricing momentum and I do not see that we will change this push and strategy in our budget meetings.

Our message is clear: CO_2 prices probably will go up and cement prices have to stay ahead of the game. And that's why we will continue to push. I personally would expect – and I just looked at Dr. von Achten; he nods also –, we would expect the positive pricing trend in Europe clearly to continue. Heidelberg will work very hard in that respect. We have again set up special training sessions in Europe for our total sales force in order to make sure that we get a very good execution.

On the reduction, rationalization of the cement plants: Heidelberg has closed already its small plant in Degerhamn and we are about to close then – – We want to close the Kunda plant in Estonia. That's still a wet plant, which helps us a lot on CO_2 emissions. And then we have done a little bit our job.

We obviously have still a little bit of restructuring to be done in Italy. We will have a look closer to central Italy. Then France is for us also an issue because in France we have still three plants with a relatively old production technology. We are working on that.

I would expect that smaller independents will also follow. If you ask for countries where I would see consolidation or closures, it’s especially Italy, but also Spain is under heavy pressure. These are the two countries which I think where you will see movement.

And on the debt target, 7 billion: We feel very happy with that because that's the target which we had explained at our Capital Market Day in Bergamo. I think we are on our way. The 7 billion is, for a company of the size of Heidelberg, I think, a very good number. That would lead us then also down to a net debt EBITDA of what we said, around 2%, plus/minus, 0.2 – you know what I mean. And that is a leverage where we think we can comfortably live with.

If we look at our country portfolio which is more on the mature market side, we are less exposed to emerging market risk and the product portfolio where we have with Aggregates a very stable and price-resilient business. That's why with such a leverage, I think, we feel very confident.

Dr. Lorenz Näger: And we think the rating agencies also feel comfortable with that level of debt. We think that's the right level of debt.

Gregor Kuglitsch (UBS): Hi, good morning! I've got a few questions. Can you just remind us of what changed in the cash? Maybe if you could just update your kind of all-in CapEx guidance because, I guess, from where I'm sitting that's probably the biggest difference?

Perhaps a point of detail: I think you've done two deals in the second half. I think one is in the US and then the other one is in Morocco. Are these in the numbers this year or do they fall into next year? It's a little bit of a detail point.

And then just coming back on CO_2: Can you just confirm how you think about it in terms of the shortfall that you estimate you would have, everything else equal, by, say, 2022 on a spot basis, what kind of reduction that implies? Is it around 15%, 15/20% of European carbon emissions per ton that you need to reduce by?

And in that regard: Can you also just update us on your latest thinking on import rules into the EU, if you have any?

Dr. Bernd Scheifele: Mr. Kuglitsch, we are not doing any deals in Morocco. In Morocco, we reduced our stake in our publicly listed company in Q1. – Oh, we bought Ocean (?), yes. We made an investment in Ocean, in the South, close to Laayoune. You are really following the market. That’s a little bit a lost place, I tell you. I have been there.

That deal is supposed to be executed in December. You know, in Morocco you never know whether it happens in December or in January. But normally, that's in our plan that it would come into December, whereas the other transaction with Elementia – – That's the cement plant in the Lehigh Valley. That's the 150-dollar acquisition that will come in Q1 or maybe even Q2, depending on the Federal Trade Commission decision. But that's within our guidance.

And then on CO_2: I'm a simple man. I can tell you only the following: We have calculated – – and that's always the assumption I told you earlier and that's also in your report which you wrote. The assumption in the numbers I give you now is the assumption that there is no cyclical economy anymore, meaning Europe runs economically on the same speed as it does at the moment. Whether that's the case, let's wait and see. So if there is a recession, the whole thing obviously looks again different and more positive for the industry.

As we said, we're going to be covered until 2022. And then, without management action, our deficit, our yearly deficit would go up over the years to maybe 3, maximum 3.5 million tons.

We have set up now an action plan on plant level where we think we will reduce emissions by about 2/2.5. And if I add then my carbon capture storage in Brevik with about 400,000 tons, then you see: We can reduce by about 3 million tons.

The management target is to come in the next trading period also to a position where we do not have to buy additional CO_2 allocations. The three main levers are alternative fuel, the second one is a reduction of the clinker factor and the third one, as I explained earlier a little bit to Mr. Roger, is the use of carbon-free raw material.

Just to say that we are not only talking about that: You know that in Germany we have just modernized our two biggest plants in Bavaria, in Burglengenfeld and in Schelklingen. And in these two plants, from an alternative fuel rate of 40%, we go now up to 80 or even 90%. That is a significant emission reduction what we can do.

Gregor Kuglitsch (UBS): On the import rules, please, any comments?

Dr. Bernd Scheifele: Import rules – that's very difficult. The new Commissioner, Ms. von der Leyen, is not in yet. I think this is like looking in your coffee cup and expecting what's the weather tomorrow. I think that's very unclear at the moment.

Finally, we expect that the European Commission is very open to CO_2 border adjustment. That's very clear. They have understood that, if they allow non-CO_2 trading countries to import into Europe and we have to carry the heavy CO_2 price, this is not a fair competition.

And that's why I would expect on the long run that there will be a CO_2 border adjustment. Ms. von der Leyen is clearly open to that. And as you know, the French for example are also rather protective. So Germany and France are politically clearly in favor of border protection on CO_2. Also the German Greens, by the way, are in favor.

Christoph Beumelburg: Gentlemen, we have quite a number of questioners on the line. So can I please ask you to limit your questions to one at a time, please?

Dr. Bernd Scheifele: We speed up the answers.

Arnaud Pinatel (On Field Investment): As I am just restrained to one question, I will ask the other ones, I hope, tonight. Just on Canada: Can you share with us a little bit the present outlook for Canada? You are clear on the fact that CO_2 prices and regulation are driving the pricing for cement in Europe. Is it happening also in Canada at the moment? You know the Canadian government has also implemented an ETS.

Could you share with us a little bit more flavor on what were the pricing trends in Q3 in Canada and in the US?

Dr. Bernd Scheifele: Mr. Pinatel, hello! Canada: We have to be very clear … more details. In Western Canada, we have two different markets which are very different. We are very strong in the Vancouver/B.C. market. Vancouver and B.C. are still running very strongly. No problem. The problem is in the Prairie Provinces. You have these oil sand businesses etc. That's where the market is weak. That means Alberta, Calgary, Edmonton, Saskatchewan, Regina and also Winnipeg. That's what we call the Prairie Provinces. This is a resource-driven business which has suffered a lot under Mr. Trudeau. At the moment, they are under pressure.

Pricing overall in Canada has been stable. We have only been impacted by lower volumes. Just to be precise for you: For example, our supplies to the oil-patch industry this year are about 180,000 tons down versus last year. In a normal year we supply about 300,000/350,000 tons to the oil patch. This year, this is down to 120 and that is a very high contribution margin. … is maybe 60, 70, 80 dollars per ton. So that has a clear impact on the result – just to give you an idea.

Pricing is not down, pricing in Canada overall is about 4 dollars, 4.50 dollars up. It's about 182 Canadian dollar. So it's not a price pressure. It's a clear volume impact.

Arnaud Pinatel (On Field Investment): But you don't see the CO_2 cost in Canada driving the pricing in the coming years?

Dr. Bernd Scheifele: I see that Canada has a very similar regulation as in Europe. They have CO_2 tax, especially also in carbon, which drives electricity up etc. And that has obviously an impact on the market and on the pricing.

To be clear: Canada, the Western Canadian are now at the moment in a downturn, but this is still a highly profitable and cash-generating business. I would say, we complain on a relatively high level. But it disturbs a little bit our numbers because in Canada our numbers are clearly down and they have a clear impact on the total North American result.

Arnaud Pinatel (On Field Investment): The utilization rates in the US, just to get an idea: You mentioned you have to supply your growth partly with imports. From your integrated plants … you are already very high, I suspect.

Dr. Bernd Scheifele: We can discuss that tonight. I would say we are around 80%. It depends a little bit. We still have some capacity left in the Midwest and in our plant close to Toronto, whereas in the South, in Leeds we are sold out. And that's why, due to the growing market in Florida and Alabama, we had increased imports.

The revenue in our North American business is fine – you know what I mean – but the mix changed. We have good volumes in Florida and whatever, but the margin is very low and the volumes were low in the oil patch which has the very high margin. That explains a little bit the difference between sales development and result development. That's the message.

John Fraser-Andrews (HSBC): My question is on North America and this issue you are having in California. Can you talk about the infrastructure there? You also mention in your presentation you've got a good order book, you're expecting catch up of delayed projects in Q4.

And so also in Q4 in North America, where are you with quarry sales? You've indicated that's going to reverse in Q4. We know that Carroll Canyon was the big profit in Q4 2017. So where are we 2018, 2019 Q4 on quarry sales, please?

Dr. Bernd Scheifele: Mr. Fraser, Carroll Canyon, that's a long time ago. That's now two or three years. That is really industry history. Dr. Näger just told me that’s industry history.

You know that we have always a program where we sell our exhausted quarries and that has to do then also with permitting, with zoning regulation. That's always a little bit difficult to predict. That's why we have significant, let's say, excess land still in the Washington and also in the Oregon area. We talk about Seattle and Portland. We have one transaction we are working on at the moment which is close to Redmond; that's where the Microsoft headquarters is. It's a …. but there was some delay. For us, always the price is important and not that we hit your expectation on land sales on a quarterly basis. So that will come. We think it will come in Q4, but it could also be that it comes then next year.

And on California: Obviously, the fire in October now is also not helpful. You saw the fire was again very strong in California. We are going to be in California next week and talk to our people. We see: Order book, especially in asphalt, aggregates, is better. What was market weakness for us, also what was weak in the Western province was for us also the Seattle market. In Seattle, we had clearly a delay in projects. We have very big work. We have a big job in the new Microsoft Campus; that's a multi-billion dollar project in Redmond, Seattle, where we are the prime supplier. But there was a delay in that project. But what I understood from our management, talking to them in October, now volumes are clearly increasing. It's not that the work is not there; it's more a timing issue. So if the weather is okay, we should have a strong finish in that respect.

John Fraser-Andrews (HSBC): Just a quickie: The Q4 2018 quarry sale profits in the …, please?

Dr. Bernd Scheifele: I don't know. We're going tell you tonight. I don't know by heart.

Dr. Lorenz Näger: 80.

Dr. Bernd Scheifele: 80. For total? – For total Group it was about 75 million euro.

John Messenger (Redburn Europe): Hi there! Just on that last comment made: Can I just confirm that 75 was in the fourth quarter? It seems a surprisingly large number. Just so we're all clear.

Dr. Bernd Scheifele: The answer is yes. Q4.

John Messenger (Redburn Europe): Okay. – In terms of Middle East/Africa: Obviously, when we think about year-to-date or for the quarter, could you just give us a – – Obviously, you mentioned Egypt is a negative EBITDA producer – or was. Can we just have an idea of how that has evolved in the third quarter? What is your kind of prognosis for both Egypt and for Turkey thinking of next year for the MEA region, please?

Dr. Bernd Scheifele: Mr. Messenger, I think I mentioned it. I think we can be really proud of our result in Africa in Q3. If you look also for the full year, we are just a couple of million below last year. That shows you: Even with the two very bad markets in Egypt and Turkey, we can compensate by better results in other African countries.

Just to be very clear: Our Egyptian result on RCO level is down versus last year 30 million. That's a lot of money. Turkey is also down close to 9 or 10 million.

These 40 million for the first nine months we have more or less compensated by better results in Morocco, better results in Tanzania, Ghana, Togo etc. That shows you that our portfolio is quite balanced, that we can compensate even big problems in a big market by a good performance in other markets.

The outlook for Egypt is better for Q4, for two reasons. First of all, we have dramatically cut the cost structure in Egypt again. We have totally closed the famous Torah plant. The Torah plant was set up by Holcim, by the grandfather of Thomas Schmidheiny; that is a very old, traditional plant. We have closed it down totally. We have also closed one line in our Suez plant, close to the Red Sea, and we have already laid off 700, 750 full-time employees again in Egypt. Since Heidelberg took over Italcementi, we have laid off in Egypt 3,500 people. That is what we do.

That is why the cost base is significantly down. Until September, the market was negative, minus 6, minus 7%. In October, volumes are very strong. We have also led a price increase in Egypt in October by about 15% which seems to stick. So let’s wait and see. But at the moment, the actual trend is our friend; let’s put it that way. And that’s it.

John Messenger (Redburn Europe): The write-offs for Torah, has that all been taken or will that hit in the fourth quarter?

Dr. Bernd Scheifele: Yes, that is all in our cost base, obviously, yes, of course. That is why for next year our result improvement for Egypt will be significant, with the target to be RCO break-even, because we have a cost saving, volumes and pricings unchanged, of about 15 million euros on an annual basis. 15 million euros, that’s a lot. So we have taken the pain this year, okay? – Thanks a lot.

Rajesh Patki (JP Morgan): Good morning, everyone! Just one question then; it would be on Indonesia. The result is very strong in Q3. Do you see room for further improvement in pricing in that market? Also volumes were a bit soft in the third quarter. Are you already seeing a pick-up in this quarter?

Dr. Bernd Scheifele: Indonesia: I have to say, our market assessment for the full year was too positive. If you recall, we said, due to election first half year flat. And then we said, in the second half we would expect a run of about 8%. Then we would say, 4% for the full year. That is not realized because per September – you can check with Ozan Kacar –, I think, the total Indonesian market according to published figures was down 2.8%; it was still negative or even more.

So, October was again comme ci comme ça. October was better, for us especially. We are in October more or less on last year's volumes. But it is not – you know what I mean – a big boom. The problem is that the commercial part is still relatively weak. They wait a little bit for the new government. You know, all the ministers haven't been appointed yet and the administration is not yet settled in. That is why also infrastructure at the moment is relatively slow.

For next year, we would expect Indonesia maybe to grow again 4 to 5%. On the pricing side, that needs to be watched. On the market what we see now is: Pricing is up 10%. We have not been very pushy on price increases in bag cement for some strategic reasons. We will see, next year the market will be busy because Semen … is switching from the Holcim brand to their own brand. That will create some friends (?) in the market. So we will see.

Rajesh Patki (JP Morgan): So are you happy with the current level of margins in Indonesia?

Dr. Bernd Scheifele: Not fully yet. We gave a guidance that we want to go back in cement to an EBITDA margin of 25. If you look at our numbers in Indonesia, I tell you by heart, we are at the moment at 23 point something. So there is still a little bit upside. In the worst case, we were down to 19%. We have significantly improved the margin this year by 4 or 5 percentage points.

Christoph Beumelburg: Thank you for asking. And sorry to cut the rest of the questioners off. But we have time, I guess, tonight at the analysts dinner.

We will also be on the road today in London, tomorrow in Dublin, next week in the US. Thereafter, we are going to attend the Bank of America Merrill Lynch conference in December. So, there is ample room for meetings with us.

Thanks for joining in today and speak to you all later. – Thank you very much.