Trading Statement 2019 – HeidelbergCement AG

February 18th, 2020

Presentation

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the preliminary results Q4 and full year 2019 conference call. I must advise you this conference is being recorded today. I would now like to hand the conference over to Chris Beumelburg. Please go ahead.

Christoph Beumelburg (Director IR & Communication): Thanks, Sarah. Good afternoon, ladies and gentlemen. Good morning to everyone listening in from North America. My name is Chris Beumelburg. I am the Director IR & Communication at HeidelbergCement. Thanks for joining HeidelbergCement's Fourth Quarter and Full Year 2019 Earnings Call. With me today are Dr. Dominik von Achten, our CEO, and Dr. Lorenz Näger, our CFO, as well as Ozan Kacar and Piotr Jelitto from the IR team.

To facilitate today's call, we made a presentation and made it available for this call on the Investor Relations section of our website as usual. And before we begin, I would like to draw your attention to the disclaimer on page 22 of the presentation. This conference may call – this conference call may include forward-looking statements in connection with future events, future operating results of financial performance, and like our businesses, we are subject to risks and uncertainties that could cause actual results to differ materially. Except as legally required, we undertake no obligation to publicly update or revise any forward-looking statements, whether resulting from new information, future developments or otherwise.

With that, we will begin today's earnings call with Dr. Dominik von Achten who will discuss our full year operating performance, including the regional results. Over to you, Dominik.

Dr. Dominik von Achten (CEO): Thanks, Chris. Thanks so much. Hello, everybody. Hello to everybody here in Europe. Hello to everybody around the world, and especially in North America, hello from Heidelberg. And I am more than happy to share with you the results of 2019. And you have to receive the documents, and we will go through some of the key documents first, and then we are more than happy to take your questions.

If I go to page 3 of the documents, to summarize the year, overall from our perspective, 2019 was a good year. And as always, in a large group, there are mixed contributions to that good year, and some things went, from our perspective, very well and others did not go so well.

And to start with the latter, the first remark is on the revenue growth, which you see is like-for-like in the magnitude of 2%, very much driven by lower demand in volumes but a very good compensation of successful price contributions. This development was also the reason for our ad hoc release last week. I know some of you were a little bit surprised, why are they doing that? The reason is very simple: we took a formalistic approach that is driven by the German watchdog, what we call the BaFin, that our regulatory requirements, they have actually changed their approach to the German capital markets mid-last year. And very simply put, these new regulations say, if you miss any of your guidances that you have given during the last business year, even if it is an ever so slightly deviation, you have to go

ad hoc and make this transparent to the capital markets. That is what we did because we did not want to get into a potential discussion with our regulatory authorities. And the deviations were, as you have all well noted, ever so slightly, the revenue growth where we guided at some point last year, +3% to +6%... or +3% to +9%, I think, was even the broader range, and we came in at 2%. And also on the volume side, we will go through the details in a minute, we were a little bit on the lower end compared to what we have guided during the last business year. So that for you, I think, is important to understand.

The operating EBITDA increase was solid with 2.5% to a total amount of € 3.6 bn. We have communicated our target on the portfolio optimization and the disposal proceeds that actually now reached € 1.1 bn after two years – sorry, € 1.2 bn after two years.

We have had, and I think that is a very positive one, very high free cash flow generation. Lorenz Näger later on will share the details of that for you. And that brings down our net debt pre-IFRS to € 7.1 bn.

With those headlines, let me go through some of the details because I know that some of you are interested to hear what are the details behind this, especially on operating EBITDA, operating EBITDA margins and then obviously what are the regional and local details. And I will take – I am more than happy to take you through that.

If you turn to page 4, you see the development on the revenue side. For the full year, I think we are in good shape in terms of gross revenue increase and then like-for-like, 2%. And but I am assuming that you are also interested how did it go in Q4. And there, you see that the like-for-like development was minus 4.5%. The main driver of that was a decision we took in our HC Trading business where we have reviewed the portfolio of contracts, and we have decided to pull out of a couple of contracts that were more in the energy trading side and that, from our perspective, are not worth continuing or take too much risk continuing. And that, on a full year basis, has taken down the revenue alone by € 200 million. So I think that explains a little bit that downfall.

On the operating – absolute operating EBITDA, so those are the figures in the middle, you see the solid improvement in the full year. Now the question is what happened in Q4. You see like-for-like, it was basically stable, minus 0.3%. And again, that is a mixed picture of some things that went very well and some things that did not go so well. So for example, Indonesia had a very strong finish of the year in the fourth quarter. Also, the North region for us in the U.S. was very strong, and then also some parts of Eastern Europe and Thailand were very strong. Not so well, and that was the contribution to the slight shortfall in Q4, was Egypt. That was not good. I think we have communicated to you before that Egypt is not an easy situation right now. They also had a not-so-good Q4 last year. Also, Canada, we will come to Canada in a minute, but also, Canada was clearly weaker than expected in Q4. And then I think you have already noted that in our – in the presentations, also, Western/Southern Europe with its key countries, France, U.K. and Benelux, were below expectations in the Q4 performance when it comes to EBIT – operating EBITDA.

Now having said that, while the absolute EBITDA was a little disappointing, you will see, and that is very important for us to note, on the right side, the EBITDA margin development. And I think it is interesting to see that in the – while in the full year, the margin increased from 17.2% to 19%, the jump in Q4 2019 was even more significant with a jump from 18.3% to 21.2%. So while revenues were a little bit sluggish, while operating EBITDA was flat, the operating EBITDA margin, in fact, was on the back of a very strong price development, actually pretty positive. And in Q4, more positive than on the average of the year.

If you go to page 5, you see the sales volumes development. And I mentioned in the beginning that the volume development was slightly below our expectations, especially also in Q4. And that is why I would

like to take you through the developments on cement aggregates and ready-mixed, to give you a little bit more transparency and flavor what happened there in Q4.

I will start with the cement sales volumes on the left. And you see that the development in Q4 was more or less in line with the development of the full year. And to give you some idea where that has come from, that slightly sluggish cement sales volume development, that was mainly coming from Canada where the trend was weak in Q4. It was mainly coming also from the U.S. North business where partially, we had less shipping days. We had also significant – more impact from winter weather in the Midwest. So overall, the North was not so much a market issue but more a shipping day issue and also a weather issue in the Midwest.

In Western/Southern Europe, the comparison to Q4 2018 was very steep where we had a very strong development indeed. We had strike events in France. You may have read in the papers that Paris basically came to a standstill before Christmas. So clearly, there is an impact on the strike – from the strike development in France. And I will comment on that also on the aggregates and ready-mixed side. We have some environmental issues in Netherlands, not within our company, but there is a significant discussion going on between the authorities and the construction companies in Holland when it comes to some environmental impacts on construction sites. The discussion is not yet finished, but it basically led to a standstill on roughly 800 construction projects in Holland, which obviously also impacted our cement sales volumes.

When you go over to aggregates, the development in Q4 was slightly behind the development of the full year, mainly driven by Australia, to some extent, being a little bit slower. Indonesia, we had a couple of operational, smaller topics in our aggregates business, which is a very small part of our Indonesian business, but nevertheless. Israel, we had some supply issues in one of our quarries. I think that has also been discussed before. And then in Western/Southern Europe, again, the comparison was tough on the one hand, but also the U.K. and France, as noted before, was a little bit slower than expected.

On ready-mixed, we have similar issues that I described to you coming from WSE. Here also, we have some smaller – some slower developments in the Nordics where the market has been a little bit slower in Q4 and also, as I noted before, weaker developments in Canada. You know that we have a fairly strong ready-mixed business in Canada.

If we go to the next slide, page 6, you see the effect of our price over volume strategy. And I would like to point your attention to the middle of the slide, so the developments between € 3.164 bn like-for-like EBITDA in 2018 to € 3.242 bn EBITDA in 2019. You see that we have a negative impact for the full year on net volume of minus € 29 million. But -– and that is very important for us, that was clearly the targeted strategy last year that we have a price over cost development positive of more than € 100 million. This basically tells you that our pricing was able to overcompensate a shortfall in volumes and all cost increases that occurred during the year. So the net figure is positive. That is, from our perspective, a pretty good achievement. And I think it is important for you to get transparency on that.

When you turn to page 7, the same dynamics are made transparent for Q4. Here, you have to keep in mind, again, what I noted before, the comparison base for 2018 was very tough, especially for Western/Southern Europe where a significant contribution from the price increases is coming from. And something that impacts the minus € 45 m is what I described to you earlier on the volume effect. HC Trading reduction of volumes occurred in the majority – so the € 200 m that I described before occurred in the majority in the second half or even the fourth quarter of the year rather than in the first half of the year. So this obviously shows then also the balance between net volume and price over cost in a specific way for Q4 2019.

With that, I would hand briefly over to Lorenz Näger who makes a couple of comments on the net debt development.

Dr. Lorenz Näger (CFO): Yes. Hello. Good afternoon or good morning also from my side to all of you.

I will refer to Slide 8 where you can see our net debt development. In December 2019, end of the year, we have reached a net financial debt of € 7.1 bn before IFRS-16. This is a significant reduction in the amount of € 1.2 bn, and we are significantly ahead of our expectations. You know that we have guided € 7.7 bn at the beginning of the year then we saw that we have a good cash flow development throughout the year and tightened our guidance to € 7.4 bn. And then we had a very good run through the last weeks of the year based on a pretty low level of working capital by end of the year, which then led us to further reduce our net debt to € 7.1 bn. It is – the reason is a very low working capital towards the end of the year, on the one hand side, and the significant operational cash conversion throughout the year with a combination of low tax payments, low interest payments and, as I say, good operational cash flow generation. We had low Capex, very disciplined Capex, and good returns from our disposal program. As Dr. von Achten said earlier, our disposal program contributed more than € 600 m in 2019 so that the two years, 2018 and 2019, we have already reached € 1.2 bn. The program was front-loaded, as I earlier on – as I said earlier. And we have no more than € 300 m to go in 2020, and I am very confident that we will achieve our three years target of € 1.5 bn in that respect.

On top of the € 7.1 bn, we have the IFRS-16 lease obligations, which remained pretty much stable between beginning of the year and the end of the year of € 1.3 bn. So the total net debt stands at € 8.4 bn. And that brings us to a leverage, which is now down to 2.3 x EBITDA after IFRS-16. And here, we are also ahead of our targets, ahead of our expectations from earlier this year. So on this side, I feel quite comfortable. So that is it a bit from the net debt. I will update you at our year-end call in mid of March on the details when we have issued the cash flow statement and the balance sheet.

That is it, I mean, from my side, and I get back to the CEO.

Dr. Dominik von Achten (CEO): OK. Thanks, Lorenz Näger. And then I would continue with the dive into the different areas to give you some more transparency on what happened, especially in Q4 across our globe in the different areas.

I would, with that, turn to page 9 and talk about North America. You see that the sales volume development in Q4 2019 was slower in cement aggregates but good actually in ready-mixed. I think that is also important to note especially because our Canadian business is also very ready-mixed-heavy. So overall, the ready-mixed development in the sales volumes was good also in Q4.

The weakness in cement on the sales volume side is mainly coming, as I noted before, from the North region, I already shared with you the reasons, and also from Canada where it was mainly coming from the state of Alberta, so basically, the Prairies.

When it comes to aggregates, the reduction was mainly coming from Canada. Again, U.S. was actually positive year-over-year. And in Canada, especially the Prairie and the vicinity of the Prairies, so Saskatchewan and Winnipeg, were a little bit slower in Q4. Just for you to understand, for us, region Canada means also including the Pacific Northwest. So Seattle actually for us is part… when I say Canada, no disrespect to the Canadians, but our region Canada includes the Pacific Northwest around Seattle.

When we go to the operational views on revenue, operating EBITDA and margin, you see that the revenue development was actually OK. And on the operating EBITDA development, it is very important for you to understand that the overall figure for North America was minus 3%, but that really falls into two very different buckets. U.S. actually was positive by plus 3%, and Canada was negative. So this is a mix really of different demand situations but also different product mix development when it comes to operating EBITDA.

And then on the margin side, you have the exact same picture with the fact that the U.S. was actually clearly positive on the margin development in Q4, while Canada was – remained weak also on the margin development.

So overall, I would say the price increases that we also pushed in North America basically led to a good revenue increase and were able to compensate mainly the weaker-than-expected volumes, especially also in Canada. And it is important to understand that our earnings growth in the U.S. was a little bit overshadowed by the weaker situation in Canada. When I say Canada, I mean, region Canada.

Western and Southern Europe, page 10. From our perspective, when it comes to volume development, it is clearly below our own aspirations. I think that is fair to say. You see the sales volume development. Cement, aggregates and ready-mixed were all slightly negative in Q4. And I already shared some of the drivers for that. I will come back to them when I talk about the profitability.

So let me just comment on the local temporary problems in Q4 2019. That comment is basically going towards three developments. One, I shared with you the strike situation in France. From our perspective, you can argue that is something normal in France. But I would say that is - that was very not normal in terms of length and intensity, the strike situation that we faced in Q4. Then we have this, from our perspective, temporary issue in Holland on the environmental side where the government and the regulators need to get their arms around how to deal with the situation if they do not want to bring the country to a standstill from a construction perspective because the demand in Holland is actually strong. Backlog in Holland is strong, so there is enough demand, but we need to get it… we need to be able to get it to the ground. And then in the U.K., many of you are based in London or some of you are based in London. You know that we had still the clear uncertainty around Brexit in Q4. That is now behind us with the Brexit that has been decided end of January. And in that respect, I will come to the expectations for 2020 when it comes to the U.K. market in a minute.

If you look at the operating EBITDA development, the weaker volumes obviously had also an impact on the EBITDA in Benelux, notably Holland, France and the U.K. And in Germany, we were also slightly slower in the quarter than in the overall year because the comparison was fairly strong in Q4 2018. Also, some larger projects were coming to an end.

When it comes to the margin side, again, the volumes in Benelux, France and U.K. basically impacted also the margins in Q4. We will continue with our cost measures. So part of the SG&A savings that we have communicated in the past are actually taking place in Western/Southern Europe, so notably in Germany, France, partially the U.K. also in Italy, partially also in Benelux. So all Western/Southern European countries are impacted by these cost-saving measures on SG&A level.

And we do not have a slide in there, but just to share with you, I think we can do that. The overall result on the communicated SG&A savings program, we communicated during last year, first, € 100 m savings in 2018 and 2019. We upgraded that since then to € 130 m, and we came in at € 134 m by the end of last year. So well on track, and there will be some additional savings coming also during 2020 in that respect. So we are working on our cost base and especially on our cost base also in Western/Southern Europe.

If we then turn to Northern and Eastern Europe and Central Asia, you see overall that the volume development was also slower in that part of the world. The Nordics were behind, clearly behind the year before. Also there, the comp was still pretty good. But Nordics were slower in that respect and overall, also driven, that is important to understand, by low exports because part of our cement business in the Nordics is going to Africa and partially also to the U.S. in terms of cement volumes that we have reduced during Q4, also the impacted … or impacting the CO_2legislation that you all know about because that becomes a fairly costly exercise if you do not get the margins, if you put all the CO_2 costs in. Then we have decided to reduce our exports out of the Nordics, so that basically impacted that. And then in some other Eastern European countries, again, the price over volume strategy was followed well from our perspective, but that did cost some volumes. And that is especially true for Poland and also the Czech Republic. And that is pretty much also the picture for ready-mixed. That basically, my comments on cement basically can also be transferred to the ready-mixed business.

When it comes to the operating EBITDA development, also the margin development, you see the colleagues have done a very good job in that respect, again, price over volume. So it worked that we covered our cost increases well in Northern and Eastern Europe. So the operating EBITDA actually jumped up by 11% like-for-like, and also, the margins went up to a healthy 26.2%. So overall, weaker volume development also due to a delay in some infrastructure projects and a little bit shortfall in demand, especially on the residential side in the Nordics.

When you then turn to Asia Pacific, page 12, you see that we had flat cement sales volumes and lower volumes in aggregates and ready-mixed. And that is, on the aggregates side, mainly coming from Indonesia, as I was indicating before, and also from Thailand where a quarry of us was faced with an expired license. Positive actually, in that respect, was Australia. They had a very good development in Q4 on the aggregates volume side that also sometimes is a product mix issue. Ready-mixed was weak in Australia, and that is basically true for all regions in Australia. Q4 in ready-mixed was not a very strong quarter for our Australian business.

But if you turn – similar to Northern and Eastern Europe, if you turn to the operational side of things, operational EBITDA went up by 7%, and the margin went up to 23.4%. And that is basically driven by good developments in Indonesia and Thailand and also a very strong cost performance in Australia where in line with the reduced demand, our colleagues in Australia were able to reduce their operating costs pretty significantly.

Then, on page 13, Africa/Eastern Mediterranean, you see that the volume development was a little bit better than in the rest of the group. Cement slightly up, aggregates slightly down. I explained to you earlier, that is mainly driven by the specific situation in Israel. And when it comes to the operational highlights, you also see here that the EBITDA goes up 7%, and the margin also goes up to almost 24%. Overall result development in Africa was good in sub-Sahara from our perspective. Also, Morocco was going well. Egypt was clearly the weak spot, as I indicated earlier, during 2019 and also in Q4 2019.

Last but not least, for the figures in – on the detailed perspective, page 14, what we call group services, that is mainly our HC Trading business. You see the reduction of almost € 200 m in revenues that I explained to you earlier, and you see it also in the verbal comments. And then on the back of that, our operating EBITDA and margin came down significantly in Q4. That is on the back of that volume reduction and also some administrative one-offs. As you know, we have restructured the business, and that has also taken a small toll on the development on operating EBITDA and margin, but we do not expect this to be a structural problem.

That is it from my side on the Q4 figures for 2019. If you want, I continue briefly with the first indications on the outlook for 2020. And we have put, in page 15, a map to give you some ideas of how

we see the world very early on in… for 2020. You know that we will give our guidance in the next call in March, mid of March where we share the full year figures. And typically, like we have done in the years prior, we will give our guidance for 2020 in that call. But I thought it is fair to give you some early indications how we think about the world from our perspective.

So let us start. On the left side, North America falls a little bit into two different buckets. By the way, that is not untypical. We have seen this also in the past. I very well remember the financial crisis 2008, 2009 and the years thereafter, very different economic cycles between the U.S. and Canada. So here we go. U.S., from our perspective, we have an election year, so the growth should somehow continue in the U.S. You know about all the infrastructure programs that have come out or are about to come out on national and also on state level. I think in that respect, we are quite well positioned.

Canada will be a little bit more sluggish in demand. We would assume that right now, the development in Alberta and the Prairies is hopefully bottoming out, but that is something we will have to see. And then Pacific Northwest, there is a lot of pent-up demand there. You know that we have… there are a couple of big construction projects, for example, the new Microsoft campus. So in that respect, we expect there is good and not-so-good things in our region Canada. But overall, we are a little bit cautious on Canada, although we do not expect a significant drop.

If you then go to North Africa, I think overall, we would expect a slow recovery in most of the countries. Egypt, we believe, should have seen the worst. Let us see whether it becomes too much from our perspective. That is the current picture. Sub-Sahara, of course, should continue its growth, and also South Africa should remain somewhat stable.

In Europe, we do not expect a major change in the demand, should be rather stable in most countries. Northern Europe, I think, stable to maybe a little bit weaker at times. But that will stay a little bit up and down, up and down because it is also Norway, Sweden, Denmark, Iceland for us, so there are a couple of countries even within Northern Europe. Turkey will continue to be weak. There is also the currency issue. You read the paper probably as well as we do. For us, that is not a massive impact on our group results. But clearly, Turkey is facing some problems. Russia, we would expect after a difficult 2019 to return to a little bit better growth pattern in 2020.

And China, yes, whether a slight growth is right or not, you saw the developments in other industries in the recent hours and days. We have to wait and see how the coronavirus will develop and impact the development in China and maybe also the surrounding states in Asia. At this point, I think there is… it is very difficult for us to predict the situation. So China, I think, fundamentally is OK. But in that respect, we have to see what is the impact on the Chinese business.

Indonesia, from our perspective, should be on its way on a good path. We should not communicate too much on Indonesia. Our colleagues of Indocement will report their results, I think, beginning of March. There, you will get the details on Indonesia. But overall, from our perspective, Indonesia should see an OK year in 2020.

India, it is difficult to predict. There is clearly some issues on the project financing, the financing structure of the construction industry that will put some limits on development. But also, India is a huge state. There is Southern India. There is Central India. And we have seen also even, between those parts of India, very different developments from our perspective. Last year was not… was below expectations. Let us see how 2020 will come out in that respect. We do not expect a major recovery, but we do also not expect that things fall much further down from what we have seen this year.

That is the current view from our perspective. With that, I would hand back to Chris, and we are more than happy to take your questions.

Question and Answer Session

Christoph Beumelburg (Director IR & Communication): Thanks, Dominik. We will be happy to take your questions now. We have scheduled 1 hour, maybe a little more for the call. So Let us get started. Operator? The first question comes from Arnaud Pinatel from On Field Research.

Arnaud Pinatel (On Field Investment Research): I would have a question on, well, the vision that Dr. von Achten came up for Heidelberg in the next decade. Could you start to share a little bit with us what do you think are the main opportunities and the main challenges for the group? And … or do you intend to position the group to face or … seize this opportunity of challenges?

And my second question will be on the Capex. We can see that you are investing in the U.S., so I am sure you are expecting returns from these Capex investments and probably savings. We have seen also that you have invested across Western Europe and digitalized your assets. So could you give us a little bit more flavor also on what could be the benefits? And when can we start to see these savings or benefits in your results in the coming years?

Dr. Dominik von Achten (CEO): Yes. Thanks very much, Mr. Pinatel. Let us … you started with a bold question. That is very welcome. So thanks for your two questions. Let me comment on both of them.

First of all, strategy, you called it vision. Obviously, and I think I have communicated that partially also in the last call in Q3, we are working on a strategy update. I think it is good business practice after now 15 years of the prior CEO to use the occasion also to work on a strategy update. That is what we have started in November last year, and we have continued obviously during the beginning of the year, and we will continue to do so until the summer. So we will not take three years for that. But we … I think it is a professional practice that we do not shoot from the hip in that respect. So we take our time of roughly four to 6 months in order to work on the strategy. And then we will come back to the capital markets right after the summer break this year to communicate to the capital markets what is the… what are the cornerstones of that strategy.

I know, Mr. Pinatel, I know you a little bit. You try to get a sneak preview. I get the… I understand the point. So without giving too much away, I think it is very clear that we need to answer in that strategy update also a couple of feedback that I have received from our investor base, from colleagues around the world, also from our Supervisory Board members. So it is clear that we will need to tackle a couple of the topics that are out there for the industry, so talking mainly environmental CO_2. We are talking about digitalization. You mentioned that also. And we will also need to tackle the question of capital allocation. That is clearly something that is on everybody's mind. And that includes also your Capex point to some extent. And there is also the question around portfolio optimization. So the question, what is the situation in our portfolio in terms of mature markets, emerging markets, how are we planning to go about in that respect. So those are – just to give you a couple of points, those are obviously some cornerstones that will be reflected in the strategy update.

When it comes to your second question, on the Capex side, you mentioned specifically our projects where we re-planned Mitchell with a very significant investment in the U.S. That investment in itself will need to have a good return and meet our capital requirements. That plant will replace many other old inefficient kilns in the area, six or even seven kilns that we will replace with that new investment in Mitchell. And that will bring a significant step change in our variable and fixed cost positions up in

the North and Mid-north – Midwest and Northeast market position. And we are currently also reviewing that project with the new environmental standards and the CO_2 question, whether there is something we can also do in that respect so that We will need to return the capital to the company and then eventually also in the interest of our shareholders.

When it comes to digitalization, I know that many of you have the question, how does that contribute to the return. We will cover that question in our strategy update, and we have to be realistic. Some of the investments in that area will need to yield immediate returns. There are fields where they will do, and there are others that more are mid and longer term where we probably have to be a little bit more relaxed in terms of immediate return expectations. But it should be a good mixture because the equation at the end needs to show improved returns.

Christoph Beumelburg (Director IR & Communication): Thank you. Next question comes from – oh, sorry.

Arnaud Pinatel (On Field Investment Research): And capital allocation, you mentioned it?

Christoph Beumelburg (Director IR & Communication): Sorry, Arnaud.

Dr. Dominik von Achten (CEO): Mr. Pinatel, I said a sneak preview. That means a sneak preview only.

Arnaud Pinatel (On Field Investment Research): I will be patient otherwise.

Dr. Dominik von Achten (CEO): No, no, no, it is fine, yes? But we will come back on that. I understand your point, but on that one, bear with us.

Christoph Beumelburg (Director IR & Communication): All right. Next question comes from Yves Bromehead from Exane BNP.

Yves Bromehead (Exane): So two if I may. The first one is on the group strategy on pricing over volume that we have seen in Q4 2019. Is this a good indication of what we should also expect for 2020? And does it also suggest that you are seeing pricing power coming back, especially in Europe?

And my second question would be on what you mentioned during the call. I think you hinted toward a potential SG&A saving plan in 2020. Could you also give us a slight sneak peek as to what we could expect in terms of the magnitude and if it is something similar to 2019 or maybe above that?

Dr. Dominik von Achten (CEO): OK. So thanks a lot for your questions. Let me answer and – both of them. When it comes to the price over volume strategy, you know that, that has been not so easy in the past to significantly push pricing. That is true for many parts of the world but especially also for the mature markets, especially the markets in Western/Southern Europe, Northern and Eastern Europe.

And in that respect, we have advanced well in 2019. And from today's perspective, there is no reason to let go of that strategy. We have seen good results coming from that. Yes, maybe it reduces a little bit the volume development that, that is the price you pay. But I think the price-over-cost ratio that I shared with you shows clearly that there is operational and – EBITDA and EBITDA margin benefit with that strategy. And as long as that is the case, we do not see a need to let go from that general strategy. Of course, there will be deviations in markets. That is absolutely clear. We have to watch market by market. And we leave most of that decision also to our local management, you know that, but in general, the comment, I think, is fair.

On the SG&A saving plan, we will continue to review SG&A as we go along. And so not – you should not assume that if we do not have a savings plan, we do not watch our SG&A costs. So we continue to watch SG&A development. We will have some savings in 2020, but it is not the same magnitude that we have seen in the specific dedicated program in 2018 and 2019, but that is the current status. If the business takes a turn to the negative, Let us say, in Northern Europe, Let us say, in Australia or somewhere else in the world, then you know that as a group, we are quick on our feet to react. And what I shared with you is the current plan. If there is – if the tide turns, we will be quick on our feet to react.

Christoph Beumelburg (Director IR & Communication): Thanks, Yves. Next one comes from Gregor Kuglitsch from UBS.

Gregor Kuglitsch (UBS): So could I follow up please on the cost over price and what you are seeing into the new year? So perhaps we could structure that into part 1 and 2. So firstly, what was the energy cost deflation or inflation in 2019? And what are your kind of contract and spot pricing telling you for the year ahead? And then part two to that is what price increases you have announced. I think you have previously commented… at least your predecessor previously commented quite generously on price increases that were announced. So I would be interested if you care to continue that.

And then a second question, which… I appreciate your answer on the strategy and capital allocation. So you may not answer this one, but I will ask it anyway. So I think your shares are obviously trading at 6.0 x, 7.0 x , something like that in terms of EV/EBITDA. All deals that we have seen ever in this industry have been kind of > 10.0 x. Do you think there is a case to be had to dispose of some assets and buy back stock?

Dr. Dominik von Achten (CEO): OK. Mr. Kuglitsch, thanks a lot for your two questions. They were… if I noted them down, you were clever, you made… you put four questions into 2. So I will try to answer all two sub-bullets that you also put on the first one. So in that respect, cost over price in the new year, I will come to that in a minute. Energy cost inflation, I think, was the question in last year. Energy cost deflation actually in the last… in the total number of 2019. So energy prices overall for us came down driven by lower fuel costs in 2019. Electricity prices increased for us in the full year 2019… And on energy in total, the deflation was roughly 5%. All in all, electricity up, fuel down . As a result, energy in total is down.

Now you know our hedging strategy that we have taken in the past. We have not… or yes, we call it forward buying. Lorenz Näger is right. So the forward buying strategy is still in place, which means that we do cover a couple of the volumes going forward. But we do not buy ahead in the magnitude of one,

two, three or four years. So on average, you can assume that we go around three to sixmonths is the forward buying target. And there is always exceptions, but just to give you a rough rule on that.

Gregor Kuglitsch (UBS): Did you expect...

Dr. Dominik von Achten (CEO): When it comes to… yes, yes. When it comes to cost over price in the new year, we have seen the first indications for January, and there is no reason to believe that, that strategy has… needs to change. So the start of the year in that respect was OK. Pricing development overall went in… from our perspective in the right direction. Volumes in January, we should not overestimate. There are parts where we had very strong volume developments. There are other parts that are a little bit slower. But as you all know, for the… for some of the key countries, January is a very low-volume month also because we go through winter repairs in our cement plants. So in that respect, the volumes in January are not all that meaningful.

And then when it comes to price increases, I have understood the path in that respect, yet I do not plan to go into details whether we have increased the prices in South Texas. So in that respect, I ask for your understanding. I leave it with a comment that we are very focused to move our prices ahead. Wherever necessary, the prices have… price increases have been announced, and they will be implemented partially even as of January 1st. But then during the first quarter, they should be implemented. That is not the practice, and we have actually pulled that practice a little bit forward. So we have changed the approach in the way that, in the past, it was typically more March, April, May for the price increases. And we have pushed our colleagues to start pushing the prices as of January 1. So those two comments on the pricing side.

And then on the strategy, I hear what you say, and believe us, it is not something we have not seen. It is clear that we are not necessarily happy with the trading multiple. We do note that, that is something to be improved. We are working on the strategy, as I shared with you, and Let us wait and see what comes out of it. Whether the measures that you have described are the right or a potential lever to make a step change in terms of trading multiple, we… I think you can argue and we have to see, and we will make the analysis and then come up with an answer to your question.

Christoph Beumelburg (Director IR & Communication): Thanks, Gregor. The next question comes from Robert Gardiner from Davy Research.

Robert Gardiner (Davy): Just two from my side. So wondering if you would not mind just commenting on the fuels trading business. What exactly is in there? Why did you stop it? Why has it become more risky? And also talk a little bit about the oversupply of clinker you referenced in the Mediterranean. And then wondered if I could just come back on the Northeast Europe, Central Asia division, very large increase in the margin there. So I am just wondering what is behind that given that the Nordics businesses have been a bit more challenging.

Dr. Dominik von Achten (CEO): There was… the last question was the Nordics.

Dr. Lorenz Näger (CFO): Nordics margin…

Dr. Dominik von Achten (CEO): Nordics margin. OK, Mr. Gardiner, thanks very much. So let me comment on your three points. One is the fuel trading in HC Trading. The question is what is the scope of the trading business. That is something we have reviewed during last year. And the original idea is that we trade clinker and also partially cement. We trade also some commodities when it comes to energy. But reviewing the portfolio there, we have seen that the management there has moved sometimes at least at the edge of that scope or sometimes beyond. And that is why we have reviewed the contract portfolio because you know that when you trade fuel commodities, the prices and the exposures typically go quite high. And from our perspective, that is not the core of our business. So we have closed some of those contracts that were partially open. So I think the situation, just to make sure that you understand that there is no ticking bomb or anything in that respect. But I think it is a careful review of the existing contracts outside or at the edge of our scope. And we do one after the other without any hectic… we try to reduce the potential risk exposure in that respect.

When it comes to oversupply of clinker, Mediterranean, that comment is linked to the fact that there is massive overcapacity in Turkey. You know that the capacity utilization in the Turkish market is very low. And obviously, those Turkish players who can export try to do so, and that comment was related to that oversupply of clinker. And as you know, we consume some of that clinker in our own operations in Africa, also in parts of Europe but mainly also in North America. But that comment was related to that point.

And then your last question on the Nordics, Let us see. I just want to make sure that I fully understand to which figure you are relating. Can you maybe mention the slide and the specific point on the slide that you are referring to on the Nordics?

Robert Gardiner (Davy): Sure, yes. On page 11, you have your EBITDA margin in Q4 up 536 basis points year-on-year. And I am just wondering, with like-for-like sales down, how that is so strong. Is there anything in there? Or is that just pricing?

Dr. Dominik von Achten (CEO): Yes. From our perspective, looking at the details, that is mainly pricing. I think the pricing development… and I think it is fair to say, I have just talked to our colleague in Northern and Eastern Europe. And if you talk to him, you clearly hear that he is very focused on making sure that pricing sticks. And that is why my answer to your question would be that is mainly pricing. And do not forget that also in Northern and Eastern Europe, we have the CO_2 costs coming, and we have pushed our colleagues to make sure that we do not give anything away, but rather the opposite, we continue to increase our pricing to cover the increased costs but also to get some headroom in order to be able to invest in some of operations in our… in some of our operations, if necessary, to continue to reduce our CO_2 footprint down the road.

Christoph Beumelburg (Director IR & Communication): OK, Robert. Next question comes from Rajesh Patki from JPMorgan.

Rajesh Patki (J.P. Morgan): Two questions for me. First one is in consensus expectations, which are in the sort of 3% to 4% like-for-like growth on EBITDA for 2020. Just wanted to understand how comfortable you are with this. And is it fair to assume that the growth will be skewed towards the second half given the first half has a tougher comparison base?

And the second one is on net debt. You have reached close to the midterm target of € seven bn, but leverage is still at 2.2 x. Is the aspiration still to be at around € seven bn? Or do you think it needs to be adjusted to under 2.0 x in terms of leverage? And within that, consensus expectations are for € 800 m improvement in 2020. Do you think that is realistic?

Dr. Dominik von Achten (CEO): Mr. Patki, thanks very much. I will take the first question, and then I will ask Lorenz Näger to comment on the net debt.

On your first question, two points. One, as you know, we have communicated that we will give our guidance in the next call in March. So that also includes the volume. And we have learned also in the last year that guidance on very close ranges or even on ranges in our business may not necessarily be very good advice because it is so volatile during the year that we want to avoid to create ad hoc messages every four weeks or every two weeks, not because the business has gone in the wrong direction, but we have given out some guidance that is not so easy to hit in all dimensions. So yes, we will give a guidance, that is no question. But bear with us for the next call in March on specifics on that.

Dr. Lorenz Näger (CFO): OK. When it comes to net debt, yes, you are right. We had a very good run on the cash flow side. That is based on, as I said earlier, good quality of earnings, meaning good cash conversion rate with very low working capital, at the end, very disciplined Capex and a strong progress in our disposal program. So that was the underlying driver that we almost achieved our 2020 target already in 2019 with a net debt of € 7.1 bn by the end of December 2019, and that is pretty close to our target of € 7.0 bn. So that is only a very small amount to go.

Now that was pre-IFRS, yes, in… it was announced, I mean, three years ago or so. And we are very well underway in that respect now. The net debt position or the leverage as such needs to be reconsidered after IFRS-16, and you have seen that we have put on a debt of € 1.3 bn coming from that. Our ultimate target, what we want to achieve is that our financial ratios and metrics are in line with a BBB flat rating. So that is our target. And we will have meetings with the rating agencies in March in order to understand how they applied IFRS-16 standards in their calculations. And there, we will have discussions. And from that, we will then determine our ultimate target or leverage taking into account the IFRS-16 effects, yes? So that is what we do. Currently, we feel quite comfortable. We see further deleveraging also in 2020. But the question is to what extent do we need that in order to reach a BBB flat rating. And that we will clarify in the first quarter now of the current year, and then we will take it from there.

Christoph Beumelburg (Director IR & Communication): you have OK. Now we have a question from Norbert Kretlow from Commerzbank.

Norbert Kretlow (Commerzbank): you have A question on the Australian aggregates market if I may. You mentioned ready-mixed weak and aggregates strong. And I would… from my understanding, in Australia, the project pipeline for infrastructure is pretty strong. So I would assume that a lot of the aggregates have been consumed by infrastructure, and I would assume that this is something which will continue. If you look at the interest rates in Australia, the Royal Bank of Australia has started a cutting cycle mid of June. Typically, this starts to phase into residential construction with 2-3 quarters

delay. We might be able to see something by now. Could you maybe shed some light on what we may expect from Australia from your perspective in the coming quarters?

Dr. Dominik von Achten (CEO): Yes, Mr. Kretlow. Thanks a lot for your question. You know that Australia is … you know it obviously very well. It is a very big … even a continent in that respect. And there is not one Australian market. You know that we have … and you hinted to it, there is a lot of residential development that has happened in the past years and that has driven some of the strong performances of our business as well. That is mainly centered around Sydney, Melbourne, Brisbane and also, to some extent, Perth. And it is fair to say, and that is why I think the Central Bank has reacted, that the residential development in Australia has come to some slower developments that mainly centered around those cities, Sydney, Melbourne, Brisbane. Perth is a little bit of a special animal up in the North… in the West… on the West Coast or Northwest Coast. But in that respect, it is clear that things have slowed down a little bit. And that also explains… I think that was the background of your question, the slower ready-mixed demand in some of those areas.

When it comes to infrastructure, I think your comment is fair to say that aggregates are consumed in a significant way also on the infrastructure side. I think you have to be a little bit careful with the aggregates development because aggregates, again, is… it includes a large variety of products, stone on the one hand and then sand and gravel to road base. And in that respect, the volume development itself does not necessarily tell you where does the product go. So yes, I think there is a link with good infrastructure development in Australia. But to read too much into it, how it goes into 2020, we have to see.

Our Australian colleagues are fairly confident that we will not see a massive decline across the board in Australia. But whether we see an uptick in Australia, even in parts of the area, we have to wait and see. This is the… even from a European perspective, flipped upside down, you know that they have just returned from their summer break in Australia, and it is too early to say, even looking at the January development, what is going to be the outlook for 2020. We have to see a couple of months down the road, how the situation in Australia develops and especially whether the actions that the Central Bank has taken that you rightfully described will actually turn into what you indicated, higher residential demand because that would clearly help our business.

Christoph Beumelburg (Director IR & Communication): OK. So we have time for two more questions. The next one comes from Arnaud Lehmann from Bank of America Merrill Lynch.

Arnaud Lehmann (Bank of America Merrill Lynch): you have My first question is on CO_2 or related to CO_2. You happened to have lower volumes in both Europe and Canada in 2019 obviously as you explained. And a lot of it is market-related: the strikes in France, nitrogen in the Netherlands and the cyclical slowdown in Canada, et cetera. But how does that leave you in terms of your CO_2 emission schemes in both Europe and North America and Canada? Is it actually a positive? Are you in a better shape heading into Phase four of the European trading scheme or you do not see any meaningful impact there?

My second question is on your, I guess… I appreciate you do not want to comment on your strategy update for the medium term. But looking at 2020, you came at the end of 2019 with a better-than-expected net debt. So the focus for this year 2020, is it to continue to reduce the debt? Or would you

be open to, Let us say, bolt-on acquisitions, some consolidation, maybe continue in Italy or maybe a few midsized deals in Indonesia?

Dominik von Achtenyou have OK. Mr. Lehmann, thanks very much for your two questions. Let me answer both of them. One is on CO_2. That is a clever question if I may say so. The lower volumes, obviously, wherever we produce, whether it is in the area of EU ETS or outside, you mentioned also Canada, that is obviously contributing to a lower CO_2 footprint and so a lower CO_2 emission level. That is the… was the first part of your question.

The second part, it is not so easy to answer. Whether that is actually a strong contribution or a better contribution to the next phase of EU ETS, that is obviously something we analyze, but it is not easy to give you a flat-out overall answer on that because that is a very local strategy. I do not want to take you through the nuts and bolts of EU ETS regulations, but there is this 15% rule that you have to watch what happened historically, what will happen going forward. So there is no one straight answer to your point, but rest assured that we have understood the dynamics and that our local management teams are very much on their toes to keep that also in mind when they manage their impact of… the impact of their strategy on EU ETS certificates in the running year but as good as we can also in the years to come.

On the strategy 2020, I know all of you would love to get all the details. But in that respect, I think it is fair to say… Lorenz Näger has shared with you the current answer. You know the existing debt levels. He has given you also the idea where we want to go a little bit down the road. We are now at a net debt to EBITDA that is, from our perspective, going in the right direction. We target the BBB rating. I think that is also a BBB flat rating. That is also what he has shared.

I think there was an underlying point in your question that I would also specifically like to answer. We are not stopping to try and develop our business. That is absolutely clear. It is smaller, bolt-on acquisitions in local markets, it is clear that we have to do that. Otherwise, the transition in CEO position does not mean that we now sit back for sixmonths and look at our strategy and stop the business. The operational business will massively continue. We have a high attention on our cost situation. We have a high attention on our pricing development. And also, we have a high attention on our local management teams to watch every opportunity they get to grow their business in the local market. But… and I would make that comment also, you should not expect during 2020 an acquisition of the magnitude of Hanson or Italcementi, just to make that very clear. If that is on your mind, I think That is fair...

Arnaud Lehmann (Bank of America Merrill Lynch): OK. Good to know.

Dr. Dominik von Achten (CEO): That is fair to say that we… if this is your… the background of your question, we can give you some comfort in that respect.

Christoph Beumelburg (Director IR & Communication): OK, Arnaud. So the last question comes from Nabil Ahmed from Barclays.

Nabil Ahmed (Barclays)you have Yes. I understand you do not want to comment on the pricing strategy in diesel market. But maybe if you can qualitatively give some comment on what is the level of

acceptance in the U.S. and in Europe of price hikes in an environment where energy cost is coming down, would you expect price hikes to be around the same magnitude of last year? Or do you find it more difficult to pass some price increase?

And the second question is on Indonesia where there has been almost zero price hikes for most of 2019. I guess part of the answer is related to the cost deflation also up there. What is in the cement pricing strategy in 2020? Do you want to make an attempt to pass on price hikes in that market?

Dr. Dominik von Achten (CEO): Thanks very much for your two questions. Let me comment again on both of them.

On the pricing side, as I said earlier, we have announced in all markets our… the necessary price increases that obviously differ market by market. That is also true for North America. That is true for the U.S. That is true for Canada. And That is also true for our Western/Southern and Northern Europe and Eastern European operations. We realize that obviously, one of our cost items that you have mentioned is coming down. But when it comes to energies, energy costs, let me make two comments on that, and That is something we have discussed very well with our local colleagues. We have learned it the hard way in 2018. Energy cost is something that can fluctuate day-over-day, week-over-week, month-over-month. And just because it is a little bit slower in the last couple of weeks, to basically pass on a price increase, that can be a very dangerous exercise because if then the energy prices come up in March or April, again, to then go back to the market and ask for an additional price increase, I think That is very difficult. So in that respect, we have learned our lessons the hard way in 2018.

And the second point, energy cost is not a small cost item, that is true. But by the way, That is only a major cost item in cement. And we are market leader in aggregates and ready-mixed. So in that respect, we talk about price increases not only in cement. We also talk about price increases in aggregates and ready-mixed. And it is not the largest cost item. Let us keep in mind that our largest cost item is personnel costs with more than € three bn. And in some of the markets that you are talking about, we face some significant increases in personnel costs especially in Eastern Europe, some parts of Asia. So while one part of the cost item will come down, others will actually go up.

And you have to add, on the energy side, also the CO_2piece because some markets are short of CO_2, maybe not on our side but in general. So in that respect, if you have to see the full picture and if you take the full picture, I think there is significant argument from our side. And That is why we have clearly taken the strategy to continue to push on the pricing side. And we do not do that against our customer base. In fact, we do it in conjunction with our customer base who needs to understand and will understand, in most cases, there are obviously exceptions, but in most cases, will understand that we are doing this in order to cover our increased costs even beyond energy. And we do it also in order to make sure that even in the years to come, we are able to supply the market with a very competitive product because there will be also some investments coming into the business down the road, as you all know. And in that respect, I think That is the total picture to justify the pricing.

On Indonesia, I would like to waive the comment because That is something that our Indonesian colleagues should share in their Indocement publications. They are also a publicly listed company, and I ask for your understanding that we cannot comment from our side here on the pricing details of Indocement.

Christoph Beumelburg (Director IR & Communication): Thanks, Nabil. That concludes our call. Thank you for all the questions. I know there are some questions that were not asked. Please refer back to the IR team. We will gladly answer them. Sorry, that we do not have time to answer all your questions.

We will come back to you in only, I guess, three or four weeks' time on March 19th with the full slate of the results and also another conference call. And we will go on the road to see you guys and the investors both in Europe and the U.S. thereafter. So stay tuned, and we look forward to talking to you. Thank you very much for the time. Goodbye!

Dominik von Achten (CEO): Bye, bye! Thank you very much!